The original documents are located in Box A6, folder "Commerce Department - Foreign Direct Investment, 1969" of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

U.S. DEPARTMENT OF COMMERCE
EXECUTIVE ASSISTANT TO THE SECRETARY

3/19/69

To : Hon. Arthur Burns

From: J. T. Dykman

Through an administrative oversight, we failed to send your office a copy of the attached letter to Secretary Rogers from Secretary Stans.

The attached is in reference to the President's memorandum of Feb. 13 to Secretary Rogers and is in connection with Section XVIII-2, Foreign Aid, of your report.

Attachment

12 MAR 1969

Honorable William P. Rogers
Secretary of State
Washington, D. C. 20520

Dear Mr. Secretary:

The President has asked me to transmit to you this Department's views on the proposal for a Federally-chartered private enterprise corporation to promote private investment in the developing countries.

I have accordingly asked my staff to review the proposal presented in the Report of the International Private Investment Advisory Council (IPIAC) entitled "The Case for a U.S. Overseas Private Enterprise Development Corporation." I understand that the IPIAC proposal is essentially the same as the one advanced by Senator Javits and included in the draft proposal for creating a Department of Peace. I am transmitting a copy of the staff review with this letter and hope you will find it of interest.

My preliminary judgment is that there is scant evidence that the proposed corporation will help significantly to stimulate new private activity in the developing countries or impart a new direction to U.S. foreign assistance programs. These objectives, I believe, are paramount in any consideration of a change in U.S. foreign assistance machinery.

Moreover, I can foresee some possible disadvantages in creating an independent corporation to carry on some current assistance activities. Present coordination of relevant Government programs in the commercial and balance of payments areas, necessary to help meet broader national objectives, might be lost by the proposed change. I would also expect some adverse repercussions from any attempt to set up a new entity outside usual budgetary controls and to invest it with borrowing authority.

On balance and given the weight of other relevant considerations, I would not favor creation of a private enterprise corporation on the basis of the case made in the IPIAC proposal. I would, however, want to state clearly that I am in favor of a fresh, private enterprise approach to meeting developing country problems and would support a U.S. private development corporation that would overcome the problems and objections outlined above.

Sincerely yours,

Secretary of Commerce

Enclosure

Creation of a Federally-Chartered Private Enterprise Corporation

Proposal

1. The most recent formulation of the proposal for creating an independent private enterprise investment corporation within the Federal establishment is presented in the Report of the International Private Investment Advisory Council (IPIAC) entitled "The case for a U.S. Overseas Private Enterprise Development Corporation." In essence, the proposed corporation would (a) take over AID's present private investment, insurance, investment promotion, and private financing activities; (b) be authorized to borrow both from the Treasury and in the capital markets, backed by full U.S. Government guarantees; (c) be assigned the proceeds of certain outstanding AID loans and guarantees; and (d) operate outside present civil service regulations, budgetary limitations, and inter-agency and intra-AID clearances and safeguards.

2. A corporate structure is recommended by IPIAC on grounds that the functions to be assumed (a) are of a business-like nature; (b) are revenue producing and potentially self-sustaining; (c) involve extensive dealings with the public; and (d) require greater flexibility than afforded by annual budgets and appropriations, civil service regulations, and inter-agency coordination.

Assessment

3. Stimulating private investment and entrepreneurial skills in the developing countries is of undoubted importance to the United States. However, this objective must be weighed against competing and contradictory resource demands and program objectives, including an improvement in the U.S. balance of payments and the application of limited capital resources to domestic needs. To move ahead with a private investment corporation at this time would be to prejudge relative national priorities.

4. It is equally important to give new focus and direction to U.S. foreign assistance programs. However, the proposed corporation would represent mainly a regrouping of existing programs and would seem to lack any real or apparent new initiatives or direction.

