

MULTINATIONAL CORPORATIONS

A COMPENDIUM OF PAPERS SUBMITTED TO THE SUBCOMMITTEE
ON INTERNATIONAL TRADE OF THE COMMITTEE ON
FINANCE OF THE UNITED STATES SENATE

COMMITTEE ON FINANCE
UNITED STATES SENATE
RUSSELL B. LONG, *Chairman*



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¹ The Center for Multinational Studies submitted three previously published papers which the Subcommittee is keeping on file:

Robert G. Hawkins, "Job Displacement and the Multinational Firm—A Methodological Review." formance."

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PREFACE

The Subcommittee on International Trade of the Committee on Finance conducts a continuing legislative oversight review of the foreign economic policies of the United States. As part of a study of the role and effects of multinational corporations (MNC's) on the domestic and world economies, the Subcommittee issued a press release, dated June 1, 1972, inviting interested parties to submit "factual, documented papers" covering key issues raised by the activities of international business organizations. Specifically, the Subcommittee invited comments on the following issues:

- I. Do the problems—or "costs"—generated by the spread of multinational corporations outweigh the advantages or "benefits"?
- II. What kinds of action are open to national governments, including the United States, acting separately or together, to maximize the benefits of multinational corporations and minimize the costs as they affect the goals of achieving full employment and balance of payments adjustment.
- III. The effects of multinational corporations on U.S. labor in manufacturing industries.
- IV. The multinational firm and the balance of trade and payments.
- V. The changes in and challenges to the international monetary system, and the role of multinational corporations in generating them.
- VI. Technology, R&D, and the multinational firm.
- VII. The profits of multinational firms in the United States and abroad, and the Federal taxes paid by such corporations in the United States and abroad.
- VIII. Legal aspects of multinational corporations, including international regulatory institutions, their jurisdictions, treaties, and agreements.
- IX. U.S. and foreign tax laws regarding multinational corporations.
- X. U.S. and foreign antitrust laws.

This volume is a collection of papers submitted in response to the Subcommittee's invitation. It is published to provide a broad spectrum of opinion—business, labor, and government—on the effects of multinational corporations on the domestic and world economies.

SUMMARY OF STATEMENTS SUBMITTED TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE COMMITTEE ON FINANCE CONCERNING MULTINATIONAL FIRMS—THEIR IMPACT ON THE U.S. AND WORLD ECONOMIES.

U.S. Department of Commerce, "The Multinational Corporation—An Overview"

This paper is a general commentary on problems associated with the development of multinational corporations. The article suggests that friction between the multinational corporation, with its supranational point of view, and the nation-state, with its national economic concerns and special interest groups, has given rise to a host of economic and political problems. What is at issue today is the degree of freedom that multinationals should have or the extent of regulation that should be imposed on its present operations and future growth. Two developments in the past fifteen years have focused public attention on multinational corporations: first, the massive influx of U.S. capital into Europe; and second, the continuing deficit in the U.S. balance of payments. The paper offers several definitions for multinational corporations, and examines the scope, significance and motives for international investment. Also examined are the economic and political impact of multinational corporations on the U.S. and world economies.

U.S. Department of Commerce, "A Summary of Viewpoints Expressed in Some Recent Studies of Multinational Corporations"

This paper summarizes a number of surveys and reports on the effects of multinational corporations on the domestic economy and draws the following conclusions:

- (1) "U.S. employment has not been damaged by imports manufactured by American plants abroad. On the contrary, employment in industries with high foreign direct investments has risen more rapidly than in the average manufacturing firm.
- (2) "The sales and exports of American MNC's have increased faster than those of the average U.S. manufacturing firm.
- (3) "Their net surplus of exports over imports has grown. Industries with the highest investment accounted for the largest proportion of the U.S. trade surplus.
- (4) "Balance of payments inflows attributable to foreign direct investment have increased substantially and are now, after trade, the second most important net contributor to the balance of payments."

The reports surveyed agreed that artificial restraints on the foreign operations of American firms would result in a serious reversal of these favorable developments and would materially decrease U.S. employment and export opportunities.

AFL-CIO, "An American Trade Union View of International Trade and Investment"

The theory of comparative advantage—the bedrock on which the free trade concept rests—is based on assumptions which are unrealistic. The theory assumes that international trade is conducted at arms' length transactions between nationals of one country and nationals of another, in markets that involve price as well as product competition. This is elegant, but it is not true. The theory assumes the complete mobility of workers as well as capital and management across international boundaries. This obviously is not true. Therefore the theory serves no useful purpose for American policymakers in the 1970's.

The American economy is in trouble in its international relationships. The monetary aspects of this trouble are largely the reflection of basic problems concerning production and employment, merchandise exports and imports, American investment in other countries, and the transfer of American technology to foreign nations. At stake are the American standard of living, and whether the U.S. will remain an industrial country with various types of industries and production. So the issue is not a labor and trade union problem alone; it is also a business and management problem. It is a national issue that involves the nature of the national economy in American society.

The world economy has been changing considerably in the past twenty years. As part of this change, the American position in world trade has been deteriorating steadily and rapidly since the early 1960's. This has involved the export of thousands of American jobs. Imports of manufactured products more than quadrupled between 1960 and 1971—from \$6.9 billion to \$30.4 billion. In the first half of 1972, manufactured imports soared to a yearly rate of \$37 billion. The bulk of U.S. imports of manufactured goods today compete head on with American goods.

The recent devaluation of the dollar has actually made a small contribution to the inflation plaguing the American people, and the U.S. position in the world economy continues to get worse. The basic *causes* of the deterioration in the U.S. economic position in the postwar period are to be found in the rapid changes in world economic relationships which are continuing at present, retarding the expansion of U.S. exports and spurring the very rapid rise of imports of an increasing variety of products. The major causes of this accelerated and widespread deterioration are as follows:

1. Nations manage their economies;
2. The export of American technology has been reducing or eliminating America's technological and productivity leadership in many industries and product lines;
3. Sharply rising U.S. investments of U.S. companies in foreign subsidiaries have been key factors in the export of American technology, the displacement of U.S. production and the loss of American jobs.

Direct investment of U.S. firms and foreign affiliates shot up from \$3.8 billion in 1960 to \$14.8 billion in 1971. The global mushrooming of foreign investments of American firms is far different from the development of national companies within the U.S. in the latter 19th, and 20th century. It is far different from the shifts of industry location within the borders of the U.S. The multinational movement is not from a base in the industrial north or midwest to other parts of the country where U.S. laws apply within reach of Congress and Federal courts. This is a movement to subsidiaries in other countries with different laws and institutions including different labor and social standards. Within the confines of the United States national frontiers the spread of large corporations was met gradually by institutional responses, such as the growth of national trade unions and by government regulations, standards, and controls. In the case of multinational corporate operations there is no common international culture or legal structure. There is hardly even an international framework for the outward development of international social controls and regulations.

If the deterioration of U.S. position in world trade is permitted to continue through the 1970's the consequences could be widespread and far reaching for American society. The U.S. failure to adjust adequately to the rapid displacement of labor from agriculture and coal mining in the 1950's and 1960's contributed to urban problems and the depressed Appalachia region. What will be the consequences of the continuing displacement of production and employment, by imports, in the growing and widespread number of industries and communities?

Based on statistics supplied by Secretary Shultz before the Joint Economic Committee, the AFL-CIO research department estimates the net loss of jobs from imports were about 900 thousand in the five years of 1966 to 1971.

Unfortunately, the U.S. Government has failed to develop and put into effect a set of policies that can halt the continuing deterioration. The much-needed improvement in the international monetary mechanism cannot possibly be viewed as a major solution to the export of

American technology, capital and jobs, or to the accompanying deterioration of the U.S. position in world trade. Moreover, a continued process of devaluing the American dollar would tend to increase the price level and thereby threaten to undermine the American standard of living. On one important aspect of international action required—the development of international standards in world trade—there are as yet no beginnings.

The Burke-Hartke bill is designed to stop the deterioration in the American competitive position. It represents the only practical way of dealing with the serious economic and social problem. Opponents of the AFL-CIO views have failed to present constructive alternatives.

Center for Multinational Studies, "The Benefits and Problems of Multinational Corporations"

The principal benefits of multinationalism fall under the heading "expanded markets." Because of its inherent flexibility and management skills, the multinational firm has been able to surmount tariff and nontariff barriers to trade, exchange restrictions, production and transportation costs. The result has been an expansion of foreign markets which has also served to "pull" U.S. exports which would otherwise be lost.

Income and royalty payments to U.S. parent corporations exceeded capital outflows by \$4.7 billion in 1971 and \$21.8 billion, cumulatively, since 1965 for a substantial positive contribution to our balance of payments. After adjusting for the Special U.S. Canadian Automobile Agreement, foreign trade benefits of multinational manufacturing corporations run between \$4 and \$5 billion annually.

The "problems" of "multinationalism" tend to lie more in the "qualitative" area—and often involve factors of which the multinational firm is merely a manifestation rather than a contributing cause. To the extent that the problem consists of adjustment to structural changes in the world economy, economic mechanisms such as adjustment assistance can be used by national government to ameliorate, if not solve, the problems. To the extent that the problem as seen is one of a conflict between the national economic power of multinational corporations and the "sovereign" political power of nation States, there have been a number of proposals to seek international chartering and regulation of multinational corporations. However, the feasibility of such international regulation is subject to question. A "GATT for investment" does not seem a practical possibility in the near term, because of growing "nationalism" and "blocism." On balance, in the short-medium term, the clear benefits of American multinational corporations outweigh the alleged harm they do. In a longer term the picture is clouded by uncertainties about the pace and direction of global development and the kinds of national and international systems that are going to be required to motivate and control human behavior in the mass society.

Motor Vehicle Manufacturers Association of the United States, Inc., "Overseas Operations of the U.S. Automotive Industry"

U.S. Motor vehicle manufacturing firms invest abroad because there is no alternative, except to abandon sales in foreign markets. The result of this investment is a positive contribution to the level of the U.S. employment, tax revenues, and the balance of payments and trade.

The idea that a "multinational" company is somehow free from the laws of all countries is a myth. Both the U.S. corporations and foreign corporations in which they invest are subject to the laws of the country in which they are incorporated and in which they operate. Generally speaking, the laws of all countries require that dealings between the affiliated corporations be at arm's length.

Tax and tariff structures in developed countries penalize large cars with high, horsepower engines, and inhibit the use of U.S. built vehicles in foreign countries. The submission provides a table (Exhibit 3) showing that foreign cars of similar weight and engine capacity are generally taxed much lower than American cars. It also shows that higher horsepower

engines bear a disproportionate larger tax than lower horse-power engines, and even that low horse-power U.S. autos bear a heavier tax than similar-sized foreign made autos. After World War II, less developed countries, realizing the importance of the automotive industry to industrialization, began a systematic pattern of forcing firms to assemble locally. The paper states that "U.S. labor costs are substantially higher than any other industrialized country," and "material costs appear to be somewhat lower in foreign nations, while automotive technology is available in all industrialized countries, as are capital resources to mobilize this knowledge." There is no basis to assume that the U.S. enjoys any special advantage in terms of technological capability. The implication of this statement is that higher U.S. labor costs cannot be offset by the productivity differential between U.S. and foreign auto manufacturers.

Automotive imports have increased from 7.3 percent in U.S. market in 1966 to 15.1 percent in 1971. This increase occurred in spite of an increase in American-made compacts and subcompacts, from 8.4 percent in 1966 to 19.5 percent in 1971. These figures suggest that, regardless of the production of compacts and subcompacts in the United States, imports can capture a significant share of the U.S. market. Most of the imports are from foreign manufacturers rather than subsidiaries of U.S. firms. As imports have increased rapidly, the volume of U.S. unit exports have changed little in the past three decades, while other producing nations, such as Japan and Germany, have sustained huge increases.

