

Results of a Survey on the Motives and Employment Effects of Direct Investments in Developing and Emerging Countries

The study aims at revealing the effects of German direct investments in developing and emerging countries on the investors' location in Germany. From November 2004 to January 2005 PwC therefore anonymously questioned 230 enterprises which received investment guarantees of the German Government to cover political risks about the motives for their foreign investments as well as about their appraisal of the employment effects in Germany. 107 (47%) of the respondents answered, and 106 answers were analysable. To serve the purpose of this excursus the

results of this survey are summarised¹.

Regarding the total engagements in these regions, the share of the covered investments amounts to 10-20% (empirical figures by comparing outstanding commitments for several years²) and can in fact not be considered as representative. But at least the survey gives a detailed review of the appraisal of the effects by those German enterprises which have been promoted by the investment guarantees of the German Government. With respect to sectors of the economy the 106 enterprises are structured as follows:

¹ For further information please contact PwC.

² The statistical data of the Deutsche Bundesbank (volume of direct investments accumulated during the year) lack congruence either in terms of time or in terms of volume of contributions under policies; therefore its use as reference parameter is restricted.

Division into sectors of the economy³

The majority of the 106 enterprises which operate abroad in the production sector (80.5%) refer to the metal industry and the mechanical engineering.

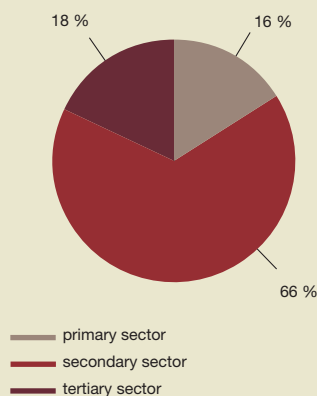
Division into different sizes⁴

The majority of the 106 investors are large enterprises, and this can certainly be explained with the higher risks of investments abroad, especially in developing and emerging countries, as well as with the relating costs.

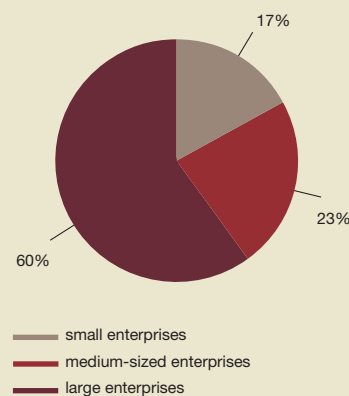
³ **Primary sector:** agriculture and forestry, fisheries, water supply and distribution, extractive industry, construction and construction materials industry, energy industry. **Secondary sector:** metal industry, mechanical engineering, manufacturing industry. **Tertiary sector:** trade, distribution, transport industry, tourism, banking/insurance industry, other services.

⁴ **Large:** work force > 2,000 or turnover > EUR 500 million or being a member of a larger group of enterprises. **Medium:** work force 200-2,000 or turnover > EUR 75-500 million and not being a member of a larger group of enterprises. **Small:** work force < 200 and turnover up to EUR 75 million and not being a member of a larger group of enterprises.

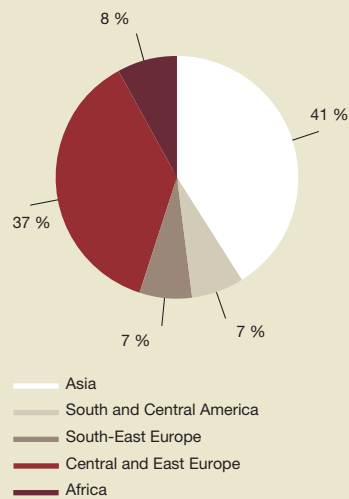
Division into sectors of the economy



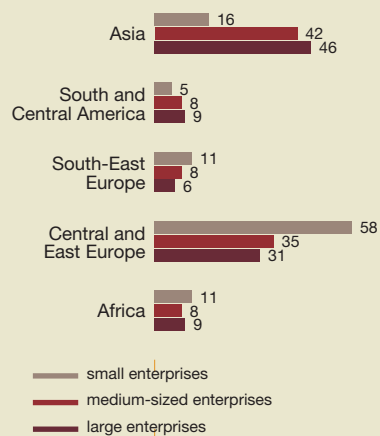
Size of enterprise



Division into regions



Target areas according to size of enterprise in %



Target areas of the investments

The investments are focused on the Asian region as well as on the Central and East European countries. All in all South-East Europe and Latin America as well as Africa simply play an inferior role.