5. The principal advantage to be gained from the proposal is greater overall flexibility. Corporate status would provide non-appropriated funding and freedom from strictures presently operative over the broad range of Federal programs. An attempt to secure borrowing authority for a new Government corporation would likely encounter traditional Congressional opposition to "back-door" spending and might even reopen this issue, with potentially adverse repercussions on the Eximbank and other affected agencies. If administrative and budgetary flexibility is essential to the success of the investment, guarantee, insurance,

and credit programs, consideration might be given to lodging these activities in the Eximbank. The Bank's present credit and guarantee operations involve essentially the same type of project, economic, and financial analysis required for investment guarantees; and the Bank has the high quality, professional staff that IPIAC would hope could be attracted by the new corporation. Moreover, present inter-agency clearance and coordination arrangements, while time-consuming, seek to ensure that U.S. assistance programs operate in a way that serve a broader spectrum of national policies objectives. A case in point is the "additionality" effort which is intended to ensure that commercial exports are not displaced by aid-financed transactions, with consequent adverse balance of payments effects. This national policy purview and influence would likely be lost if an independent corporation were established to carry on certain foreign assistance programs.

6. The basic objective of the proposed corporation is presumed to be the stimulation of private investment in the developing countries. The IPIAC report recognizes, however, that "organizing a new corporation cannot itself directly produce a quantum increase in the volume of direct U.S. private capital flows." It goes on to say that "better organization should lead to better staffing and improved programs.... and, over time, should mobilize significant increased new investment each year." This conclusion is at variance with the experience of the numerous private and public investment development institutions in the United States and in other countries that are already attempting the same type of investment promotion and stimulation -- in many cases with AID financial support -- being proposed for this new corporation.

7. Experience of these organizations indicates that the basic problem in the private investment area is not on the capital supply side but is the paucity of sound and potentially-profitable investment opportunities in the developing countries. Where genuine investment opportunities exist, U.S. businessmen are generally pretty quick to move in on them. Hence, the problem of greater private investment in the developing countries is not greatly influenced by, or responsive to, the form of the creditor countries' investment guarantee/promotion vehicle. Given these observations, there is reason to doubt that the corporation could do more to stimulate private investment than AID can do with its present organizational structure.

8. A further difficulty with the proposed corporation -- and with the present AID investment effort -- is the fact that its investment/developing-country orientation fails to comprehend the viewpoint and approach of businessmen interested in undertaking overseas activities. Commerce experience with the U.S. business community indicates that businessmen do not focus narrowly on investment and on developing

countries to the exclusion of other areas and alternative marketing techniques. Basically, their focus is global, not only developing countries; their basic interest is market penetration; and they view overseas business as a range of alternatives starting with exporting, extending to agent arrangements and licensing, and ending possibly with investment. In a substantial number of cases, investment is, therefore, a final stage which may be reached only after a market has been extensively tested by exports.

9. This global and more encompassing view of overseas commercial relationships is, in fact, mirrored in the range of services provided by Commerce to the business community. In addition to major programs to provide general and specific information on overseas markets, this Department has modest but active investment and licensing information and promotion programs which gather from all U.S. overseas posts -- and particularly those in the developing countries -- licensing, joint venture and direct investment proposals which are widely disseminated through publications and direct contacts to business firms expressly or potentially interested in such overseas ventures. These programs, which handled some 2,400 licensing and investment proposals in FY 1968, were assigned to the Commerce Department by the Foreign Assistance Act of 1961 (as amended) and Executive Order No. 10973 (as amended) in recognition of the Department's extensive contacts with and knowledge of the business community. To the extent that these programs are duplicated by similar programs in AID, the latter could readily be transferred to Commerce without any hiatus in service but with the prospects of improved program coverage.

Conclusions

10. The relative priorities of attempting to promote U.S. investment abroad vis-a-vis alternative and possibly conflicting national objectives, such as balance of payments improvements and domestic investment alternatives, should be established before the corporation proposal is advanced.

11. The corporation is principally a new receptacle for old programs and would not impart the desired new direction and image to U.S. foreign assistance activities.

12. The IPIAC case for a private enterprise corporation is weak and rests principally on the potential advantages of greater flexibility. Such flexibility might, however, be costly in terms of the loss of program concurrence with broader U.S. policy objectives and in reopening broader issues of Eximbank borrowing authority.

13. Experience of other investment-promoting entities indicates that the problem of LDC investment is not amenable to such considerations

as the form of the creditor instrument since it arises basically from a paucity of investment opportunities.

14. The effectiveness of the proposed corporation is also open to question because the focus of its programs are not in accord with the manner in which businessmen consider prospective overseas activities.