With regard to nontrade transactions, the motor vehicle and parts industry has experienced an increasing positive net contribution to the U.S. balance of payments over the past decade, reaching a level of \$198 million in 1970. Direct investment overseas has contributed a net increase in the level of U.S. employment over what it would be had U.S. automotive firms not expanded operations into foreign nations. Overseas investment does not export jobs that would otherwise be filled by U.S. workers.

As a partial remedy to the competitive problems favoring the U.S., the paper suggests that an improved international monetary system should provide for timely adjustments and exchange rates of those currencies that have become the either overvalued or undervalued. This will help adjust comparative costs.

Rubber Manufacturers Association, "The Role of Multinational Corporations in the American Tire Manufacturing Industry"

The study reached the following conclusions:

First, U.S. tire companies invest in production facilities and related operations in foreign countries in order to compete in foreign markets. They cannot compete effectively in those markets from a U.S. export base.

Second, U.S. tire company investments in foreign countries generate U.S. exports of manufactured products to those countries.

Third, U.S. investment in foreign plant facilities has not adversely affected U.S. employment. Over the eight-year period covered by the study, employment in the domestic tire industry has grown.

Fourth, the imports of tires from U.S. subsidiaries abroad are a negligible factor in U.S. domestic market. Most of the U.S. tire imports are from foreign-owned plants, and have been increasing each year.

Fifth, to remain competitive U.S. tire manufacturers must be permitted to operate their total business on equal terms with their foreign competitors.

International Telephone and Telegraph, "Some Observations on the Multinational Corporation"

ITT is unique, perhaps the only American-based corporation created as an American-owned company with operations wholly outside the United States. ITT can perhaps be best described as an American-owned company originally operating overseas, which, over time, expanded its home base to become an important factor in the U.S. economy, while continuing to grow abroad.

ITT's studies indicate that the company's dramatic expansion during the 1960's had a favorable impact on the American economy; it created new jobs in the United States; it was accompanied by substantial inflow of research results and technology bringing to our shores the expertise of foreign scientists; it helped the United States in its efforts to maintain a relatively healthy balance of trade and payments.

The preponderance of ITT's foreign manufacture consists of telecommunication and electronic equipment, made to local specifications under the control of foreign government agencies, which insist, for security and other policy reasons, upon local manufacture, local planning and design. The balance consists of consumer and industrial products of a kind which ITT does not make in the U.S., or could not competitively export from the U.S.

ITT studies show that technical advances developed in one country by ITT are rather widely used in other countries by ITT subsidiaries, and that this exchange of technical information is a two-way flow. An analysis of applications throughout the ITT system for patents on new inventions reveals that in every year during the 1960-1970 period at least 80 percent were of foreign origin. There are many jobs in the U.S. which probably would not exist had ITT not followed a policy of free exchange among its subsidiaries of technical information wherever developed.

The ITT balance of payments contribution is over \$1.5 billion net between 1968 and 1972.

The future of the U.S. in world competition depends in major part on two factors—exports and return on overseas investment by U.S. based companies. In the coming years, the U.S. must anticipate that as the nations of the EEC and other industrialized nations mature, our U.S. regulatory authorities will no longer be able, without possibly grave economic repercussions, to impose our regulatory philosophies on those countries by the extraterritorial application of our laws to their corporate entities. They will simply not accept enforcement of U.S. political policies, such as those imposed under the Trading with the Enemy Act and related Acts through economic pressures. As Europe moves toward a truly free flow of capital among EEC members, there will be an increasing tendency to discriminate against U.S.-based multinational companies, and in favor of European-based multinational companies. This, coupled with a continued U.S. determination to apply its own regulatory philosophies worldwide to any foreign company controlled by U.S.-based company will make U.S. multinational companies look toward Europe for an increasingly more attractive home, and an increasingly more difficult market in which to export from U.S.-based companies. The growing European market, coupled with a more acute European awareness of what is required for companies to function in the modern world, must, in the long-run, make the European company more effective and competitive.

Looking ahead 10 to 20 years if present trends continue, the result seems inevitable: a diminution in the comparative strength of U.S.-based multinational corporations, and therefore, of the U.S. economy as a factor in international commerce. If the U.S. is to maintain its leading position in international commerce in a growing area in which U.S.-based multinational companies compete, there must be: a government-wide assessment of all laws, regulations, and treaties governing American corporations as they affect the international competitiveness of those companies, particularly in relation to the increasing competitiveness of foreign-based multinational corporations, which are receiving the active support of the governments.

The U.S. must recognize that competition is now international and that this poses new challenges to existing legal structures requiring new policies which will reduce rather than expand the restrictive measures and handicaps placed upon U.S.-based multinational companies.

Governments of foreign competitors are giving those competitors important assistance. This active support of foreign multinationals by their governments will ultimately impair our national competitive strength by leaving us with a smaller percentage of U.S.-based multinational companies, or of world-wide markets or both, unless the U.S. Government responds positively to this economic challenge.

In some areas the U.S. Government must do some realistic long-term planning, focusing on what it can and should do to help U.S. business compete in a world which will soon be one big capital market and one big consumer market. If it does not, U.S. business will become increasingly "European" business and "Japanese" business.

International Business Machines Corporation

IBM has invested in 126 countries around the globe. The company employs 262,000 workers in the United States and abroad. IBM subsidiary for business outside the United States, the IBM World Trade Corporation, employs over 115,000 people and reported a gross income of \$4.2 billion for 1972. Its net income of \$687 million amounted to almost 54 percent of IBM's worldwide net income of \$1.3 billion.

One possible solution to major shifts in employment caused by foreign trade is adjustment assistance. The paper mentions that the Williams Commission report stated that adjustment assistance was "the first way that the Government can ease adaptation to competition from imports." It is hoped, the paper suggests, that Congress will further examine the area of adjustment assistance to find a meaningful way to assist workers who feel the affects of economic dislocation from foreign trade.

So far as the impact multinational corporations on U.S. labor and manufacturing is concerned, IBM suggests that the strongest single reason for investing abroad is to serve markets which would otherwise be impossible to reach. In IBM's major markets abroad some degree of local manufacturing is an unwritten requirement for doing business. In many countries, including France, Germany, and the United Kingdom, governments feel the need to keep locally manufactured production in some kind of equilibrium with sales volumes. Corporations, such as IBM, frequently are required by other circumstances to produce abroad. If, for example, the country has a high tariff, the only economical way to gain access to its market often is by producing within the country concerned. This may be of increasing importance, it is suggested, as the European Economic Community and other trading blocs in Latin America and Asia establish areawide barriers. However, the paper suggests that these pressures to invest and produce abroad seem on the whole not to have been adverse for U.S. exports, for U.S. employment, or for U.S.-domestic investment. IBM's operations abroad have generated the growing export business, channeled through IBM's foreign subsidiaries. Since 1960, the amount of domestic production destined for export has risen from \$56 million to \$440 million in 1971. One out of every eight jobs in IBM's U.S. plants in 1971 was accounted for by shipments abroad—shipments that would not have reached that level had IBM not also been producing abroad.

IBM's balance of trade in manufactured goods—exports minus imports has risen from \$52 million in 1960 to \$277 million in 1971. IBM's net contribution to the U.S. balance of payments over the 10-year period 1962 to 1971 was \$3.7 billion.

On the impact of multinational corporations on the international monetary system, it is suggested that in the case of IBM the company does not accumulate excess cash abroad beyond normal requirements. IBM's main method of protecting itself against anticipated fluctuations in currencies is the timing of inter-company payments. Normally, they are settled on a 30-day basis, but can be speeded up or slowed down to the extent permitted by regulations in each country. The maximum amount involved in such changes of timing, however, is about \$50 million a month.

On the question of the impact of the multinational corporation on technology, IBM suggests that the economic progress made in the last 20 to 25 years would not have been possible without the relatively free transfer of technologies among western countries. Businesses operating worldwide, including IBM, have acted as important conduits of this flow, and the record shows clearly that the United States has benefited every bit as much as other nations. For example, IBM has cross-licensing arrangements with dozens of European companies, including Phillips in The Netherlands, ICL in the U.K., and Siemens in Germany, and similar agreements with some 15 Japanese companies. IBM's magnetic tape manufactur-

ing facility in Boulder, Colorado, was set up under a cross-licensing agreement with the Sony Corporation of Japan. It uses Sony patents and a great deal of the technical know how of the Japanese company. An important part of the development work of the IBM computer systems, IBM System 360, and IBM System 370, was done in the company's overseas laboratories.

On the question of foreign taxation, IBM says that its contribution to U.S. and foreign tax revenues over the last 5-years amounted to \$4.65 billion; over the last 10-years \$6.89 billion. This represented taxation at the rate of approximately 50 percent of earnings. In the case of IBM, the repeal of the foreign tax credit would mean a new combined foreign and domestic tax rate of about 73 percent of overseas earnings. Whatever the full magnitudes of the effects of such taxation might be, the following conclusions can be drawn:

IBM would be forced to curtail its investments abroad;

IBM's contribution to the U.S. balance of payments in the form of a return on investment would decrease;

The company's exports would also be reduced;

The company's profit margins, R&D effort, and overall operations would be curtailed;

IBM's employment level in the United States would be jeopardized, particularly in the manufacturing area.

Varian Corporation

Varian is a company with annual sales of about \$200 million. Most of its products are based on relatively sophisticated use of electron physics. Thirty percent of its 1971 sales of \$187 million were to overseas customers. About 75 percent of the products sold overseas were exported from the United States, and the remaining 25 percent were manufactured abroad. Imports into the United States from its overseas plants total less than 3 percent of the company's sales. The benefits of the overseas investments far outweigh the costs. Substantial benefits accrue to the company's shareholders, employees, suppliers and the U.S. balance of payments. The costs are minimal and consist only of the deferral of the payment of some U.S. corporate income tax through operation of its export trade and DISC corporations.

Kennecott Copper Corporation, "The Case for the Multinational Mining Enterprise"

In the case of the mining and extractive industries, a narrow spirit of isolationism seems signally inappropriate in view of the relative scarcity of most mineral resources, their geographic distribution, and the fact that world demand for them is drastically increasing. With only about 6 percent of the world's population, the United States today consumes about one-third of the world's energy output. The Secretary of the Interior is predicting that U.S. demand for energy fuels and metals may increase by at least 2½ times by the turn of the century.

Foreign investment increases the world supply of copper, thus serving to maintain prices at reasonable levels to the consumer. It gives the United States a flow of critical materials in time of war or crisis, which might not be the case if the development were left to others.

Studies show that it is only when export markets are threatened by foreign producers that companies invest abroad as a defensive measure. In doing so they frequently preserve markets that otherwise would have been lost entirely, and in the process increase exports of intermediate products or components to their foreign subsidiaries.

