

II-2P/N

~~RESTRICTED~~

OFFICE OF STRATEGIC SERVICES

Research and Analysis Branch

1 June 1945

Central European Section

GERMAN ECONOMIC PENETRATION ABROAD

I. Introduction

The present paper seeks to outline briefly the objectives, methods, and scope of German economic penetration into foreign countries. The objective of this penetration, under the Nazis, was very distinctly preparation for war, to be achieved mainly by (a) expanding the sources of supply of foodstuffs and raw materials, secure from Allied blockade; (b) and by weakening the economic resources of the Western nations by hampering their industrial progress and expansion and their trade with other countries.

The methods applied by the Germans before the war were substantially the following:

1. Control of foreign trade and exchange
2. Granting of export credits to buyers of German goods
3. Investment of German capital in foreign enterprises
4. International cartel agreements
5. International patent and licensing agreements
6. German business organizations abroad
7. Voluntary and paid German agents

During the war German controls were expanded and made more or less all-encompassing in the occupied and satellite countries. The methods additionally applied were:

1. Direct control of economic matters by German agencies
2. Control via native administrations supervised by German officials
3. Control through collaborationist groups
4. Penetration of German business organizations and firms

~~RESTRICTED~~

II-21/2

~~RESTRICTED~~

Various US agencies have studied and described in numerous papers the technique and the extent of control and influence over foreign economics which German business and the Nazi state exercised before and during the war. The chief topics are:

- | | |
|---|------------------------|
| German Economic controls in occupied Europe | OSS, FEA |
| German financial and business interests in Allied and neutral countries | FEA
Treasury, State |
| International cartels, patents, license agreements | Justice |
| Foreign Trade and exchange | Commerce |
| German banking penetration | Federal Reserve Board |
| German insurance penetration | FRB, OSS |

It appears that no US agency has undertaken to study systematically the use of international holding companies by German business as a cloak for the economic penetration of foreign countries.

IV. Historical Background

German economic penetration of foreign countries has a long tradition; it has, moreover, frequently foreshadowed German political expansion into the countries affected. While this strategy is by no means specifically German, it is important to note that German expansion abroad, in spite of ^{the} failing political strength of the German state, has in many periods taken the form of economic penetration, the political fruits of which were subsequently reaped by a rebuilt German Reich.

The modern period of German economic penetration abroad began with the strengthening of the economic potential of Germany around the middle of the nineteenth century. Trading organizations established in overseas

~~RESTRICTED~~

II-21/3

- 3 -

~~RESTRICTED~~

territories by German businessmen (for example, Woermann, Luederitz, Peters, etc.) in many cases paved the way for colonies.

German banks, as a rule, led in the expansion of German business abroad. The banks established branches and affiliates all over the world to conduct banking business, to finance exports and imports, and even to engage in colonization. German banks operated especially in South America and the Far East, in London and New York, and controlled banks in Austria and Italy. Through their influence, German industry expanded into neighboring countries -- northeastern France, Bohemia, Austria, etc. The political expansion of Germany toward Southeast Europe and Asia Minor, the so-called Drang nach dem Osten, was accompanied and supported by exports of German industrial products and capital. German banks also participated in the opening of oil fields in Rumania, and had a leading part in the construction of railroads in Turkey, thereby giving practical support to the political idea of a Berlin-Baghdad axis.

III. The Value of German Foreign Investments

By 1914, the total value of German capital invested abroad was estimated at seven to ten billion dollars. This figure includes government investments in the colonies as well as foreign bonds and deposits held by German nationals. The larger part of these assets was lost as a result of the First World War; some were voluntarily liquidated during the war; others were seized by Allied authorities during and after hostilities. The total value of private property subject to seizure by the Allies was estimated by the Germans at 2.5 billion dollars. An Allied Commission, however, estimated that one billion dollars worth of German foreign investments in private hands survived.

~~RESTRICTED~~

II-21/4

~~RESTRICTED~~

IV. The Treaty of Versailles and German Foreign Assets

In view of the analogy with the present situation, it is of interest to refer to the stipulations of the Treaty of Versailles concerning German assets abroad. Article 297 of the Treaty gave the Allied and Associated Powers the right to retain and liquidate all property, rights, and interests of German nationals and companies which were located within their respective territories. The liquidation was to be carried out in accordance with the laws of the states concerned. German owners were to be compensated by their own nation. German-owned private property in the former German colonies was also to be liquidated.

Article 260 of the Treaty authorized the Reparations Commission to demand that the German Government become possessed of all German rights and interests in public utility enterprises or concessions in Russia, China, Austria, Hungary, Bulgaria, Turkey, and those territories which were formerly German. These rights and interests were then to be transferred by the German Government to the Reparations Commission.

