1

The distribution of international investment

Creditors and debtors

Just as the First World War resulted in a new division of territories between victors and vanquished, it also led to significant transfers in foreign longterm investment throughout the world.

Until 1914 Great Britain, France and Germany had been the main investors of capital, drawing interest and profits from the majority of nations in the world. After her defeat in the First World War Germany ceased to be a creditor country and became one of the most indebted states, not only in Europe but in the world as a whole. Great Britain still held first place in the world statistics of foreign investment, but the United States of America – a debtor nation before 1914 – took second place, closely following Great Britain. It was clear that she would shortly become the principal exporter of capital and the principal creditor nation. With a much smaller amount of capital investment abroad, France became the third largest creditor in the world. Although other countries also exported capital, on balance their indebtedness was greater than their credits and they were in one way or another tied to the creditor states. Between the two world wars almost all countries were debtors, principally of the United States of America and Great Britain, but to a lesser extent of France: at the same time Britain and France became major debtors of the U.S.A. The countries of Central and Southeast Europe formed a link in the chain of international financial and capital investment relations. Their place in the investment and credit system arose out of the redistribution of territory, spheres of interest and economic forces after the First World War.

Table 1. *Longterm investments of the three creditor states (1930) (excluding state loans and short-term investments)*

	Global (in millions)			In Europe (in millions)		
Countries	Own currencies	Czecho-slovak crowns	%	Own currencies	Czecho-slovak crowns	Percentage of total investments
Great Britain	£3,726	611,064	100	£0.300	49,200	8
U.S.A.	$15,675	517,275	100	$4,282	141,406	30
France	Frs. 72,000	100,800	100	Frs. 40,000	56,000	60

Average value of Czechoslovak crowns in 1930: £1 = Kč 164; $3 = Kč 100; Frs. 76 = Kč 100.
Source: computed from *The Problem of International Investment.*

During the inter-war period, capital investment reached its greatest height in 1930, when the longterm investment of the three main creditor states in all parts of the world amounted to more than £7,000 million.[1] State loans and short-term credits are excluded from this sum, as are investments by Great Britain, the U.S.A. and France in each other's economies (Table 1).

British investment in Europe amounted to only 8 % of total British foreign investment; American investment accounted for 30 % and French investment for as much as 60 % of their respective total investment abroad. On the other hand, British investment in Europe, if we take the sum involved as shown in Table 1, was not significantly smaller than French investment in Europe. The largest proportion of total longterm investment was absorbed by Germany – RM 18,000 million in 1930. Short-term investment in Germany was almost as high as longterm – RM 16,000 million. Of the total foreign investment in Germany, the American share was about 50 %, the British 10–12 % and the French about 5 %. The remainder was held by Holland, Switzerland and Sweden, although a large part of this also came ultimately from the U.S.A., Great Britain or France.[2] After the war, Central and Southeast Europe, formerly

[1] Royal Institute of International Affairs, *The Problem of International Investment* (London, New York, Toronto, 1937), p. 16.
[2] Compiled from data in *The Problem of International Investment*, p. 17.

the main area of German and Austrian economic influence, was drawn into the financial and capital orbit of the Entente Powers and into their mutually competitive struggles.

In all areas towards which the Great Powers directed their capital exports they also became competitors. Investment flowed into the British Dominions and Colonies and into the South American Republics, as well as towards Europe. These three were therefore the most important world markets for capital investment in the inter-war period.

American investors saw favourable opportunities to invest their capital in territories of the British Empire. In spite of the British government policy of preferential tariffs within the Empire and various safeguards directing investment to the Empire, American capital investment penetrated into the Dominions, whose population commanded a far greater purchasing power than that of the rest of the British Empire.[1]

Longterm U.S. investment in the British Empire, mainly in Canada, totalled $221 million in 1914;[2] by 1930 it had increased to $4,600 million.[3] British investment was still paramount in the Empire – £2,187 million in 1930, 60% of all British overseas investment.[4] However, Britain's position was seriously threatened by American investors who were often financially much stronger. French capital exports to the British Empire were relatively small.

The Latin American Republics were the third group of countries absorbing capital from leading industrial nations. In 1930 British investment there amounted to £830 million and American investment to about $5,150 million.[5] Again French investment was relatively small.