The chosen target area depends on the size of enterprise.

Accordingly, the large enterprises rather invest in the new Asian growth markets while the SMEs mainly invest in Central and East European countries.

Motives for investments

Within the scope of the survey an inquiry was made about the motives for investments abroad, and the motives were divided into motives relating to sales/markets, costs, location as well as resources/purchasing¹. In doing so the study concludes that the sales-orientated motive “entering into new markets” is dominant.

The main motives for direct investments are the safeguarding of markets abroad and the expansion on foreign markets, followed by production and labour costs advantages. Thus the enterprises generally have the main object to safeguard or to strengthen existing market shares or to opening up new markets. Moreover, by benefiting from the advantages of location they can sell their products at competitive prices on the world market.

¹ Multiple references were possible so that the distribution by percentage results from the number of references.

Motives relating to sales and markets in %

entering into new markets	51
extension of foreign markets	44
being close to attractive sales markets	31
sageguarding of existing foreign markets	30
being close to producers	15
marketing and customer service	9
access to government/public contracts	6

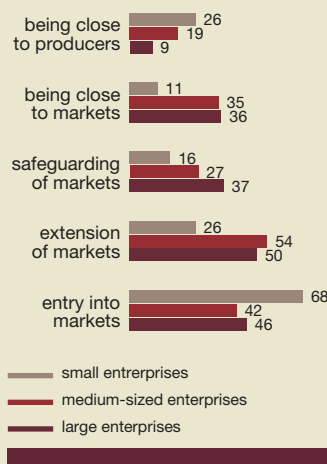
Motives relating to costs in %

labour costs advantages	48
production costs	42
cost of transport	15
land prices and building costs	6
advantages with respect to exchange rates	5

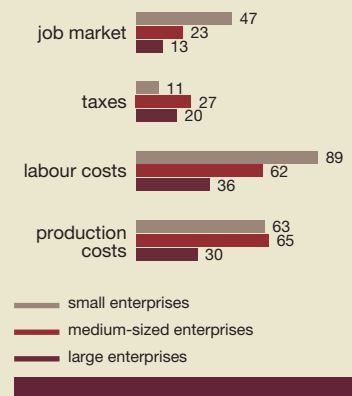
Motives relating to resources and purchasing in %

safeguarding of supplies of raw materials	14
primary and intermediate products	4

Motives relating to sales and markets with regard to size of enterprise in %



Motives relating to costs with regard to size of enterprise in %



The references depending on the investors' size of enterprise and with regard to the motives relating to sales and markets as well as costs are shown in the illustrations above.

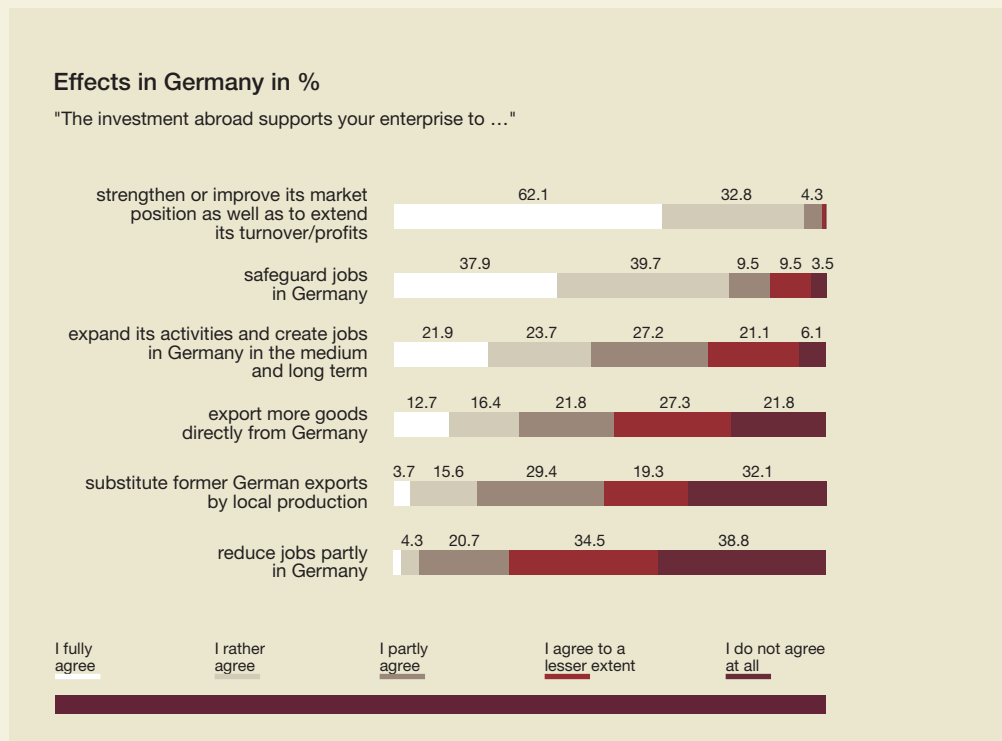
According to this, small enterprises give priority to the entry into mar-