Even neutral countries interfered in some respects with German foreign investments after the end of the First World War; Sweden, for example, forced the Krupp combine to sever its ties with the Bofors firm.

V. The Treatment of German Foreign Assets after the Treaty of Versailles

A few years after the signing of the Treaty of Versailles most of the Allied states voluntarily gave up their right to liquidate the remaining German property and passed laws freeing such property from sequestration. Several Allied states concluded special agreements with Germany by which

~~RESTRICTED~~

II-21/5

~~RESTRICTED~~

the complicated questions of claims and counterclaims were settled and German property remaining unliquidated was released from seizure.

VI. The United States and German Investments

Under the Trading with the Enemy Act of 1917, German property in the United States was subject to seizure by the Alien Property Custodian, who was later also authorized to dispose of such property. In the separate treaty of peace signed between the United States and Germany in 1921, the United States was given the same rights regarding German foreign investments as was given the other Allied nations in the Treaty of Versailles. A special Agreement signed by the two nations on 10 August 1922 established a Mixed Claims Commission for the adjustment of mutual claims. Eventually, the American Settlement of War Claims Act of 1928 provided that all property held by the Alien Property Custodian was to be returned to the German owners.

VII. The Renewal of German Economic Expansion After 1919

The investments which German business retained abroad after 1919 formed the nucleus of a renewed economic expansion. As soon as the political situation made it possible, German nationals engaged in international business. A number of factors contributed to this development.

A. The role of the German inflation

During its first period, the inflation proved a help rather than a hindrance to German trade, aiming at capturing its pre-war positions. With the aid of foreign commercial credits, German wholesalers acted as importers of raw materials for the industries in the smaller countries of Central Europe. According to the estimates of Allied banking experts,

~~RESTRICTED~~

II-27/6

~~RESTRICTED~~

German private investments abroad had increased during the period of inflation by a half to one billion dollars by 1923.

B. The stabilisation of the mark

The real impetus to foreign trade came after the stabilization of the mark, when foreign credits -- a high percentage of which were American -- made it possible for Germany to invest abroad an estimated 2.5 billion dollars within seven years (1924-1931). This activity was in addition to Germany's payment of reparations and the rebuilding of her industrial machinery.

C. The form of foreign investments

A great part of the German investments abroad took the form of direct participation in foreign enterprises, a practice which gave German business strong positions in the economy of foreign countries. Foreign investments in Germany, on the other hand, were overwhelmingly in the form of credits and deposits.

VIII. The Effect of the Economic Crisis upon Foreign Investment Activities

The international currency and credit crisis of 1931 deprived Germany of the supply of foreign funds available for additional foreign investments. From that time on, German economic expansion assumed forms basically different from the capital export of the preceding periods. The Germans, however, proved masters at inventing and perfecting new forms of economic penetration. When the Second World War broke out, it appeared that their economic preparations had been extremely well advanced.

~~RESTRICTED~~

II-21/7

~~RESTRICTED~~

IX. Economic Penetration under Nazi Germany

A. The new program of economic penetration

During the period between the two wars, but specifically under the Nazi regime, German economic penetration of foreign countries was characterized by its special technique and by its strong emphasis on the ultimate objective of preparing for war. Investment of German capital played a relatively small role and was employed economically and strategically to acquire interests in the raw material production of neighboring countries, in the trade and in important production branches in Latin America, and in selected industries of the great Western powers. Capital was also employed to finance exports to the Soviet Union.

A new element was introduced through Germany's use of her strategic position as a large market for foreign agricultural products and industrial raw materials to assume a dominating position in the foreign trade and, thus, in the economic life of smaller countries. Furthermore, Germany used the technical superiority of some of her industries, especially chemicals and allied production, to assume controlling positions in various industries of importance to the war effort of her potential enemies in the West.

Although economic self-sufficiency of Germany was a basic aim of Nazi economic policies, it was recognized that the country would have to continue to import certain essential goods even in the event of war. It was important, therefore, that Germany should not have to rely upon sources that might be cut off. Essential imports, consequently, were

~~RESTRICTED~~

II-21/8

- 8 -

~~RESTRICTED~~

sought from such areas as Central and Southeastern Europe, and German economic and political penetration in that direction was intensively resumed.

B. The "New Plan" in Foreign Trade policy

In 1934 the German Government adopted the "New Plan," which involved a reorientation of the country's foreign trade and financial policies. The efforts of the pre-Nazi governments to expand the export volume and thus increase the level of domestic employment and make payment of foreign debts possible were abandoned. Foreign trade controls became a vital instrument in the Government's rearmament policy. Import controls were used in the following ways:

1. To secure supplies of foreign raw materials essential for rearmament.
2. To strengthen Germany's bargaining position in regard to trade with smaller nations in order that they would accept German exports in payment for their deliveries to Germany.
3. To secure for Germany a dominating position in those countries which were to continue as suppliers of raw materials in the event of war.