Changes in the amount and direction of capital exports can be judged by comparative statistics based on the official figures of the American and British governments. Although these figures cannot be regarded as completely accurate they do show the general tendency of capital exports from the main creditor countries and confirm the outline given here.

[1] *Final Report of the Committee on Industry and Trade*, March 1929 (Cmd. 3282), p. 23.
[2] Cleona Lewis, *America's Stake in International Investments* (Washington, 1938), pp. 652–4.
[3] *The Problem of International Investment*, p. 17.
[4] Ibid.
[5] Ibid.

Table 2. *Longterm investments of the U.S.A. (excluding war loans) in millions $*

Areas of the world	1913	1930	1935
Canada	750	3,942	3,764
Central America	50	276	897
Mexico	1,050	695	
South America	100	3,042	2,937
Europe	350	4,929	3,543
West Indies	100	1,233	1,107
Africa	—	118	132
Asia	205	1,023	820
Oceania	—	419	405
Total	2,607	15,677	13,605

Source: The Problem of International Investment, p. 166.

From a glance at Table 2 it is evident that the direction of American capital exports after the First World War, when the United States changed from a debtor to a creditor nation, is not accidental. American capital supported the shaken foundations of the European capitalist states with a variety of longterm investments and credits, while investing large amounts in Canada, South Africa, Australia and other British dependencies. In accordance with their economic Pan-americanism investors in the United States changed the balance of their longterm investments in favour of the Latin American Republics. A group of British economists investigating the problems of international investment in 1937 recognized 'the fact that economic and political interests can never be completely separated'.[1] As evidence they quoted the public announcement made by the Department of State on 3 March 1922, asking American bankers and concerns to inform the State Department of their intended foreign investments and to obtain advice on the desirability of such investments, in view of the national interests involved.[2] After that date almost every foreign loan had the approval of the United States government, which therefore assumed the power to direct foreign investment from the economic as well as the political point of view.

Statistics from Great Britain also show the relative position of

[1] Ibid., p. 180. [2] Ibid., p. 181.

Table 3. *Distribution of British foreign investments, 1913–30* (%)

Areas of the world	1913 (%)	1930 (%)
British Empire	47	59
USA	20	5
South America	20	21
Europe	6	8
Rest of the world	7	7
Total	100	100
Total in million £	(4,000)	(3,726)

Computed from Robert Kindersley, 'British Overseas Investments', *Economic Journal*, 1933.

longterm foreign investment before 1914 and between the two world wars (Table 3). Although it tended to decline, the total of British investments abroad did not change spectacularly between 1913 and 1938. However, significant shifts took place in the composition of foreign investment, thus proving the predominantly defensive character of British investment policy. British investors tried to compensate for the decline in their assets on the American continent by concentrating more on investment in the British Empire. Their interest in Europe increased somewhat after the victory of the Entente over the Central Powers. Western capital then flowed into Central and Eastern Europe and British, American and French interests often clashed.

A similar situation developed in post-war exports of capital from France. There is not enough reliable statistical material for a thorough comparison of the data of all three creditor nations. It is, however, a historic fact that the Quai d'Orsay was closely connected with the high finance of France and that capital exports were strongly influenced – as to a large extent in every country – not only by profit motives but also by French colonial and power-political interests. In accordance with these, French capital investment was directed towards Europe, above all to Poland and the states of the Little Entente. Later, in the 1930s, however, new French investments were almost entirely

Table 4. *French longterm investments abroad in 1933*

Nature of investment	Frs. (in milliards)*	Kč (in milliards)*
Pre-war investments evaluated in 1928	35	49
Capital invested in new colonial and foreign issues 1919–28	5	7
Capital in direct longterm foreign investments 1919–28	10	14
Purchases of direct foreign investments and new issues in the colonies and abroad (1928–33)	22	31
Total	72	101
Sale of foreign investments 1930–3	−12	−17
Total in 1933	60	84

* Average value of Stock Exchange rates in 1933: Frs. 76 = Kč 100.
Computed from *The Problem of International Investment* and Robert Kindersley, *Economic Journal*, 1933.

directed towards her own colonies. Because French finance was hit by the world crisis later than others, French foreign investments, unlike those of other countries, reached their peak in 1933 (Table 4).