Clark Equipment Company

Clark Equipment Company has wholly-owned manufacturing subsidiaries in Argentina, Australia, Belgium, Brazil, Canada, France, Germany, and the United Kingdom. The group manufactures materials handling equipment and systems, such as forklift trucks, etc. Export sales in 1950 were \$5 million; they increased to \$85 million by 1971. Consolidated sales of the parent and offshore facilities of their subsidiaries in 1971 were \$741.5 million. Consolidated

overseas sales of these subsidiaries accounted for 29 percent of this total. The company contends it has, within its own sphere of influence, benefited U.S. labor, the U.S. position in international trade, the U.S. balance of payments, employees, customers, and stockholders. The company suggests that there would be a loss of jobs if the Burke-Hartke legislation passed. If Clark had to grow at the national industrial employment average since 1964, it would now have only 8,000 employees rather than the 18,000 it has. A large part of Clark's export components is in its own equipment manufactured and sold abroad. The company imports less than one percent of the amount of goods it exports; it does not borrow or move funds overseas except for the purpose of supporting its business. Financing intended for capital improvements in foreign plants is raised either through local foreign currency borrowings, or through a local finance institution formed by the company for this purpose.

Champion Spark Plug Company

Champion's domestic employment has grown from 4,400 in 1960 to 7,600 in 1970. Many of these additional domestic jobs can be traced to U.S.-produced sparkplugs and their spark plug components sold in foreign markets. With the exception of two subsidiaries outside the U.S. the establishment of Champion Spark Plug foreign plants has been due directly to the threatened loss of an existing market. Outside of subsidiaries in Canada and England, which were established in 1917 and 1937, respectively, all other plants have been established to maintain existing markets where imports of spark plugs from the United States would not be permitted to compete with domestically produced spark plugs. The submission lists a number of examples in various countries where import duties were increased, thus necessitating an investment within the market.

Textron Incorporated

This paper states that Textron's overseas operations enhance, not diminish, domestic employment. Textron, it is suggested, cannot compete effectively in certain foreign markets by relying solely on exports of items produced entirely in the United States. The basic reason is cost differential, due to shipping charges and import duties which are particularly high on finished products, and to higher domestic labor rates in relation to productivity, and material costs. Textron's total international sales, including those of its overseas affiliates, increased from \$62 million in 1966 to \$203 million in 1971, at an annual compounded rate of 26 percent. During this same period total exports increased from \$38 million to \$113 million, at an annual compounded rate of 25 percent. Most of this growth in exports, and the resulting growth in domestic jobs attributable thereto, is directly related to its overseas investments.

Owens-Illinois, Inc., "The Multinational Operations of Owens-Illinois, Inc."

Owens-Illinois does not export jobs. When O-I makes an investment in a foreign manufacturing operation, it is because production in the United States would have been unrealistic. Jobs created by O-I in foreign countries are jobs that would not have existed domestically. Subsidiaries and affiliates outside the U.S. continue to require services and equipment from the U.S., thereby creating jobs in the U.S., not eliminating them. O-I is a plus contributor to the U.S. balance of trade. Total sales of consolidated O-I foreign affiliates were \$29 million in 1970. Of that total less than one-half of one percent were sales made to U.S. markets from foreign affiliates.

Owens-Illinois maintains technical assistance, licensing or royalty agreements with manufacturers in foreign countries are the only methods by which it can compete successfully in foreign markets. Generally, exports in any volume in those countries are not feasible for the following reasons: (1) transportation costs; (2) market adequately served by local manufacturers; (3) other foreign price competition; (4) import duties or tax penalties; (5) dollar exchange problems; (6) restrictive import quotas or prohibitions; (7) product and service requirements.

Owens-Illinois does not escape taxes through its multinational operations. Foreign affiliates pay taxes on earned income to the host countries—including city, State, and local at the

same rates as host countries nationals, and pay U.S. taxes on profits which come to the United States less credit for any taxes already paid to foreign governments. Repeal of the foreign tax credit would seriously jeopardize O-I international operations, due to the drain on funds.

Owens-Illinois supports a realistic international economic trade program, including legislation against the indiscriminate dumping of foreign products on a massive level into the U.S.; government-industry programs to deal effectively with job dislocation, unemployment, and productivity; and truly *reciprocal* trade agreements with other nations.

Xerox Corporation, "The Multinational Corporation"

The Xerox statement answers each of the 10 questions posited in the Subcommittee press release of June 1 and summarizes its conclusions as follows:

"We believe it to be established by experience that high technology, multinational private enterprise, such as Xerox is a highly effective economic instrument. It is an instrument which has enabled the United States, even in the face of basic structural deficiencies in the international trade system, to exploit technological advantage on a worldwide basis, and to compete internationally under circumstances which result in increased and better employment opportunities for American labor, and enable it to enjoy constantly rising standards of living. At the same time we are providing essential services to the host countries, and advancing their economy, standard of living and human welfare through our technology.

"This fact must not be permitted to become obscured by the specific problems of certain industries. Some industries have witnessed a decline in earning and employment opportunities as the result of inequities in the present system of international trade and will be able to compete effectively once those inequities are removed. Other industries, however, burdened by obsolete technology, obsolete labor standards or obsolete management, and therefore unable to compete effectively, still will not be able to provide acceptable earning levels and employment opportunities. We believe it would be a grave error to attempt to preserve such industries through direct or indirect subsidies such as quotas, embargoes or protective tariffs. Direct subsidies would represent a continuing waste of public money which could better be used to meet other pressing public needs. Indirect subsidies ultimately would represent a tax upon the consumer and inevitably invite retaliation by other nations. In short, 'Let's not plow the poor end of the field.'

"While we do not believe in subsidizing marginal industry which is unable to compete effectively even within an equitable structure of international trade, we do believe in subsidizing employees who are impacted by this inability to compete. Prompt and meaningful adjustment assistance must be provided to such employees to enable them to begin new careers in more competitive industries.

"It seems to us that instead of asking what the multinational corporation has been, what it is, or even what it will be under current circumstances, we should be asking what do we want the multinational corporation to be? Before this question can be answered, it is first necessary that we establish a consistent, goals-oriented national policy with respect to international trade and investment which is on an equal footing with our international political policy, and which is not subject to being undercut by short-term domestic considerations.

"Once such a foreign economic policy is established, we will want to harness our greatest national strengths to attain the objectives of this policy.

"For this purpose, American multinational corporations are a national resource unequaled in the world. Yet there are voices calling for them to be manacled, strangled, confined, and even drawn and quartered. To do so clearly would not serve the national interest.

"American corporations have given the United States its economic supremacy and have enabled it to render to the world services beyond the capability of any other nation. Rather than inhibit this precious capability, we should seek to devise ways to use this invaluable asset in behalf of those national policies which would strengthen world economies through a free and fair flow of goods and capital between all nations. Such an

accomplishment would mark a major step in the evolution of the corporation and its role in society."

Eaton Corporation, "Eaton and the Global Economy"

Eaton's employment has grown in a roughly comparable pattern both domestically and overseas. However, compensation increases between 1967 and 1971, which total 44 percent in the U.S., and 34 percent abroad, offer a stern reminder of the grave "productivity crisis" which now confronts the manufacturing sectors of the U.S. economy. Compared with 1967, it now takes nearly twice as much investment in plant and equipment, and 44 percent more in wages and fringe benefits for Eaton to maintain its U.S. employment. Eaton has a net positive balance of payments and has made a significant positive contribution to the U.S. balance of payments. Eaton acknowledges that in today's world there is no such thing as "free" trade.

Eaton's overseas investment policy is simple: when it becomes impossible in the context of other countries' policies to supply and maintain markets from U.S. plants, it is time to look overseas for an answer to anyone or to all of these needs; to avoid trade barriers, such as quotas, import duties, or purely discretionary administrative restrictions; to provide production facilities and product needs to meet special consumer requirements; to remain competitive in markets where consumer and supply proximity is critical; to respond to local content requirements where a choice must be made between investment or loss of market; to increase sales of U.S.-built products and to supply genuine replacement products.

The Eaton statement concludes that the Hartke-Burke bill is a negative response to a real problem. The quota provisions alone would open American exports to retaliation measured in the billions of dollars. Its licensing and investment controls, even if workable, could be applied so as to strangle those sectors of U.S. economy which are most competitive internationally. The tax provisions subject to U.S. firms to double taxation which all major countries, including the U.S., avoid in their domestic tax systems, and avoid internationally either through an elaborate series of treaties or by not taxing foreign income at all.

Eaton suggests four approaches to cope with the growing problems of growing trade and their effect on the national economy:

1. A trade-centered foreign policy administered on a consistent basis by one department of government rather than piecemeal by all departments. The policy should encompass antitrust, tax, environmental and other vital concerns to the orderly development of world trade. Trade must be elevated to the top tier of foreign policy for the United States, and economic factors must be placed on the same agenda as key diplomatic decisions.

2. A new entente among government, business, labor and the public that would end the adversary proceedings that stifle progress, for in reality, the goal on all of these viewpoints is the same . . . a better quality of life for all of the people of the United States. The new entente should be structured within one or more forums and should not be allowed to occur piecemeal behind closed doors.

3. A thorough and continuing re-evaluation of U.S. trade legislation which recognizes the forces of change shaping the patterns of world civilization. The job of updating trade laws should be a continuous and thoughtful one led by a Congress willing to resist the parochial viewpoints. Recognition should be given to the allocation of all costs involved, and where necessary the public should be encouraged to contribute a fair share towards the adjustment.

4. An intensive and aggressive public communications effort on the part of business to stimulate interest and improve understanding. Much of the restrictive trade legislation being proposed is the direct result of public ignorance of the role of business in our national life. Legislators respond to public opinion and public attitudes. By working to shape opinions with factual and meaningful information about the vital inner workings of world business itself, the gap that threatens to destroy public confidence in the free enterprise system can be closed.

Longyear Company

Longyear Company, a supplier of services and products to the mineral and equipment industries, is representative of smaller multinational corporations. Included in the organization are six subsidiaries, six affiliates, and two licensees operating outside the U.S. Longyear's direct investment abroad has been that of an ancillary to the mineral industry in its worldwide search for minerals. These investments, the paper suggests, have benefitted the U.S., the host countries, as well as increasing exports from the U.S. and employment at home. The company's export sales in 1971 were \$3,476,820. Dividends returned to the U.S. in the same year from overseas operations were \$895,090 and royalties \$107,283. The paper concludes that the benefits of foreign direct investment exceed the costs.

Armstrong Cork Company

Armstrong's foreign investment has more than doubled since 1965. Virtually all the products it manufactures abroad are to serve markets outside the United States. Armstrong has not exported any jobs from the United States to other countries. During the six year period, 1965-1971, despite increased foreign investment, Armstrong's exports from the United States have doubled. The theory that if it did not invest abroad, it could have exported to foreign markets and increase the number of jobs even more, sounds plausible but it is not true. Many U.S. products just cannot compete in foreign markets. If the company is successful in holding a market for awhile through exports, local competition begins to catch up, and as they do, the company's higher export costs make it less and less competitive. When this occurs it considers the possibilities of building manufacturing plants in these foreign markets. The existence of its domestic business in each of the world areas which foreign investment exists make it possible for the company to have the kind of organizations that can service export products more effectively.

Anderson, Clayton & Company

Anderson-Clayton Company initiated its program of direct investment abroad in the early 1930's. The company perceived at that time that the United States position as the supplier of about two-thirds of the world's cotton would change to a position as a residual supplier of a minority fraction of the world cotton market. Total sales by Anderson-Clayton were approximately \$127 million, about 36 percent of which were made by foreign subsidiaries in fiscal year 1972. The company's direct foreign investment abroad represented a similar relationship to its total investment. The company points out that exports from these foreign subsidiaries to the U.S. have been minimal except for a commodity like green coffee which is not produced in the United States.

The company suggests that its activities have had a positive effect on the U.S. balance of payments. The company has received \$110 million in dividends from foreign subsidiaries over the past 25-years.