X. The Implementation of the New Program of Economic Expansion

From 1934 on, Reich economic policy was fully integrated with the foreign expansion of German business and directed the expansion toward the objective of preparing for war. This integration of government and private policies in regard to the penetration of German business into foreign countries becomes evident from a survey of German activities in the field of foreign business.

~~RESTRICTED~~

II-21/9

~~RESTRICTED~~

A. Austria

German interests in the economy of Austria had always been substantial; they had involved particularly banking, insurance, steel and machinery production, electro-engineering and chemical industries. Germany desired to set up a customs union (Zollunion) with Austria even before Hitler's advent to power. Such a scheme had been worked out in 1931, but had been abandoned because of the objections of the Western powers. Hitler's plans for Austria went much farther and he employed various methods of economic pressure, for example, the ban on tourist travel to Austria, to undermine the Austrian Government. After the Anschluss in 1938, German business took over virtually all important Austrian banking, insurance, and industrial enterprises.

B. Southeastern Europe

In Hungary, Rumania, Yugoslavia, Bulgaria, and Greece, German economic penetration before the outbreak of the war in 1939 was most successful. Even before the German armies assumed control there, the Balkans had become reliable suppliers of foodstuffs and industrial raw materials for the German war machine. German business firms had acquired numerous interests in the region even before the Nazis came to power; they held participations in the Rumanian oil industry, the Yugoslav and Hungarian mining and metallurgical industries, and many other Balkan industries and utilities. Due to the competition of financially strong French and British groups, however, German interests did not at this time become dominant. It was only after 1934, when the Nazis put their "New Plan" into effect, that German expansion reached its full stride. The economic

~~RESTRICTED~~

II-21/10

~~RESTRICTED~~

ties between the Balkan countries and Germany were used to the great advantage of German political ends, as Germany now proceeded to employ a whole arsenal of devices aimed at subjecting these nations to its economic control as a step toward political domination.

1. The economic basis

The economic basis of the German trade offensive into the Balkans rests upon the fact that the Balkan countries are predominantly producers and exporters of foodstuffs and a few industrial raw materials, especially metal ores and petroleum. They imported manufactured goods. Their nearest market and natural complementary partner in foreign trade was Germany. The Nazi Government used the precarious situation in which the Balkan countries found themselves in the early thirties to secure their consent to an increase of German purchases which were to be paid for by German exports with the help of clearing accounts. The Germans were very liberal in regard to prices and usually paid more in German currency than corresponded to the world market prices of the specific product at official German exchange rates. In many cases, this price policy enabled the Balkan countries to stabilize domestic prices of agricultural products at a level remunerative to the producers. At the same time, it made it difficult for them to export their goods to other countries. German purchase, however, exceeded German sales and the clearing accounts were never balanced. As a result the Balkan countries found it advisable in the interest of their export trade to Germany to apply their own trade and exchange controls in such a way as to stimulate importations from

~~RESTRICTED~~

II-21/11

~~RESTRICTED~~

Germany, and to purchase government supplies, armaments, and other goods from Germany even if prices were lower elsewhere.

2. German business dominates the Balkans

As part of the "New Plan" Germany concluded long-term contracts with Balkan exporters for the supply of certain raw materials to Germany at specified prices. Balkan agriculture was, for example, induced to increase the cultivation of oilseeds, soybeans, and other products which Germany needed to become independent from overseas sources of raw materials. In this way, various changes in the economies of the several Balkan countries were brought about; their ties with Germany were strengthened. German business secured a dominating position in the Balkans, and German diplomats and agents were able to exercise great political influence with the help of native groups which depended on and profited from the trade with Germany. The Balkan countries as a whole, however, did not profit from the increased trade with Germany because the high export prices were offset by the high cost of imports from Germany.

3. The situation during the war

During the war the Balkan countries were fully integrated into the German economic sphere and played an important role in supplying the German war economy with foodstuffs and raw materials. They were forced to deliver most of their exports on credit in the form of accumulated clearing claims against the German Clearing Bank in Berlin. Economic controls were exercised in most countries directly by German officials, and German firms took over for administration, or by purchase

RESTRICTED

II-21/12

~~RESTRICTED~~

contracts of dubious legality, enterprises owned by French, British, and other Allied interests, as well as those owned by Jews and other persons considered politically unreliable citizens of the occupied or satellite countries.