Longterm French investment abroad increased between 1928 and 1931 and only in this period was this item in France's balance of payments of the same importance as before 1914.[1] At the beginning of the world economic crisis French foreign investment did not suffer the same fall as British and American; on the contrary, it increased somewhat. However, the following years of crisis did limit French investment considerably.

The salutary state of official statistics and the valuable results obtained from government and semi-official economic and social commissions of enquiry in Great Britain and the United States have made it possible for us to outline, at least approximately, the respective positions of the main capital exporting countries and trends in their investment policies. With French data we come up against a lack of official information about longterm investments abroad and only a very few unofficial guesses exist. Of these the estimates of Pierre Meynial in *La*

[1] *Statistical Year-Book of the League of Nations 1937/38* (Geneva, 1938).

Revue d'économie politique are most acceptable and are usually quoted.[1] The state of information in other countries is far less satisfactory. Reliable statistics on longterm direct foreign investment in European countries are very rare indeed, mainly because official data, even on total direct foreign participation in the economy of individual countries, is practically non-existent. This is especially true concerning the distribution of foreign capital holdings within industries and financial institutions. Precise statistics are available only about foreign government loans. One of the few serious efforts to gain an insight into the overall distribution of foreign capital holdings in various countries was made by the League of Nations in 1930, using information chiefly of a commercial character and data from the balance of payments of the countries under investigation. As a result of this a survey of the distribution of foreign capital investment excluding government loans was produced in 1930. A team of experts from the Royal Institute of International Affairs made some corrections to it and it is reproduced here in Table 5.

Although the numerical data in Table 5 are only approximate, the order of the capital-importing countries corresponds, on the whole, to the actual tendencies in the inter-war period. The place occupied by Czechoslovakia confirms that capital was exported by her, but that on balance more foreign capital was invested in Czechoslovakia than Czechoslovak capital abroad, while other Southeastern European countries were only receivers of investments and did not export capital at all.

The underlying motive for exporting capital is to maximize profits and open up new profitable markets. No capital holding is gained and no credit is provided disinterestedly, however varied the considerations leading to the decision to place foreign investments: e.g. the control and exploitation of sources of raw material; the desire to create an international monopoly in certain products; participation in another country's industrial production, in order to evade tariffs which would be imposed were the goods imported; to take advantage of lower wages than in the creditor nation; or, in extending longterm

[1] Cf. *The Problem of International Investment*, p. 199; also TNEC, *Regulations of Economic Activities in Foreign Countries*, Monograph 40 (Washington, 1941).

Table 5. *Foreign capital employed in certain countries, 1930*[a]

Country	Foreign capital employed: Gross	Foreign capital employed: Net[b]	Interest and dividend payments: Gross	Interest and dividend payments: Net[b]	Foreign capital employed per head
	(£ millions)				(£)
Germany	1,350[c]	925	68	49	20
Canada	1,330	955	56	38	127
Australia	817[d]	753	36	34	122
China	660	580	20	20	1.5
Argentina	640	635	32	32	55
India	575	565	26	25	2
Brazil	520	520	16[e]	16[e]	13
Dutch East Indies	320	320	22	22	5
Cuba	295	295	([l])	([l])	74
South Africa	260	260	15	15	34
Japan	260	50	12	2	4
Chile	250	250	11[f]	11[f]	64
Poland	234[g]	205	11	10	7
Romania	200	200	8	8	11
New Zealand	197[h]	189	9	9	128
Hungary	143[i]	143	7	7	11
Norway	126[j]	94	5	4	45
Austria	120	80	5	3	18
Peru	115	115	([l])	([l])	17
Greece	115	115	6	6	18
Denmark	94[k]	53	5	3	27
Czechoslovakia	88	46	7	3	6
Colombia	85	85	([l])	([l])	9
Venezuela	80	80	([l])	([l])	25
Uruguay	60	60	4	4	3
Yugoslavia	60	60	5	5	5

[a] *Major sources:* League of Nations, Balances of Payments; Corporation of Foreign Bondholders, Reports; Statistical Yearbooks of Canada, Australia, New Zealand, India, and South Africa; Statistical Yearbooks of League of Nations; Staley, *War and the Private Investor*, App. 1; *South American Journal*; *Moody's Manual of Investments*; *Klimber's Record of Government Debts.*

[b] I.e. after deductions on account of each country's investments abroad.

[c] Of which about £575 million consisted of short-term capital.