On the question of taxes, the company suggests that if taxes paid to foreign governments are treated as a deduction instead of as a credit, Anderson-Clayton would be paying an effective tax in excess of 70 percent on each dollar pre-tax income earned by its foreign subsidiaries in these countries. This prohibitive tax rate, it is suggested, would for all practical purposes eliminate any incentive for remittance of dividends from foreign subsidiaries, and would encourage re-investment of earnings in foreign assets.

Manufacturing Chemists Association

The U.S. chemicals industry with 1972 exports in the neighborhood of \$4.0 billion and imports at \$2.0 billion, has a vital stake in foreign trade. The industry believes foreign markets are best served by exports from the U.S., so long as foreign government regulations and competitive factors permit. Overseas operations are established when competitive circumstances or government requirements make it impossible for markets to be served by manufac-

ture in this country. By 1971, the level of chemical direct investment abroad had risen to \$4.5 billion or 8.2 per cent of the 1971 U.S. chemical assets. The industry is a positive contributor to the U.S. balance of payments in the investment account as well as the trade account. Foreign investments by U.S. companies, the paper suggests, do not displace exports but increase exports. The increase can be attributed to three sources: (1) exports of intermediates which require further processing by the foreign affiliates; (2) better marketing of U.S. exports for resale as a result of establishing a stronger marketing network in a foreign market when local manufacture is undertaken; and (3) purchase of machinery, equipment, and services from the U.S. for the overseas plant.

Importation back into the U.S. of products produced by foreign affiliates is relatively small and hardly indicative of any desire to supply the U.S. market from abroad.

Foreign licensing of U.S. chemical technology, which has grown over the past few years, is expected to have long term beneficial effects on chemical exports and the balance of payments. The chemical industry relies on publication and free exchange of scientific information and the competitive sale or licensing of technology. Any country which would attempt to isolate itself from this exchange would quickly find that obsolescence was shutting it out of world trade in technology-based products such as those of the chemical industry. A refusal by the U.S. to license its know-how would merely result in a loss of income in the U.S. with little effect on overseas competition. A U.S. company which failed to produce a patented product abroad would face compulsory licensing or lapse of its patent rights in nearly all countries outside the U.S. Industries with a strong technological base, such as the U.S. chemical industry, tend to export a high proportion of their output.

Restrictions on the export of U.S. technology could lead to foreign retaliatory actions.

Proposals to alter the present system of crediting foreign income taxes against U.S. income tax liability would substantially increase the burden of taxes on overseas operations and would serve to reduce business currently done abroad. Eliminating tax deferral and repealing the foreign tax credit would increase the effective tax rate on foreign subsidiary operations to over 70 percent.

Multinationals do not export jobs. If they did, the sizeable investment of the chemical industry, in producing facilities abroad would result in a diminution of U.S. exports and an increase in U.S. imports from those plants—a conclusion not borne out by trade data. Rather than impeding exports from the U.S., foreign operations helped increase exports, and increase domestic employment.

Monsanto Company

Of Monsanto's 59,300 employees at the end of 1971, 45,100 were in the U.S., and 14,200 were abroad. There was a decrease during 1970-71 in both U.S. and foreign employment from 1969 peaks by almost equal percentage. This was due to changes in national economic conditions and not because production was shifted from one country to another. When all Monsanto transactions are considered, they afforded the U.S. a net positive contribution to the U.S. balance of payments of \$103 million in 1971, and an estimated \$131 million in 1972.

The problem of the U.S. with regard to the imbalance of trade and the large continuing deficits in the balance of payments are well known. It is apparent, however, that the steady decline in the trade balance from \$7 billion surplus in 1964 to an estimated \$6 billion deficit in 1972, deserved more attention than was given to it during the decline. The chemical industry trade balance has begun to experience the same deterioration experienced by the steel and textile industries many years ago. The annual growth rate over the last 5-years has been 7.4 percent for exports and 15.2 percent for imports. Chemical imports have impacted parts of the industry severely.

The world chemical industry includes a large number of multinational corporations with only three of the first ten located in the United States. All of the foreign firms are strongly competitive, and their foreign operations make them truly multinational. Most of them are owned and/or controlled to a major degree by the national governments. In all cases, they are an integral part of the planned economies which are common to all major industrial countries, except the United States.

The Kennedy Round, so far as chemical tariffs were concerned, resulted in an inequitable agreement for the United States. Multinational corporations are now being charged with causing the problems that a number of them warned about and worked hard to avoid.

Anti-multinational legislation will not solve U.S. trade problems. In 1971 exports provided jobs for 3,960 of the 45,100 U.S. jobs of Monsanto; 21.2 percent of Monsanto's exports exist only because of its foreign plants. Only one-half of one percent of foreign production is shipped to the U.S. These imports amount to only one-eighth of one percent of Monsanto's sales in the U.S. They do not compete with U.S. made products.

There is no unfairness to the U.S. or to Monsanto's employees in the present taxation system. The proposed changes in the Hartke-Burke legislation would in no way solve the country's serious problems and would instead worsen them. If the proposed changes were made, Monsanto's tax rate on foreign earnings would have been in the 63-69 percent range. Such tax burden would make Monsanto non-competitive in its foreign operations, and cause a severe cut-back in its foreign plants. This in turn would decrease exports from U.S. plants and decrease the flexibility our U.S. plants need in the use of technology, know-how and other factors used so effectively by chemical multinational companies.

Monsanto, like most chemical companies, depends heavily upon research and development to provide new products. They are essential to its success, because matured products are only marginally profitable. For this reason an adequate cash flow from commercial products must be generated to support R&D. R&D expenditures over the past 5-years ranged from \$84.2 million to \$101.5 million. Only about 15 to 20 percent of these expenditures are made outside the U.S. Shipments of goods to the U.S. from plants using Monsanto technology developed in the U.S. is minimal.

Allied Chemical International

Allied Chemical has production facilities in over a dozen foreign nations. The aggregate amount of Allied's overseas investment (defined as equity in and loans to affiliated foreign companies at least 10 per cent owned by Allied) was about \$104 million through 1972 from which the company has realized through dividends, interest, and associated royalty payments after foreign withholding tax, cash receipts of approximately \$22.8 million. Only a small percentage of goods manufactured by Allied's foreign affiliates is imported into the U.S. In the case of foreign affiliates supplying essential raw materials, without such investment domestic plants would be unable to continue operations. Allied strongly supports efforts to increase U.S. exports such as DISC legislation and various Commerce Department steps designed to strengthen exports. Still, the U.S. Government's assistance to export industries does not compare with that of other countries, notably in Europe and Japan.

Allied believes that U.S. export sales would be substantially increased if U.S. antitrust policy clearly encouraged the formation and operation of joint export associations to compete with foreign cartels.

Allied believes that the numerous studies of the relationship of foreign investment to U.S. exports have shown that measures which would inhibit foreign investment would actually discourage rather than promote exports and worsen rather than improve the U.S. balance of payments position.

Allied calculates that if the present tax provisions relating to earnings deferral and foreign tax credit had been effective in 1971, the company would have incurred additional U.S. income taxes of \$4.8 million, increasing overall U.S.-foreign taxes on its operations abroad to about 75 or 80 per cent.

Union Carbide, "Union Carbide's International Investment Benefits the U.S. Economy"

The highlights of the report include:

Union Carbide exports from the U.S. increase as foreign investment grows. This is because the presence of a foreign manufacturing plant with a strong marketing organization "pulls" greater exports from the U.S. of allied, intermediate, and accessory products.

Union Carbide exports from 1951 through 1970 increased nearly seven-fold, as com-

pared with an increase in foreign-affiliated production of about five times. Union Carbide exported five percent of its domestic production in 1951 rising to eleven percent in 1970.

Over the 20-year period, Union Carbide's total exports were \$517 million greater because of its foreign investment than they would otherwise have been, and 57 percent of its total exports went to or through affiliated foreign companies.

Exports "pulled" by foreign investment produced nearly 2,000 more jobs in the U.S. than would have existed without the foreign investment.

Union Carbide's positive contribution to the balance of payments was \$236 million in 1970 and exceeded \$800 million over the last five years.

From 1966 through 1970 Union Carbide's international affiliates total tax payouts to foreign governments averaged 52.5% of total pre-tax income.

Dividends and other income from foreign affiliates exceeded Union Carbide's direct foreign investment by \$20 million in 1970 and by \$246 million over the last 20 years.

The report also stresses that investments in foreign plants are made only when a market can no longer be supplied through exports from the U.S., and that such exports are significantly curtailed if the foreign investment is not made.

The National Association of Manufacturers, "Comments on the International Activities of Multinational Corporations"

The question of whether foreign direct investment aggravates U.S. employment by exporting capital that would otherwise been invested in the U.S. implies that domestic and foreign capital investment are highly substitutable and made at the expense of one another. There is little evidence to support this assumption. To the contrary, according to Professor Raymond Vernon of Harvard, there isn't any basis of assuming that what is produced by a subsidiary abroad would otherwise have been produced by the parent company in the United States. Between 1960 and 1971, the admitted earnings of U.S. MNC's grew from \$2.3 to \$7.3 billion. In total U.S., MNC's returned over \$16 billion more capital (excluding royalties and fees) to the U.S. than they exported in capital during this 12-year period. This steady remittance of earnings not only strengthened our balance of payments but also created investment and job opportunities in the U.S.

Studies have shown that direct foreign investments tend to be concentrated in industry groups which have the lowest import penetration, and conversely those industry groups with the highest import penetration, such as shoes, and textiles, have tended to be low, foreign investment industries. Studies also confirm that low-labor cost is not a primary determinant of foreign direct investment. The existence of a foreign subsidiary tends to pull exports from the U.S. thus creating jobs and improving our balance of payments.

With regard to the issue of technological erosion, studies have shown that U.S. exports of manufactured goods depend upon product differentiation, whereas other advanced countries rely upon price differences in export. As a result, once a U.S. product begins to age, foreign firms are able to imitate and modify the product to meet local needs and produce it more cheaply, because of lower R&D and transportation costs. The competitive life of U.S. products is about one-half of the product life of goods produced prior to World War II.

The net surplus and royalty and fee payments to the United States for the use of U.S. technology was over \$15 billion between 1960 and 1970. The United States has also benefited considerably from foreign research and technology. It is not surprising that the Germans have invented the rotary engine which may revolutionize the automobile industry, or that the Italians have invented the radial tire. The growing capabilities of the foreign competitors are natural outgrowth of the return of economic balance to the world economy.

U.S. Chamber of Commerce, "The United States Multinational Enterprise"

The survey found that American multinational enterprise are increasing their domestic employment levels at significantly higher rates than the U.S. general manufacturing average. The 121 firms which participated in the Chamber's study increased domestic employment from \$2.5 million in 1960 to \$3.3 million in 1970. This gain of 31.1 percent is significantly

higher than the national percentage increase for the period. The 121 firms accounted for approximately 17 percent of U.S. general manufacturing employment in 1970. The export performance of 81 multinational firms in general manufacturing activities is far superior to the national economic national experience during 1960 and 1970. The shipment of these firms abroad from U.S. production facilities increased from \$2 billion to \$6.2 billion in that period, a gain of 209 percent, well above the national growth rate.

The survey demonstrated that the American multinational enterprises preferred to locate their overseas operations in the advanced, more highly industrialized, higher wage countries where economic conditions most closely resemble those in the United States.

U.S. Chamber of Commerce, "Representative Responses to Chamber of Commerce Questionnaire"

This document provides a sampling of answers by multinational corporations to a series of questions asked them by the U.S. Chamber of Commerce.