Turkey was the only country in Southeastern Europe which was successful in extricating itself from German penetration. This achievement was due, first, to the nationalistic economic policy of Turkey which prevented expansion of German business interests beyond a certain influence in banking and trade, and, second, to the economic warfare conducted in Turkey by the Allies which eventually deprived Germany of the leading position it had held before the outbreak of the war in Turkish foreign trade.

C. Eastern Europe

In Czechoslovakia and Poland, German economic penetration before the war was much smaller than in the Balkans, although German firms held various interests in Czech and Polish industries, and Germany over the whole period was the most important buyer of Czech and Polish export goods. The existence of strong groups of "racial" Germans (Volksdeutsche) in these countries was also an element of German economic influence. After occupying these two countries, Germany assumed full control of all economic matters and German business firms acquired direct interests in many Czech and most Polish enterprises.

Integration of occupied Soviet territories into the German economic controls was of course complete. German business participated in the exploitation, although they did not acquire ownership of plants for the time being.

~~RESTRICTED~~

II-21/13

~~RESTRICTED~~

D. Western and Northern Europe

1. Norway and the Netherlands

In Norway and the Netherlands, German business had acquired various participations during the interwar period, especially in the Norwegian mining and nitrogen industries/^{and} in various Dutch industries and banking. German banks had set up affiliates in Amsterdam shortly after 1918 to regain a foothold in the international credit business. These affiliates proved very helpful in securing foreign credits for German banks and industries during the inflation period as well as during the period of unrestricted international lending. German-Norwegian and German-Dutch business ties were considerably strengthened after the occupation of the respective countries.

2. France and Belgium

In France and Belgium, German economic penetration before the war had not reached any sizable strength. After the German invasion the productive capacities of both countries were fully exploited by the Germans largely with the help of German business firms, but these were, as a rule, not permitted by the German Government to acquire stock interests in the firms with which they collaborated. In some instances, the reason for this refusal was the German desire to avoid resistance by workers employed in the plants which the German firms wanted to acquire.

3. Spain and Italy

German business participations in Spain are considerable, thus reflecting the community of interests between the Franco and Hitler regimes. Most important among the business interests are probably those in Spanish mining. A similar situation existed in Italy where German

~~RESTRICTED~~

II-21/14

~~RESTRICTED~~

capital was interested in various industrial branches. German Government controls over North Italian industry were practically unlimited after Badoglio's defection, but there is no evidence of increased participation of German firms during the final period of the war.

4. Sweden and Switzerland

The Germans did not succeed in penetrating to any considerable degree into Swedish mining, although they own various interests in this country. In Switzerland, however, numerous German firms are operating through affiliates and have been using this country as a cover for penetration into the Americas. Several important Swiss and Lichtenstein holding companies are controlled by German owners.

E. Latin America

The leading German industrial firms engaged in production for export built up extensive sales organizations in the Latin American countries during the interwar period. This organization was used for both propaganda and espionage purposes. The Nazi "New Plan" introduced bilateral agreements into German-Latin American trade; the foreign exporter received credit for his goods in special marks (called ASKI marks) which could be used only to pay for German goods imported into his own country. By changing the regulations applicable and restricting or extending the scope of goods released for export to the specific country against ASKI marks, the Germans were able to change arbitrarily the value of the ASKI mark and thus to compete with British and American exporters in specific branches and markets without general depreciation of the mark. Germany was able to expand her exports to and imports from Latin America but never reached a dominating position. Affiliates of

~~RESTRICTED~~

II-21/15

~~RESTRICTED~~

German business firms, native business agents, and South American residents of German descent or nationality played an important part in German economic penetration of these countries.

F. Great Britain and the United States

In Great Britain and the United States, most of German business participations existing before 1914 had been liquidated but various important German firms reestablished themselves in both countries without, of course, regaining their previous strong positions in the particular industries. However, German firms used their control of patents and of industrial techniques to regain a high degree of indirect control through cartel and licensing agreements. Cooperation between various British and German industrial firms was very close, with other European firms often joining in world-wide cartel agreements. American industrial firms were not able to participate in cartels covering sales in the United States, but they often signed agreements with German firms which limited their exports while the foreign partners promised to refrain from entering the American market. Investigations conducted during the war by various US Senate committees and the Department of Justice have shown that German firms, especially the IG Farben, used such contracts as well as their direct control of American firms to reduce production of strategic materials in the United States and Britain, to prevent expansion of production facilities there, and to restrict research and prevent perfection of industrial processes. Very often, patents were applied for and received by German firms without actual manufacturing being started in the particular country. In this way technical inferiority of the other nation was assured in regard to the production covered by the patent rights.

~~RESTRICTED~~