From the London end

European Suspicions of Foreign Capital

ONE of the more interesting features of General De Gaulle's attack on the Gold Exchange Standard is that it brings out more sharply than anything else the fundamental difference in the approach of Industrialised and developing countries to the subject of foreign private investment. For no one really believes that the General is advocating a return to the pre-war, pristine gold standard; and indeed, world foreign exchange and bullion markets have remained undisturbed by De Gaulle's attack. There is. however, no doubt that his attack on Gold standard is intended to emphasize France's (and other Common Market countries') objection to the working of the present international gold exchange standard system where dollars and sterling act as reserve currencies, and dollar balances which the U S would prefer not to be converted into gold, provide an indirect means of increasing American private capital investments in France. And, it is the fear of the growing spread of such investment and the resulting control of French industry by American capital that lies at the back of France's violent antipathy to the pissent system of international monetary payments.

Fear of US Domination

The developing countries, whose balance of payments position is so desperate, and who urgently require foreign exchange to go ahead with their projects for industrial development, are now prepared to change their attitude to foreign private investment. And indeed, they are going out of their way to encourage such investment so that they can meet the gap not only in their foreign exchange requirements, but also that in scientific and technical know-how. Industrial countries like France, with a healthy balance of payments, on the other hand, are becoming increasingly suspicious of the control over their own industries passing into foreign hands through the investment of foreign private capital.

In his statement, General De Gaulle pointed out that under the present monetary system, countries holding dollars and sterling in lieu of gold are persuaded not to convert all their dollar holdings into gold. The excess of dollars thus held leads to increasing control of industrial enterprises by American companies because the dollar balances held somewhat unwillingly by European central banks finance a high proportion of US direct investment abroad. It is common knowledge that America's balance of payments deficit is in large part due to the outflow of private capital for, for many years now, the U S A has been running a large surplus on current account.

in the circumstances, it would be interesting to examine how far American capital has penetrated into the European countries. In recent years both industry and Governments of Western Europe have become increasingly concerned at the growing importance, in certain key sectors of their economy, <>*i* America-based companies. The key industries include chemicals and pharmaceuticals, electronics, oil refining and cars.

Rising American Investment

Of the $40,000 millions of American investments placed abroad by the beginning of 1964, only 25 per cent, went to Europe but in 1964 alone, no less than 60 per cent of American capital invested abroad went to Europe. These investments earn an average rate of profit of as much as 11 petcent. As compared with pre-war American investment in Europe which was concentrated in banking and the petroleum industry, it is electronics, food-processing, engineering, metal trades, chemicals and petrochemicals, and car production that attract the greatest interest. In a recent study conducted by Booz, Allen and Hamilton — a management consultancy concern — on American investments abroad over the years 1960-64, it was shown that 20 per cent of American firms' new foreign operations have been devoted to the non-manufacturing sector with special emphasis on the establishment of company-oriented wholesale and retail trading activities. During this period, 4,644 new foreign activities were undertaken by a total of 1,897 U S companies. About one-half of the total went into Western Europe — the UK topping the list by providing locations for 13 per cent of all new operations started abroad.

In France it is understood that US investment is around 52,500 million, but it should be noted that new industrial investment doubled from $632 million in 1959 to 51,250 million in August 1964. What is causing particular alarm in France is the American takeover of whole factories and the deep penetration into technologically advanced industries. It appears that a major move by the French authorities to cut down further United States investment in French industry — particularly the acquisition of French companies, is now under way. While investment creating new activities may be looked at with a fairly friendly eye, outright takeovers of French firms will be frowned on.

Smaller Companies Enter Europe

There is no doubt about the recent enthusiasm of American companies to invest in France. Following the post-war wave of big company investment, medium and smaller size companies are now seeking to mark out their stake in Common Market prosperity. Equity participations are far more popular than licensing agreements, and according to the Chase Manhattan Bank, the trend now seems to be to exchange the right to a new product for the right to a new market. Thus, although in the immediate post-war period America was able to supply much needed capital and technical know-how to a war-ravaged Europe, the situation is now completely changed. A formula which is now being discussed is one in which Americans and Europeans would invest on a 50—50 basis as this might help to curb American excesses while at the same time helping European industry. Indeed, it is very similar to the joint collaboration ventures which now have the blessings of the Government of India.

The fear of American industrial invasion is beginning to spread to other Common Market countries and the President of EEC, Professor Hollstein said in Amsterdam on February 4th that while Europe "welcomes a certain amount of American investment, excessive concentration in any single branch" should be avoided. The German attitude is perhaps a little less strong than that of France, but it is also beginning to change. The German business community feels that the reluctance of the German Government to exchange part of German dollar holdings into gold, as France has done, has helped U S competitors to buy their way into German industry. Total United States investment in Germany was estimated at $1,700 million at the end of 1963, representing some 4 per cent of total industrial investment in Germany, While German industry admits that American investment is a stimulus to modernize and a compliment to the profitability of the German economy, competition from powerful American groups create dangers for medium and small-scale companies in Germany. In a recent speech Dr Herman Abs of the Deutsche Bank proposed the setting up of an organisation which would collect and maintain up-to-date information on foreign investment in Germany.

Investigation by E C E

It is also understood that in view of the growing concern, the Economic Commission for Europe is to undertake a new investigation into the whole question of foreign investment. In the past, the Commission had contended that foreign investment did not present any global problems for the Community, though sectoral difficuities might arise. Since existing intormation on the subject is inadequate, a new study is to be made. The expens will now try to discover the extent of foreign penetration into all sectors of the Common Market economy. The results of the new survey should be available in about three months time.

There are a number of steps which European Governments can now take to control foreign investment by exercising stricter control over foreign direct investment projects. Recently, for example, an American plan for buying a $1 million French company was rejected. Far from being an isolated instance, this is believed to be one of a series of refusals of requests to buy. Again, if Continental capital markets could be better organised, American bidders would lose lhe competitive advantage they now possess by being able to provide immediately large sums of money, and the European companies would be able to do the same. Another positive measure might be to lower tariff barriers and thus reduce the temptation of the foreign investor to invest within the market itself in order to jump the tariff barriers.

British Exports Rise

DRITISH exports continue on a rising trend, imports, have been reduced, and the trade deficit is now lower than in recent months. These are the main points to emerge from the provisional overseas trade figures for January issued by the Board of Trade.

Exports in January were valued at £ 368 million (seasonally adjusted). They show a fall from the high December total of £396 million but the average, of £378 million for the three months November-January (which brings out the trend) was 2 per cent more than in the previous three months. It now seems clear that a moderate growth in exports has occurred in recent months following the slightly falling trend in the summer of 1964.