The National Foreign Trade Council, "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade"

There is no cause and effect evidence to support the view that foreign production has reduced U.S. exports and domestic employment in companies investing abroad. Instead, the Council's survey shows that where exports of a specific item have declined as a result of governmental restrictions, increased competition abroad, etc., there has been a larger increase of exports of other items attributable directly to investment abroad.

Imports from foreign affiliates are still negligible and are concentrated in a few industries and a few components of simple products. Technology transferred to foreign affiliates was considered to be most highly advanced in only one or two cases. In all the rest, the technology sent abroad to permit components to be manufactured and returned to the U.S. parent are classified as "immediate" or "low-level."

Balance of payments effects remained favorable in each of the companies of the survey. Income from exports, royalties, technical assistance fees, engineering fees, support for research and development, dividends and other returns on investment, and from interest, range from twice to ten times the level of payments for imports and dividends or royalties paid out to foreigners.

Solutions of the basic problem of maintaining full employment, and an equitable bearing of the burden of adjustment to changes to industrial production and trade patterns, should not rely on restrictive measures but rather on expansionistic approaches which will significantly increase the contributions of international companies to U.S. balance of payments and which will increase the level of the employment in the United States and internationally. U.S. growth is tied directly to economic growth and therefore cannot be increased at the cost of growth elsewhere.

National Foreign Trade Council, Inc., "Economic Implications of Proposed Changes in the Taxation of U.S. Investments Abroad"

The United States uses the nationality principle of taxation; namely, that U.S. residents are liable for the same U.S. income tax whether their income originates at home or abroad. This principle tends to eliminate taxes as a factor in the determination of investment locations. A problem of double taxation arises, however, because every country imposes a tax on the income of U.S. residents originating within their borders. To mitigate this problem and to recognize the prior claim to taxation by the nation by which the income arises, the industrial nations of the world have adopted one of two systems. One is to allow credit of foreign taxes paid, the other is to exempt foreign income from home-country taxes. The United States uses the former system as do Canada, Germany, Japan, Mexico, the United Kingdom. The credit is limited to the U.S. income tax liability associated with foreign source income, assuring that the tax burden will be the higher of the U.S. or the foreign tax of such income. The provisions of Burke-Hartke pose the question of why income taxes should be allowed as a tax credit, rather than as a deduc-

tion from income as our State income taxes. We would agree as a matter of tax neutrality that a credit should be granted for State income taxes to eliminate their role as determinant of investment location. However, the crediting of State income taxes, without strict limitations, would tend to eliminate pressure on the States to control expenditures and taxes. The credit for foreign taxes does not have this tendency because tax increases by foreign governments are borne mostly by their own nationals, and this operates as a restraint on escalation.

The deductibility of foreign taxes that would result from the Burke-Hartke bill would enormously increase the tax burden, on the earnings of foreign subsidiaries from 50 to 75 percent, and would render U.S. investments abroad uncompetitive.

Emergency Committee for American Trade, "The Role of the Multinational Corporation in the United States and World Economies"

American multinational companies do not export jobs. They outperform other companies in making jobs. In general, they make better jobs with better pay and backed by higher investment than other companies. What they import is a small fraction of what they export from America. Their foreign affiliates outside of Canada exported only about 2 percent of their total sales to the United States during the 1960's, while their imports, including raw materials, from non-Canadian affiliates amounted to only 0.7 percent of their American production in 1970. In the period between 1960 and 1970 the companies covered in the survey increased their domestic employment at a rate of 75 percent greater than that of all manufacturing firms. Their domestic sales also increased faster than those of other companies. The increase in their sales from domestic facilities was twice as much as the increase in sales from their facilities abroad. The ratio of exports to domestic production reached 10.8 percent in 1970, double that of the average manufacturing firm.

The report confirms the view that foreign investments are made primarily into markets that cannot be served by exports from the United States.

ECAT urges that emphasis be put on the commitment to a program of "industrial adaptation." It is inexcusable that instead of a national program of an "industrial adaptation" that would allow the worker to retain pension and other rights, our economy offers only inadequate training or the dole. It is easy to understand why labor leaders call the present system of adjustment assistance "burial assistance." As a first step toward a program of "industrial adaptation," ECAT recommends that the Government initiate a study of all existing programs. It thinks such a study would find United States is already far along the road to such a program, but we are moving by means of overlapping, lopsided and even conflicting programs spread casually among dozens of Federal, State, and industry actions.

ECAT recommends that multinational corporations become more sensitive to labor's and the Government's concern over plant closures, and to attempt to improve communications with the labor movement so that labor might better understand its stake in the freer flow of goods and capital internationally. A summary of the ECAT findings is included in the compendium.

Foreign Direct Investments of U.S.
Multinational Corporations and Domestic
Employment, the Balance of Payments, and
the Transfer of Technology.

A Summary of Viewpoints Expressed in Some Recent Studies
of Multinational Corporations.

Prepared In: Investment Policy Division
Office of International Investment
April 1972

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I. Summary and Conclusions

Multinational corporations (MNC's), since the early part of this century, have made major contributions to the expansion of international trade and investment. Though preponderantly American, they are by no means a unique American phenomenon. Sixty percent of the world's foreign direct investments are made by U.S. companies, but the U.S. share of annual GNP invested abroad is less than 1%. Most other industrial countries make a higher proportion of their investments abroad than the United States.

The international activities of American firms increased particularly fast in the 1960's and have recently become the object of much controversy. Several labor groups have claimed that U.S. foreign investments are damaging the interest of the United States. The American companies are accused of exporting domestic jobs and importing products that could and should have been made in this country. "Scores of thousands of American jobs" allegedly have vanished because U.S. firms have opened plants overseas to take advantage of lower foreign production costs abroad. The firms are blamed for importing their production into the United States to compete with goods made by American workers. Furthermore, the transfer of U.S. technologies to low-wage countries is claimed to erode the competitive basis of U.S. industry and cause job losses. In short, by establishing plants abroad, the MNC allegedly is able to combine U.S. capital, management, and technical know-how with cheap foreign labor and "flood" the U.S. market with foreign imports, thus depriving U.S. workers of their jobs. Labor accuses the American MNC's of placing their interests over those of the country and demands that they be denied the tax and tariff advantages they now enjoy.

These contentions have recently been examined in a number of surveys and reports prepared by business associations and the Department of Commerce. The studies deplore the lack of available facts and data dealing with the effects of international investment on exports, imports, employment, and technology transfers and urge continued research on these subjects.

Nevertheless, on the basis of existing material and the results of their own surveys the researchers have come to the conclusion that, during the 1960-70 period, (1) U.S. employment has not been damaged by imports manufactured by American plants abroad. On the contrary, employment in industries with high foreign direct investments has risen more rapidly than in the average manufacturing firm. (This, in view of the labor charges, is the most important finding.) (2) The sales and exports of American MNC's have increased faster than those of the average U.S. manufacturing firm. (3) Their net surplus of exports over imports has grown. Industries with the highest investment accounted for the largest proportion of the U.S. trade surplus. (4) Balance of payments inflows attributable to foreign direct investment have increased substantially and are now, after trade, the second most important net contributor to the balance of payments.

2.

U.S. receipts for technology transfers far exceeded such U.S. payments to foreign firms, indicating that the United States is both a heavy net supplier of new technologies to the world and a net beneficiary of these transfers.

The studies have also found that U.S. foreign investors do not go abroad for the express purpose of importing their lower-cost overseas production to the United States. Companies produce abroad to supply local markets better, to get behind tariff walls, to diversify product lines, to preempt or follow competitors, to lower production costs, to assist licensees and, sometimes, to escape U.S. regulations. There is strong evidence that, if U.S. companies did not produce certain goods more cheaply abroad, foreign firms would do so.

The reports agree that artificial restraints on the foreign operations of American firms would result in a serious reversal of these favorable developments and would materially decrease U.S. employment and export opportunities.

II. Description of Studies Used in This Paper

The following government, university, and business organization studies have examined the U.S. labor claims. Some of their conclusions are included in this review.

U.S. Department of Commerce, Office of International Investment (OII).

The agency has published in January/February of 1972 a three-part study on the U.S. multinational corporation entitled, "The Multinational Corporation: Studies on U.S. Foreign Investment," Volume I. The report is the first part of an on-going larger project on the multinational corporation.

Part I discusses the policy aspects of foreign investment by the multinational corporation and describes, among others, the effects of the multinational corporation on U.S. employment, the balance of payments, and the transfer of technology. It also points out the effects of foreign direct investment controls. Part II, "U.S. Multinational Enterprises and the U.S. Economy," was directed by Professor Stobaugh of the Harvard Business School under a contract with OII. The report consists of (1) an in-depth examination of foreign trade, production, and competitive conditions in nine major U.S. industries with manufacturing facilities abroad, which account for over 90% of all U.S. manufacturing investment overseas, and (2) a detailed study, within each of the nine industries, of an actual case of foreign direct investment by a U.S. manufacturing company. Part III, "Trends in Direct Investments Abroad by Multinational Corporations, 1960-1970," is a statistical analysis of the main elements that have contributed to the very substantial growth of U.S. foreign direct investment during the past decade.

3.

Emergency Committee for American Trade (ECAT)

The ECAT study, published in February 1972, is a comprehensive two-volume publication. Part I, "The Role of the Multinational Corporation in the United States and World Economics," analyzes the domestic and international operations of 74 U.S. corporations, representing a broad group of large multinational firms. The data used in the survey were obtained through a questionnaire sent to 117 large U.S. manufacturers. Part II is a background paper and covers the operations of international firms in nine industry groups.

National Foreign Trade Council (NFTC)

In its study "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade, An Assessment of Critical Claims and Legislative Proposals," which was published in November 1971, the NFTC surveyed 150 of its members who are involved in multinational operations. The purpose of the survey was to assemble current information in order to evaluate the validity of labor claims, to document the rationale for making overseas investments, including the effect of such decisions on U.S. employment and exports, and to study the impact of such investments on the balance of payments.

U.S. Chamber of Commerce

In its "Multinational Enterprise Survey" published last February, the U.S. Chamber of Commerce evaluated the responses of 158 U.S. multinational companies, covering 10 manufacturing industries. The six-month study documents the activities of these international firms during the period between 1960 and 1970.

The Peterson Report

A report, dated December 1971, by Peter G. Peterson, then President Nixon's Assistant for International Economic Affairs and now Secretary of Commerce, analyzes primarily the competitive position of the United States in today's world markets. It touches peripherally on the role of the multinational company and foreign direct investment. The study has two volumes: the first is called "The United States in the Changing World Economy," the second provides background material and statistics.

National Association of Manufacturers (NAM)

The NAM study, "U.S. Stake in World Trade and Investment--The Role of the Multinational Corporation," reviews the evolution of the multinational corporation. Like the other reports, it focuses on its effects on U.S. employment, the balance of payments, the balance of trade, and on financial and international issues. It draws primarily on published material and statistics and was published in January 1972.

4.

Center for Multinational Studies (CMS)

The Center published three studies on subjects related to the multinational corporation: (1) Occasional Paper #1, "U.S. Multinational Investment in Manufacturing and Domestic Economic Performance," by Professor Robert G. Hawkins of New York University's School of Business Administration, (2) Background Paper, "Labor's Attack on the Multinational Corporation: A Status Report." Both studies were issued in February 1972. (3) A paper, "Multinational Companies and the National Interest," by Timothy W. Stanley, Associate Director of the Center, which was published in SIGMA's first quarter 1972 edition.

Business International (BI)

In March of this year, Business International distributed the preliminary results of a continuing international investment and trade study. The final report, which is expected later in 1972, will survey the effects of foreign direct investment by 500 of the largest MNC's on U.S. employment and the balance of payments. The preliminary report covers conclusions drawn from the first 86 corporate questionnaires returned so far.