Recommendation

15. It is recommended that the Commerce Department indicate that it does not favor establishment of the proposed private enterprise corporation. This position is in consonance with the Department's position on similar proposals that have been introduced during the past several years.

March 4, 1969

FORM CD-183
(5-8-63)
FORMERLY SEC-350

U.S. DEPARTMENT OF COMMERCE

ABSTRACT OF SECRETARIAL CORRESPONDENCE

TO:		
	x	The Secretary
		The Under Secretary

Arthur Burns

From: William H. Chartener, Assistant Secretary for Economic Affairs

SUMMARY: Remarks on letter from Arthur Burns transmitting comments on the OBE Census of Foreign Direct Investment

In response to your letter — Maury 3/20/69

	PREPARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY	CLEARED BY
SURNAME AND ORGANIZATION *(Typed)*	WHChartener AS/EA					
INITIALS AND DATE	3-18-69 WHC/JBA	HD 3/18				

USCOMM-DC 1234-P63

THE ASSISTANT SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

March 18, 1969

MEMORANDUM FOR THE SECRETARY

Subject: Letter from Arthur Burns Transmitting Comments on the OBE Census of Foreign Direct Investment

I am not completely surprised by the communications transmitted by Arthur Burns. However, some of the comments made by Dr. Burns' unidentified correspondent are unwarranted or unrealistic. The formal letter by Mr. Lary is more balanced. I have reviewed the comments carefully with George Jaszi, and you may feel free to send this memorandum along to Dr. Burns for use at his discretion.

You may recall that I adverted to problems of delay in connection with the foreign investment census in a general memorandum I prepared for you on January 21. In my own memorandum and in both communications cited by Dr. Burns, the thin staffing of the Balance of Payments Division is cited as a major reason for delay in completion of the project. It is doubtful if much can be accomplished now toward speeding completion of the project without addition of skilled staff members - particularly some with accounting expertise.

Several weeks ago I had a lengthy discussion with top staff members of OBE to explore what might be done to accelerate completion of the foreign investment census. This discussion was partly in response to comments that had come directly to my office from Dr. Lary and his associates and more importantly because of the needs of OFDI for basic data. The result has been agreement on a timetable for completion of various phases, the first to come this summer.

Undoubtedly, there are some lessons in this experience that should be kept in mind when the next survey of this type is undertaken. For instance, in retrospect OBE may have erred on the side of detail in data at the expense of early availability of results.

OBE expressed a degree of amazement over the quotations from the letter of the unidentified correspondent. Nobody connected with the National Bureau and, for that matter, no outsider has evaluated the work on the census of direct investment, or on other surveys conducted on quarterly or annual questionnaires used by the Balance of Payments Division to prepare the current balance of payments compilations.

The processing of the census has been complicated by three factors.

--First, the number of questionnaires returned turned out to be much larger than had been expected.

--Second, the census is unusually complex. It involves the accuracy and comparability of financial data collected from the over 20,000 foreign organizations operating with different accounting systems and in different currencies and languages, and the most intricate kinds of financial and other intercorporate relationships. The principal cause of delay is the process of reviewing this large quantity of complex data. It is a job for trained and skilled workers, and cannot be very greatly accelerated. It is, moreover, not a job that can be avoided if the results are to be of value. It precedes and cannot be displaced by data processing in the computer.

--Third, from the very beginning the project has been plagued by employment ceilings and restrictions. At present they are as tight as they ever have been and are threatening to get worse.

In spite of these handicaps - the staff working on that job, including professional and clerical personnel, is currently limited to nine people - progress so far has not been significantly slower than the progress on similar large-scale surveys generally is. Detailed results from the last Census of Manufactures, for instance, were published three years after the year covered (1966 for the 1963 census) and the last Labor Department consumer expenditure survey results appeared four years after the year covered.

I do not agree with the view that OBE's operation is inefficient and that the processing of this particular census could be undertaken more efficiently by the Census Bureau. Given the intricacies of the investment census, I am inclined to believe that OBE, with its expertise in the work on U.S. direct investments abroad, can do a better job than other organizations could do. At this stage in the present survey, it would clearly be pointless to suggest transferring further processing to the Census Bureau.