kets, and for medium-sized and large enterprises the extension of markets is rather at the centre of attention. Furthermore, the labour costs and the production cost are important for SMEs whereas these costs are of rather inferior importance for large enterprises.

Effects of investments abroad

With respect to the questions concerning the effects of foreign investments on Germany, the enterprises made the following statements by using a scale between 1 “I fully agree” to 5 “I do not agree at all” to express their own opinion.

Subsequently, the survey cannot confirm the reduction of jobs due to the foreign engagements in developing and emerging countries of the questioned German enterprises. The contrary seems to be the case: The bigger part of the enterprises (78%) stated that investments abroad rather safeguard jobs in Germany. This statement is all the more striking as experience shows that investments in these regions are to a larger extent based on cost-oriented motives. With respect to the effects of foreign investments on their economic development in Germany, this result correlates closely with the appraisal of the respective enterprises. 95% of them see positive effects for their position on the market as well as for their turnover and profits. Moreover, nearly half of the enterprises (46%) consider it possible to even extend their business activities and create additional jobs



in Germany in the medium or the long term due to their investments abroad. Only 27% of them did not agree with this statement. For 51% of the enterprises it seems to be unlikely that former German exports can be substituted by foreign investments. According to the vast major-

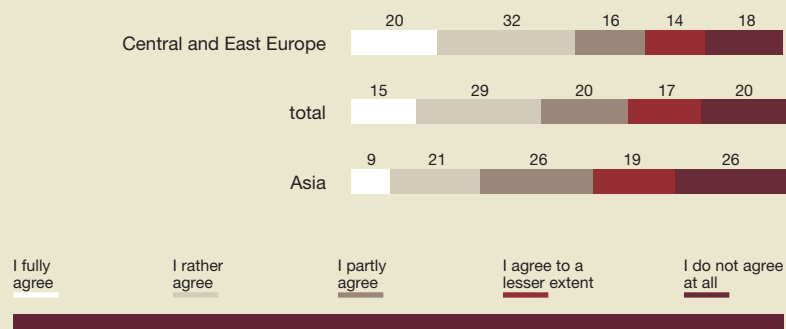
ity of enterprises (73%), investments abroad also do not lead to a reduction of employment in Germany.

The answer to the hypothetical question about the possible effects on the home country in case the enterprises had not made the decision to invest abroad is revealing too. For this it had to be considered whether not investing abroad would have endangered company departments and thus jobs in Germany. The majority of the enterprises (44%) agreed with this statement, 37% of them considered such development

rather impossible and 20% did not make a clear decision. However, the answer to this question is different in case a distinction is made between the different target areas of the investments.

52% of the investors in Central and East Europe think that company departments in Germany would rather be at risk if no investments are made abroad whereas 45% of the investors in Asia think that this would be rather impossible.

Danger for company departments if no investments abroad are made?



Furthermore, there are different appraisals with regard to the size of enterprise.

The smaller the enterprises the more they consider it possible that company departments in Germany can be at risk if no investments abroad are made.

It can be summarised that the answers of the enterprises cannot confirm a reduction of jobs in Germany due to investments in the target areas. In total these investments abroad rather have a safeguarding or even promoting effect on jobs in Germany so that a positive relation between foreign investments and the development of employment at the German location can be assumed.

Danger for company departments if no investments abroad are made?