Essentially, the studies under review use the same arguments and arrive at similar conclusions, but they differ in their approach and emphasis. Some of the reports draw heavily from the research and statistics of the earlier publications.

An attempt is made in this paper to summarize the various viewpoints regarding the effects of the multinational corporation on U.S. employment, trade, the balance of payments, and the transfer of technology.

III. U.S. Foreign Direct Investment and Domestic Employment

The studies, most of which are based on surveys, agree that American labor profits from, and is not adversely affected by, overseas operations of U.S. multinational firms. In addition to creating more domestic jobs, their exports generate much higher wages than U.S. import-competing industries. Attempts to restrain MNC operations would not increase U.S. employment.

Department of Commerce

Labor contends that 500,000 job opportunities were lost to U.S. workers between 1966 and 1969 because of import competition and blames a large part of this loss on the foreign activities of "run-away" U.S. multinational corporations.

Commenting on this claim, the Commerce study points out that the rate of employment growth in U.S. companies with large direct investments overseas was larger than the nation as a whole and that the jobs in these firms earn more pay and are supported by higher capital than those in other sectors

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of the economy. Among the industries showing job increases were some that are confronted with strong import competition (tire and tubes, communications equipment, office machinery, and household appliances). Declines in employment occurred in only a few industries (motor vehicles, farm machinery, and basic steel products). The study notes that those import categories which have experienced the most rapid growth and are perhaps most responsible for the dislocation of U.S. firms and displacement of U.S. workers (textiles, shoes, steel, automobiles) are overwhelmingly the output of foreign-owned enterprises, rather than U.S.-owned affiliates. The case of auto imports from Canada which come from U.S.-owned companies are a special case and this trade is governed by the terms of the U.S. Canadian Auto Agreement.

The Harvard Study, commissioned by the Commerce Department, adds that U.S. foreign direct investments provide jobs for workers who make equipment for use in overseas affiliates or who manufacture components and parts for further processing or assembly in foreign plants. Furthermore, additional jobs are created in the main offices of U.S. multinational corporations for technical personnel who render engineering and related services, and for research and development personnel whose activities help to support and, in turn, are supported by MNC subsidiaries abroad. The Stobaugh group estimated that a total of 600,000 additional jobs are created by U.S. direct foreign investment, i.e., at least 250,000 production jobs, 250,000 jobs in the home offices of MNC's, and 100,000 jobs for supporting workers. These jobs would be lost without U.S. direct investment abroad. Even though these workers admittedly would not remain unemployed without the export of goods and services to foreign subsidiaries, alternate jobs would pay lower wages, since the average wage rates in U.S. export industries are considerably higher than those in other sectors of the economy.

Variations in U.S. employment, according to the Commerce Department, are primarily due to cyclical and other domestic factors rather than import competition or the alleged export of jobs. Since U.S. investment abroad accounts for one quarter of all U.S. manufactured exports, it provides an important stimulus to the domestic economy and employment. Eliminating American plants overseas would not result in increased employment at home, but in the replacement of their output by foreign competitors.

The Commerce Department calls labor's advocacy of restrictions on U.S. international investments "ill-founded," adding that a satisfactory level of employment in the United States depends basically on a vigorous domestic economy and the ability of U.S. industry to be competitive in world markets.

The Commerce Department cautions, however, that "while considerable information is currently available and a good deal of research is underway, much more factual data is needed if informed policy judgments are to emerge." Adequate data dealing with the effects of international investments on exports, imports, employment, and technology transfer are not yet available. If the impact of the MNC is to be studied, a continuous flow of data covering a period of years is necessary.

6.

National Foreign Trade Council (NFTC)

The Council conducted a series of case studies of multinational firms, all of which contradicted labor's contention that U.S. manufacturing operations abroad contribute substantially to the decline of employment in this country. The respondent companies indicated that their exports and domestic employment had gone up over the past decade. The Council denies a cause-and-effect relationship which supports the view that foreign production has reduced U.S. exports and domestic employment in companies investing abroad.

An analysis of the case studies revealed that imports from lower-wage countries were negligible and limited to a few isolated industries and a few components or simple products. In no case was foreign investment held responsible for the loss of U.S. employment. The respondents felt that these jobs would have been lost in any event, either because the products or components came to be manufactured by foreign competitors or because American exports were no longer cost-competitive in foreign markets. They emphasized that overseas production had actually saved American jobs in that the import of components and parts from low-wage countries had kept the final product competitive in world markets.

NFTC reports that only a very few cases mentioned lower labor costs as a factor in their decision to produce abroad. However, even where labor costs were considered, they were not decisive, the study found. In many instances, the investment had been in a sector that is capital intensive, but not labor intensive. Since in those cases U.S. processes were used, the firms felt that they did not gain from the fact that local labor was cheaper.

NFTC observes that labor-cost differentials have existed for a long time without inducing significant movements of U.S. capital and technology and that it was only after overseas markets had become large enough to justify local production on a large scale or after trade barriers had been reduced that American production moved abroad in significant amounts.

The study concludes that labor's problem is its lack of competitiveness. Cutting off foreign competition, slowing the flow of technology, and stifling foreign direct investment would not solve, but merely "multiply several-fold the effects of the beggar-thy-neighbor policies of the 1930's which no one should want to repeat." As a possible solution the NFTC suggests increased mobility of labor and industry, and expansion of both the level of employment and skill-training.

Emergency Committee for American Trade (ECAT)

ECAT states that the information developed in its study clearly indicates that the growth in the international activities of U.S. corporations has actually created new employment opportunities for American workers.

Between 1960 and 1970, the 74 companies surveyed increased the number of their domestic employees by nearly 900,000 to 3,348,000. Their 3.3% annual rate of increase was substantially larger than that of the average manufacturing firm (1.4%).

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The study points out that, since most foreign direct investors are export-oriented and since a substantial volume of their exports depends on the manufacturing and support facilities of their foreign affiliates, the growth of their domestic employment may be attributed directly to their foreign direct investments. The study found that those industries that expanded their foreign investments and employment most rapidly (instruments and non-electrical machinery) also reported the largest growth in domestic employment.

ECAT denies labor contentions that MNCs have an "unlimited" option of producing at home or abroad and that this undermines the position of U.S. labor in collective bargaining. The survey respondents pointed out that their workers obtained above-average wage gains in the major collective bargaining settlements of recent years. This, according to ECAT, backs Labor Department figures showing that average wages paid in the four U.S. industries with the heaviest concentration of foreign direct investment (petroleum, chemicals, transportation equipment, and non-electrical machinery) are among the six highest paid U.S. manufacturing industries. In contrast, the three industries with the lowest wages (textiles, apparel, leather and leather products) represent only 1% of all U.S. manufacturing investments abroad.

U.S. Chamber of Commerce

The findings of the U.S. Chamber of Commerce indicate that, during the past decade (1960-70), most of the 121 multinational firms that supplied comparative employment figures had 2.5 million domestic employees in 1960 and 3.27 million in 1970. They increased their domestic employment at a significantly higher rate than the overall U.S. economy (31.1% versus 12.3%). The few exceptions were due to "clear-cut" domestic factors such as a shift in military spending and a reordering of U.S. technological priorities. They were not in any way related to overseas investment.

The report takes issue with labor's contention that foreign direct investment exports U.S. jobs and deters export expansion. According to answers from 61 multinational companies, their exports increased 180% between 1960 and 1970 as against a national increase in exports of only 53.5%. The U.S. Chamber of Commerce believes that the excess of exports over imports in 1970 meant more than 311,000 additional jobs for American workers. It based its calculation on the estimate that \$11,348 in exports create one domestic job.

The report states that lower labor costs abroad rated low among the decisions to manufacture abroad. Rather, better servicing of existing markets and tariff and trade restrictions were listed as the most important motives for direct investment in all countries.

The Peterson Report

Like the Commerce Study, the Peterson Report cautions that too little is known about the inter-locking effects of MNCs and U.S. employment, trade, the balance of payments, and the economies of other nations to come to definitive conclusions. It deplores the fact that, although some people consider MNCs as the "wave of the future in that they already take a one-world approach to business, to others - among them groups of the American labor movement - they represent a major threat to employment."

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The report acknowledges that, while multinationals are widely blamed for the loss of U.S. jobs, "there is some reason to believe that they actually increase U.S. exports." Their exports now account for more than one quarter of all U.S. manufactured exports.

Peterson urges more study and better understanding of the effects of MNCs in America's foreign economic policies. He lists a number of policies to help U.S. industry recapture its competitive strength and adapt to changing international markets and shifting patterns of production. As far as international investments are concerned, Peterson stresses the need for new policy initiatives, such as a review of (1) existing investment controls in the light of recent important international monetary developments, (2) U.S. tax practices and the conclusion of new international understandings about taxes and accounting procedures, and (3) the extraterritorial application of U.S. law to U.S.-owned corporations. He also proposes a more vigorous promotion of foreign investment in the United States and the establishment of an international code to govern national treatment of foreign investment.

National Association of Manufacturers (NAM)

The study agrees that rather than displacing American exports, U.S. foreign direct investment has a stimulating effect on the nation's economy in that it creates new jobs for Americans. It points to statistical evidence that domestic employment in the industry groups with the largest overseas production has increased fastest and, in general, has not been adversely affected by direct investment abroad.

The AFL-CIO argument that U.S. international corporations invest in foreign countries in order to cut costs and then export their lower-cost products to the United States - thereby displacing Americans of their jobs - is not supported by available evidence. During the past ten years, over 60% of all U.S. offshore investment went to such relatively high-wage areas as Western Europe and Canada and only a small percentage of total manufactured imports (14% including imports from Canada, 8% excluding imports from Canada) came from U.S. affiliates.

The NAM views the rapid increase in foreign direct investment in the United States as even more significant than the pattern of U.S. investments abroad. If cheap labor were indeed the primary reason impelling U.S. international corporations to invest abroad, foreign multinational firms would not be investing in the United States.

The provisions of Tariff Schedule items 807 and 806.30, which permit certain duty-free exemptions for U.S.-origin goods reentering the United States, probably have only a limited short-run negative effect on U.S. employment. In the long run, NAM feels, additional domestic jobs are created through increased employment in components and parts production. Like other studies, NAM stresses the beneficial effect of products exported under items 807 and 806.30 in that they enable U.S. firms to continue to serve U.S. markets by remaining cost-competitive.

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The study suggests that labor seems to consider the size, sources, and alleged flexibility of MNC's to transfer production and investment from country to country as a threat to its bargaining power. It believes this to be one important reason why labor pushes for world-wide collective bargaining, an international code of fair labor standards, and the world-wide equalization of wages on an industry-to-industry basis. The implications of such efforts are enormous, the study warns: without a unified effort by industry and business to deal with labor's offensive, it is "only a matter of time when labor will be able to force one industry after another to submit to their demands."

Center for Multinational Studies (CMS)

Of the three CMS publications, only the Hawkins and Stanley papers focus on the export-of-jobs argument.

Occasional Paper #1, prepared by Prof. Hawkins of the New York University Graduate School of Business Administration, parallels in its conclusions the findings of the other studies discussed in this paper. It demonstrates that for the 1963-69 period, U.S. manufacturing industries with the highest investments abroad have, on the average, experienced the fastest growth in American employment and production. Actual reduction in domestic employment and production in industries with high foreign investment was found to be quite rare. The few exceptions were electronic components and consumer electrical equipment. The study suggests that in these cases, foreign production may have been accompanied by actual reductions in domestic employment in certain localities or occupations, although this would not hold true on an industry-wide basis as other production and employment expand in the same industry.