Incidentally, the remarks about the inefficiency of OBE's operations on its quarterly survey and on its computer operation are not well founded. The quarterly surveys are processed with great efficiency and speed. They are, in fact, tabulated and ready for publication within one or two days after the last reports are received. OBE's computer operation, although on a small scale, is an unusually efficient one. As a matter of fact, the OBE staff achieved a major breakthrough in computer techniques with the development of a simplified programming language which has been widely acclaimed. The computer manufacturer is now using this programming language as a selling point for its equipment.

As to the timetable for the foreign direct investment census, OBE expects to complete the first phase of it by July and will be ready to make the results available to the public with only one proviso. If major and intractable inconsistencies between the census results and other sources of information (OBE's quarterly surveys and OFDI's reports) should emerge, publication would have to be delayed until large discrepancies between alternative data sources could be straightened out.

The results that will be ready in July cover the most important items of the foreign direct investment census - namely, all items that enter directly into the balance of payments computations. These consist of capital flows, investment income, royalties, etc. OBE has also worked out a time schedule on which the further installments of information contained in the census will be completed. OBE plans to release these data in six separate publications over the next three years with the final summary publication available in June 1972.

This schedule should be faster, but I doubt that OBE can meet even this timetable if it is hampered by the current employment restrictions. OBE - a small organization - is now ten below its normal complement, and the attrition will continue as further separations occur which can only be partly filled. I would strongly recommend that OBE be exempted from the employment ceiling so as to expedite the work. If resources elsewhere in the Department - perhaps in OFDI, which is greatly interested in the census results - could be found that could be made available to strengthen the work, this would further speed up the completion of the census.

Beyond this suggestion, I can only say that both my office and OBE are acutely aware of the need to make as rapid progress as possible toward the completion of this important study and that we shall keep it under close review.

William H Chartener JBH

William H. Chartener
Assistant Secretary for
Economic Affairs

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

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MEMORANDUM FOR THE PRESIDENT

Subject: Proposed 1970 Program on Foreign Direct Investments

I propose that we adopt the moderate liberalization and substantial simplification of the Foreign Direct Investment Program as described in Secretary Kennedy's memorandum. This proposal raises the target ceiling by $550 million from $3.35 billion to $3.90 billion, and involves the following changes:

A. Raise the minimum investment allowable for each company from $1 million to $3 million. This will reduce from 650 to 350 the number of companies required to report quarterly.

B. Eliminate the arbitrary division of the world into three schedules by going to a worldwide program. The historical and earnings allowables would be calculated as done at present to continue to reward companies that have historically invested in the LDCs, but would be applied on a worldwide basis. Carryforwards of unused schedular allowables into 1970 could also be applied on a worldwide basis.

C. Offer up to $2.0 million additional allowables on a matching basis to companies using the minimum allowable and investing in the LDCs (Schedule A).

The major reasons for this modest liberalization and simplification of the program are as follows:

1. There is general agreement that restrictions on capital are counter-productive in the long-run. If the FDIP is not to become a permanent program, there must be steady progress toward the goal of ultimate elimination.

2. You have announced that some liberalization will be forthcoming with regard to investment in the LDCs.

3. In Commerce we have continued to say that we are opposed to controls of this nature and in reliance upon the prevailing attitude in the Administration, have given the impression that the program

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would be relaxed for 1970. As a result, business and financial circles are expecting some liberalization of the program to be announced shortly.

4. In view of the growth of foreign earnings, making no change for 1970 is effectively a tightening of the program for those companies electing the historical allowable.

5. The relatively small dollar differential between the proposed program and the present program will not have any significant impact on the balance of payments next year.

6. To announce no change when some liberalization was expected here and overseas could telegraph uncertainty as to the strength of the dollar on the part of the Administration itself.

7. A modest change in this program should help reduce some of the unhappiness among our business friends which results from the tax bill, antitrust actions, etc.

8. There is no real evidence that foreign bankers would look with disfavor on a liberalization as mild as that proposed. Foreign governments and foreign businessmen have expressed to us greater interest in more investments by U.S. companies.

9. The changes proposed are mostly for simplification. The requirement for repatriation of foreign earnings is unchanged.

To help insure that companies react as desired in the fourth quarter and do not make needless outflows due to the uncertainty of the 1970 program, a timely decision is important. Announcement of the program prior to our meeting with business leaders on November 21 would be highly desirable.

Maurice H. Stans