[d] Of which short-term capital = £34 million.

[e] These figures refer to 1932.

[f] These figures refer to only six months of 1930.

[g], [h], [i], [j], [k] Of which short-term capital:
- [g] £71 million
- [h] £25 million
- [i] £49 million
- [j] £40 million
- [k] £23 million

[l] No accurate estimate can be made because a large part of the foreign capital consists of 'direct' investments.

Source: The Problem of International Investment, p. 223.

loans, to provide purchasing power for products in the lender's country and to profit both from interest on the loans and from the export of goods, etc. to the borrowing country. The increasing importance of capital exports tends to accompany a high degree of concentration and the growth of multinational combines. And in the wake of this development, international economic and political interests become more and more integrated. The powerful financial and industrial groups of creditor states essentially had a monopoly of the world's capital exports between the two wars. They participated in production and trade and drew profits from the countries of all continents in which they had invested their capital. Thus they shared in the domestic economies of all debtor nations.

With the growing importance of international investment after the First World War profits from foreign investment became distinctly more important than profits from foreign trade, although, especially during the boom years of the interwar period, the volume of industrial output increased absolutely and relatively and the volume of foreign trade expanded. These tendencies had already appeared in Great Britain before 1914, but between the two wars in particular income from foreign investments emphasized the negative balance of trade figures. While the volume of imports into Britain rose by 18 % between 1913 and 1930, exports fell by 32 %.[1] Thus a deficit in the balance of trade arose, which in 1930 amounted to about £392 million,[2] but which was compensated for by profits from overseas investments, as well as income from commissions and payments for services. From a total of about £4,000 million longterm investments overseas, Great Britain received annually about £270 million in profits; the income from shipping services and financial transactions was estimated at £195 million.[3] In the 1930s invisible exports were not always able to compensate entirely for the negative balance of trade,[4] but they became comparatively far more significant in the balance of payments. In this context capital participation by British banks and businesses in industrial enterprises and banks overseas

[1] *Committee on Finance and Industry Report*, Cmd. 3897 (London, 1931), p. 46.
[2] Ibid., p. 305. [3] Ibid., p. 46.
[4] Cf. *Statistical Year-Book of the League of Nations*, Balances of International Payments (Geneva, 1938).

Table 6. *British companies operating abroad. Capital outstanding: dividends and interest received (£ million)*

Year	Share capital: Nominal amount	Share capital: Dividends	Share capital: % of capital	Loan capital: Nominal amount	Loan capital: Interest	Loan capital: % of capital	Total dividends and interest
1929	802	67.7	8.4	385	18.3	4.7	86.0
1930	815	59.0	7.1	390	17.5	4.5	76.5
1931	813	33.3	4.1	397	15.5	3.9	48.8
1932	816	29.0	3.6	389	13.5	3.5	42.5
1933	823	29.5	3.6	387	12.5	3.2	42.0
1934	840	32.4	3.9	388	13.1	3.4	45.5
1935	849	37.8	4.5	388	14.0	3.6	51.8
1936	840	43.4	5.2	379	13.6	3.6	57.0
1937	847	57.9	6.8	363	13.5	3.7	71.4
	Average dividend 5.3%			Average interest 3.8%			

Table 7. *Companies registered abroad: nominal amounts of British capital outstanding: dividends and interest received (£ million)*

Year	Share capital: Nominal amount	Share capital: Dividends	Share capital: % of capital	Loan capital: Nominal amount	Loan capital: Dividends	Loan capital: % of capital	Total dividends and interest
1929	436	42.0	9.6	403	19.7	4.9	61.7
1930	391	31.7	8.1	391	19.3	4.9	51.0
1931	376	22.7	6.0	384	18.2	4.7	40.9
1932	344	22.1	6.4	375	17.1	4.6	39.2
1933	345	20.5	5.9	350	14.7	4.2	35.2
1934	352	26.0	7.4	335	13.8	4.1	39.8
1935	370	29.7	8.0	328	13.7	4.2	43.4
1936	377	35.1	9.3	326	13.4	4.1	48.5
1937	390	37.8	9.7	328	12.8	3.9	50.6
1937*	400	21.1	5.2				
	Average dividend 7.56%			Average interest 4.4%			

* Estimate of private and unquoted investments to be added to statistically more reliable estimates for quoted securities.