Commenting on the AFL-CIO argument that domestic production and employment in particular fields might have been still higher except for foreign investment, he points out that "the might-have-been situation cannot be proven - although many individual case studies have shown that the option of expanding production domestically instead of abroad did not exist."

Professor Hawkins asserts that in view of the high increase in domestic employment and exports in industries with large foreign investments, efforts to restrain foreign direct investment would be a "misplaced remedy for problems which have other roots."

In his article published in SIGMA, Timothy W. Stanley, CMS Associate Director, comments that U.S. labor seems to believe that somehow it is more unfair to have to compete with imports based on U.S. capital, U.S. management know-how and U.S. technology -- "to all of which labor contributes" -- than to contend with imports from foreign-owned companies.

Comparing domestic employment between 1960-68 for U.S. manufacturing industries with substantial overseas investments and the production by their foreign affiliates, he found that domestic employment declined in only one broad category, namely in the food products industry (6%). In other manufacturing

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categories it increased from between 11% and 34%. Production by their foreign affiliates during the same period rose by even higher percentages. The very substantial increases in foreign production helped to increase rather than reduce domestic employment in most affected areas.

The Background Paper of the Center for Multinational Studies speculates on the various motivations which may have led labor to support the protectionist Burke-Hartke Bill.

The Center believes that labor may attempt to create the "strawman" of the runaway company in order to dodge the question of why the productivity of American labor has declined compared with that of other industrial nations. Union politics may be another consideration: Union members who acquire new skills through retraining may leave a specific local or drop their union membership entirely.

Business International (BI)

Referring to the charge that U.S. foreign direct investors export jobs, Business International states that this claim is "totally belied by the facts." During the 1960-70 period, the largest foreign direct investors of the BI group increased the total number of their employees in the United States more than twice as fast as the average domestic company. If foreign direct investment had exported jobs, BI adds, U.S. domestic employment would have fallen.

Over the 1960-70 period, overall U.S. employment rose 19.5% while employment in the 86 sampled firms (excluding acquired employees) increased 32.8%. The beneficial effect of foreign direct investment on U.S. domestic employment becomes even more obvious if their domestic employment is related to the overall U.S. employment in manufacturing (14.0%).

The results of an earlier study by BI of the effect of foreign direct investment on U.S. employment were similar. At the time, BI had been criticized that "all those figures show is that the companies exported jobs through foreign investment and then gobbled up other U.S. companies and acquired their employees." To test this possibility, BI gathered data on the number of employees the 86 respondent companies acquired through corporate mergers during the 1960-70 period. It turned out that the number, though substantial (about 200,000), was far less than their total increases in domestic employment (613,000).

IV. Foreign Direct Investment and the U.S. Balance of Payments

In assessing the effects of U.S. foreign manufacturing on exports and thereby on the balance of payments, the distinction is often made between the export follow-on effects, export displacement effects, and import effects. The export follow-on effect results from the purchase of U.S. products (materials, parts, and components) by newly established U.S. affiliates abroad and from purchases of a broader range of U.S. products in response

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to a growth in local income. Export displacement occurs when products manufactured by U.S. overseas plants displace U.S. exports either in the country in which the affiliate is located or in third countries. The import effect takes place when U.S. investment abroad results in an increase in U.S. imports. Most studies cover all three aspects, but their special attention is directed to the latter category since this is the one U.S. labor is primarily concerned about.

As to the impact of foreign direct investments on the U.S. balance of payments, the studies acknowledge that, in the short-run, the outflow of funds for such investments has had a detrimental effect on the U.S. balance of payments. They stress, however, that in the long run U.S. earnings have undoubtedly benefited the balance of payments. In recent years, U.S. income receipts from foreign direct investments have made up an increasing proportion of total U.S. income from international operations, ranking second after earnings from foreign trade. As the American economy has now assumed more and more the characteristics of a mature creditor nation, receipts from overseas investment in recent years surpassed U.S. foreign trade earnings.

1. U.S. Department of Commerce

According to the Commerce study, the principal difficulty of discussing the impact of the multinational corporation on U.S. trade and the balance of payments is that there is no way of knowing what the world would have been like without foreign direct investments. The main uncertainty is whether U.S. foreign investment supplements or substitutes for investments by non-U.S. firms. In addition, it is difficult analytically to determine whether foreign investment reduces the amount of domestic investment and whether overseas investment increases local demand for the products.

Whether or to what extent U.S. investment abroad merely substitutes for non-U.S. investment depends on where the investment is made, the degree of product sophistication, the ability of foreign firms to undertake added investments, investment incentives provided by host country governments, and the degree of product differentiation. The study concludes that in the present stage of research it is impossible to be certain about the scope or even at times the direction of the effects.

The study distinguishes between short-run and long-run effects of foreign direct investment on the U.S. balance of payments:

1. Prior to or at the time an overseas direct investment is made there is usually an outflow of funds from the United States. Because of the growing involvement of U.S. MNC's in overseas manufacturing investments, capital outflows from the United States doubled between 1962 and 1965 to \$3,416 million. This sharp increase was one factor which adversely affected the U.S. balance of payments and finally led to the adoption of voluntary restraints early in 1965 and of mandatory controls in 1967. Under pressure from these controls and in an attempt to avoid curtailing their investment activities, the large U.S. multinational corporations shifted to foreign sources of investment financing. They raised substantial amounts of funds through borrowing from foreign banks and floating debt issues on the Euro-dollar market. As a result, a much higher proportion of U.S. foreign direct investment was financed with Euro-dollar funds, and capital transfers from the United States declined. In 1970, however,

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following some liberalization of foreign direct investment restraints, capital outflows resumed their sharp increase. This rise in foreign borrowing over the last decade was in part responsible for the rapid growth and development of European capital markets.

2. In subsequent years, there is normally a return flow of significant and gradually growing income from the investment in the form of dividends, remitted earnings, and similar types of income. In the long run, the accumulated income usually exceeds the original capital outflow unless capital outflows continue to remain larger than remitted income for many years. The length of the "recoupment period" depends on a number of factors including the area where the investment was made, the type of investment, the industry and similar factors.

The Harvard group in its nine industry case studies, examined the recoupment periods for original capital outflows and found them ranging from an "immediate" recoupment in the paper and non-electrical machinery industries to a 15-year recoupment in the rubber industry. The average period in the nine industry cases was less than five years.

Foreign direct investment may affect U.S. exports in a number of ways:

1. The export follow-on effect: Exports may take the form of capital equipment to be used in the establishment of the production plant abroad, or they may be continuing exports of materials, parts, and components for processing or assembly in these affiliates. Foreign subsidiaries usually also serve as sales outlets for goods exported from the United States. In addition, foreign direct investment raises income in the host country and thereby enables the local population to buy more from other countries, including the United States.
2. The export displacement effect: Direct foreign investments may displace U.S. exports if their sales substitute for exports from the United States. The extent to which such export displacement actually occurs is, however, a controversial question, since it cannot be proven that, in the absence of foreign affiliate production, the markets served by subsidiaries would have been served by exporting from the United States. Most U.S. firms insist that foreign operations do not affect their exports adversely. They claim that they set up production facilities abroad only as a defensive measure, when they are at the verge of losing their export markets. Some labor groups, on the other hand, argue that much foreign investment is made because lower wages abroad promise higher profits and that it does displace U.S. exports and hence employment. Other analysts take a more intermediate position: where direct investment production does displace U.S. exports, it is for a limited period only. In the course of time, foreign firms will be able to imitate U.S. processes and methods, even though they may not have been ready to do so when the U.S. firm sets up production abroad. They believe that, in the long-run, U.S. direct investment preserves foreign markets for U.S. goods.

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3. The import effect: Production abroad by U.S. subsidiaries may compete with U.S. domestic products, especially where part of the foreign output is shipped back to the United States. However, most MNC output abroad is for sale in foreign markets and only a small amount comes back to the United States. Available data show that \$46.5 billion, or 78%, of total U.S. affiliate sales in 1968 were sold in the local market where the foreign investment is located and \$8.7 billion, or 14%, were exported to third countries. That same year, imports by the United States of affiliate-produced goods aggregated only \$4.7 billion, or 8%. These low figures show that exports by multinational subsidiaries to the United States are too small to compete to a significant extent with similar products made in the United States. It should also be kept in mind that a large part of the imports from U.S.-owned affiliates was attributable to the import of Canadian-made transportation equipment which is governed by the 1965 U.S.-Canadian Automotive Agreement. Imports of automobiles from Canada increased 11 times from \$200 million in 1965 to \$2.2 billion in 1968. If this trade is excluded from total affiliate exports to the United States, such exports accounted for only 4.2% of total affiliate sales in 1968.

The study notes that, while data are not yet available for the years after 1968, imports from foreign manufacturing affiliates seem to be relatively small, but "it is not clear whether they constitute a growing threat to the U.S. balance of payments." The Commerce Department re-enforces the findings of other studies, namely, that the growth of U.S. imports in recent years has come from sources other than the foreign affiliates of U.S. firms (e.g., steel, textiles, shoes, electronic goods from Europe and Japan).

In addition to earnings of U.S. affiliates abroad from their export operations, foreign subsidiary remittances to the United States in the form of dividends, profits, fees and royalties have become of increasing importance to the balance of payments. In 1970, U.S. direct investment income amounted to almost 7.9 billion, i.e., 12% of total balance of payments current account receipts from all sources, including U.S. merchandise exports. Total receipts from U.S. foreign direct investment between 1960-70 were \$57.1 billion.

The second portion of the study, prepared by the Harvard University research group, also states that the major effects of foreign investment on the U.S. balance of payments are due to trade between the U.S. parent companies and their subsidiaries abroad. It found that in three out of the nine industry cases studied (wire cable, electronics, automobiles), the exports were in the form of equipment, components and parts, or raw materials.

In several other cases where the U.S. investor was responsible for the choice of equipment to be installed in a new foreign affiliate, American machines were purchased even though foreign locally manufactured equipment of equal quality and at comparable prices was available. This suggests that in those cases U.S. equipment was primarily chosen because of the buyer's familiarity and ease of communication with equipment manufacturers in the United States.

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In two industries (food and oil), the trade effects were found to be minimal. These industries were mature and foreign operations so large that the necessary machinery was readily available abroad at lower than U.S. prices. In at least two cases (chemicals, tractors), the parent company used its subsidiary abroad as a sales office for goods other than those manufactured in the foreign plant.

Without foreign investments, most exports of intermediate and capital goods to U.S. subsidiaries and about half of all associated exports to these companies would be lost, the study claims. At the same time, U.S. imports might be higher, as the electronics case showed. It is entirely possible that if for some reason, some components and parts could not be assembled in Taiwan and shipped back to the United States for incorporation into the final product, the entire finished product would be imported from Japan.

Most of the U.S. direct investment abroad was found to have been made to protect existing markets abroad. It was found that all of the nine cases (representing industries which account for 90% of U.S. foreign direct investment), the U.S. firms did not have the alternative of continuing to serve their overseas markets from their U.S. plants.

National Foreign Trade Council (NFTC)

The NFTC survey shows that those multinational firms who bring their products back to the United States are limited to a few industrial sectors and involve very few components or relatively simple products. Fifty of the 80 manufacturers participating in the survey said that they had no imports whatsoever from their foreign affiliates. One company reported it had traditionally imported from its affiliates, but that the volume had declined some 5% during the 1960-70 period. Seven companies stated that they were importing from their affiliates but that the volume was exceedingly small.

Other companies mentioned that the goods they were importing were "not in our U.S. line," such as tires of "foreign sizes," household items, some office equipment, and machinery. They added that the U.S. market for these items is not sufficiently large to justify local production. Two companies reported, however, that they would introduce production in the United States as soon as U.S. demand is found to be large enough.

Almost all survey respondents pointed out that the existence of manufacturing, sales, and distribution facilities in foreign markets resulted in increased exports of the company's more sophisticated products, which are only manufactured in the United States, or of other products, which the company had not been able to export previously.

The case studies confirmed that investment is needed to expand exports, particularly where government restraints make a relocation of production necessary and where local markets are expanding fast enough to warrant the establishment of production facilities in the local market.

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All survey respondents stated that they had a favorable balance of payments in their overseas operations. Inflows from exports, patents, technical assistance and engineering services, and other returns on investment ranged from 2-10 times the level of payments for imports, dividends, royalties, and similar charges to foreigners.

Like other studies, the firms emphasized that foreign direct investment should be considered on its long-term merits and as a long-range earner for the balance of payments. To curtail that investment would mean paying a "sizable longer-run penalty for any short-term relief to the current balance of payments."

Emergency Committee for American Trade (ECAT)

The ECAT data show that foreign manufacturing activities have not replaced the exports of U.S.-based MNCs. They indicate, on the contrary, that foreign investments have provided a growing network of sales, service and distribution facilities which have made possible an increasing volume of U.S. exports, both absolutely and relatively to domestic sales:

1. The trade surplus of the 74 survey respondents approximately doubled between 1960 and 1970, while the overall U.S. merchandise trade balance in manufactured products declined from \$6.2 billion in 1960 to \$3.1 billion in 1970.
2. Their exports accounted for a steadily increasing proportion of all U.S. exports of manufactured goods, rising from 27.5% in 1960 to 34.6% in 1970.
3. Their share of merchandise imports also increased from 1960-70, but this growth was almost entirely the result of increased motor vehicle imports from Canada.
4. The ratio of exports to domestic sales was far higher for MNC's than for the average U.S. manufacturing firm.

Statistics on an industry-by-industry basis show a strong relationship between the growth in foreign investment and the growth in the U.S. trade surplus. The instrument and related products industry, and the non-electrical machinery industry are listed as cases in point.

The study also notes a direct relationship between foreign investments and export growth. Twenty-four percent of the surveyed firms reported that their exports would have been "much" smaller without foreign investments, and 21% indicated that exports would have been "somewhat" smaller. By contrast, only 12% of the companies felt that their exports might have been somewhat larger in the absence of foreign investments, and 42% indicated their exports would have been remained unchanged.

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As to import substitution, 71% of the survey respondents indicated that their foreign investments had virtually no effect on the share of the U.S. market supplied by imports. The rest was about evenly divided: half of them felt that their foreign investment had tended to reduce the import share of the U.S. market, while the others said that their investments had the opposite result.

The survey found that the major part of the ECAT respondents' cash outflows was for new investment which, over time, is expected to contribute to a continued growth in U.S. investment income.

U.S. Chamber of Commerce

The study says relatively little on the issue of trade expansion and treats the subject only in connection with labor's contention that U.S. foreign direct investment damages the U.S. export industry. That claim, the report notes, is disproved by the experience of the 61 manufacturers who supplied comparable answers. Between 1960 and 1970, these firms increased their total exports by more than \$2.8 billion to a total of \$4.4 billion. The value of their 1970 exports exceeded the value of their 1970 imports (\$852 million) by more than \$3.5 billion.

Also, it states that the study bore out U.S. Government findings that less than 10% of their foreign production was imported into the United States. If certain industries and areas (automobiles from Canada) were excluded, this percentage would drop to about 2%.

The study adds that U.S. producers must compete with foreign manufacturers in their markets. Without overseas manufacturing, markets would be lost to them. The Chamber of Commerce reports that labor cost advantage ranked low on the list of reasons the firms gave for starting foreign operations. That reason was sixth for firms locating in Western Europe and Canada, fifth for firms with Latin American and African affiliates, and third for firms operating in Asia.

Peterson Report

The report mentions that over half of all exports of manufactured products from the United States stem from multinational companies, and about half of these exports are from U.S. parent companies to their foreign subsidiaries. The positive net trade balance between the larger U.S. manufacturing plants and their affiliates abroad increased 85% between 1960 and 1970, the study says.

National Association of Manufacturers

The NAM study borrows heavily from other earlier reports and uses most of their arguments. The chapter can, therefore, be summarized rather briefly.

17.

NAM points out that although the initial balance of payments effects of U.S. direct investment abroad appear to be negative, the long-run income generation from U.S. overseas investments more than offsets the negative effects. However, as U.S. investments overseas level off, (as NAM expects them to do at the end of this decade) and foreign investments in the United States continue to grow, the contribution of American affiliates abroad to the U.S. balance of payments is likely to decline, reflecting the growing repatriation of foreign corporate earnings in the United States.

The overall effects of foreign direct investment on U.S. trade are "not unfavorable." In the short run, some export displacement may occur as well as some increase in imports. However, NAM believes that to emphasize the short-run trade effects of foreign investments on the balance of payments is meaningless. In the long run, the increase in U.S. exports strengthens the U.S. trade account more than if no direct investment had taken place. This is especially true in cases in which companies are faced with the choice of producing abroad or losing foreign markets.

Center for Multinational Studies (CMS)

Occasional Paper #1 was prepared by Professor Robert G. Hawkins under a cooperative research project between New York University's Graduate School of Business Administration and the Center for Multinational Studies. His findings on the effects of foreign direct investments on trade and the balance of payments led to the following conclusions:

1. U.S. manufacturing industries with "high" foreign investment generally registered an export surplus. In the late 1960's, when these surpluses declined, their trade balances deteriorated relatively less than those of industries with "low" foreign investment.
2. The change in the ratio of exports to domestic sales was not significantly related to the intensity of an industry's foreign investment. Although high foreign investment industries had a relatively better export performance than low foreign investment industries, the relationship was weak. Hawkins found a similar, but less positive relationship between the ratio of imports to domestic sales and the intensity of foreign investment.

He believes that industries with relatively high foreign investment are the more dynamic industries. They enjoy a faster growth in their domestic sales and exports and have a relatively strong trade balance position. This "implies that foreign production, which expands faster than domestic production, rarely displaces it in absolute terms." He adds that, though the human, economic, and social costs resulting from plant closings and layoffs cannot be ignored, it is important that they be kept in perspective against the potential gain.

18.

Hawkins believes that restraining the expansion of foreign manufacturing might lead to the suppression of the more dynamic sectors of the U.S. economy. The results would be a rigid and increasingly unproductive industrial structure and higher consumer prices. In the process, he warns, our economy would lose the long-term benefits of multinational operations, namely competitiveness and access to markets and raw materials.

Timothy W. Stanley of CMS analyzes the impact of the multinational corporation on U.S. trade and the balance of payments in terms of the total U.S. economy.

Exports from the U.S. parents to their foreign affiliates amounted to about \$7 billion in 1966 (the latest figures). Projected to 1970, this would be over \$10 billion. Imports from U.S. plants overseas to this country came to \$3.6 billion in 1966. Projected to 1970, this would be \$5.7 billion in imports (including automotive equipment from Canada). Hence, Stanley estimates that, in 1970, U.S. foreign production facilities have contributed a net trade surplus of \$4.3 billion to the U.S. balance of payments.

U.S. multinationals added to the U.S. balance of payments between \$7 billion - \$8 billion a year, i.e., \$3 billion - \$4 billion from trade, \$1.8 billion from net income over current investment outflows, and \$2.1 billion from royalties and fees. In recent years, with the exception of 1970, the net income from investments, which was repatriated to the United States, consistently exceeded new capital outflows by a large margin. He adds that contrary to the allegations by some critics, the cumulative deficit in the U.S. balance of payments of about \$40 billion over the past two decades cannot be attributed to foreign investment by MNC's.

Business International (BI)

This preliminary report on BI's survey stresses the tremendous growth in sales by the 86 corporations which so far have returned BI's questionnaires. It lists total sales of \$84.8 billion in 1970, of which 27% were made outside the United States. In the 11 years from 1960-70, the sales of these firms increased 203% inside the United States and 305% overseas. Between 1966-70, sales abroad rose 82% against only 23% in this country.

BI found that the total growth of exports by the sampled companies compared very favorably with the overall expansion of U.S. exports. Total 1970 U.S. exports were 116% above those of 1960 and 45% above those of 1966, while total 1970 exports of the sample were up 207% over 1960 and 71% over 1966. The responding firms reported total export surpluses of about \$1.8 billion in 1960, of \$2.8 billion in 1966, and of \$4.5 billion in 1970. The study cautions however, that many firms without substantial overseas investment had not responded to the questionnaire and admits that this may be one reason why the study sample showed relatively high export figures.

19.

Imports of the 86 firms from their affiliates also rose very rapidly. However, the respective data are not included in the present study and will be analyzed later on an industry-by-industry basis.

BI notes that the foreign direct investment operations of the sampled firms had an "extremely" favorable effect on the U.S. balance of payments. In every single year, "total returns from direct investment, plus exports to affiliates, plus U.S. capital equipment exports exceeded by far the net capital outflows, plus imports from affiliates," the study states.

Even though most of the respondents had substantial overseas investments, their foreign manufacturing operations had been heavily financed from sources outside the United States and hence did not contribute to the U.S. balance of payments deficit, the report points out.

V. Foreign Direct Investment and the Transfer of U.S. Technology

Most of the studies under review touch only peripherally on the question of technology transfers by U.S. MNC's to foreign countries. Some hardly mention it except as a possible contributing cause for export displacement. Those who do, contest the claims by U.S. labor and other critics that technological transfers by U.S. multinational corporations are a significant factor in eroding the competitiveness of U.S. industry in today's world markets. They emphasize that the American economy has benefited substantially from the two-way flow of technology. All of them make a point of stressing the disadvantages of attempts to curb the outflow of technology from the United States.

Department of Commerce

The study notes that, even though U.S. multinational corporations are the principal instrument for the export of technological knowledge and managerial know-how, technology is, in fact, diffused through a large variety of channels and methods, such as exports, foreign production, licensing or similar arrangements.

The transfer of technology in international commercial transactions is considered unavoidable, and its extent is difficult to measure. Royalty and fee receipts and payments which are sometimes taken as a rough measure, indicate that the United States has been both a heavy supplier of new technologies to the world and a beneficiary of these transfers. Between 1960 and 1970, receipts from U.S. foreign affiliates for patents and similar services totalled \$13.0 billion, and receipts from unaffiliated firms came to \$4 billion. Hence total U.S. income from technologies transferred in the past decade aggregated \$17.0 billion. It increased almost threefold since 1960, reaching \$2.5 billion in 1970.

20.

Payments by U.S. companies for the use of foreign patents, licenses, and other services during the 1960-70 period amounted to only \$1.6 billion. In other words, U.S. receipts from the transfer of technological knowledge and managerial know-how were more than ten times larger than U.S. payments for such services to non-U.S. firms. Most U.S. technology was exported to U.S.-controlled enterprises, rather than non-affiliated companies overseas.

The study points out that the transfer of technology is a two-way street: The United States depends on scientific breakthroughs overseas, and other nations, in turn, depend on our technological innovations. For more than a quarter of a century, the United States has been the world's leading generator of technological innovations, but it has also benefited substantially from new technological inventions and developments abroad, particularly those of Western Europe and Japan.

Not too long ago, these countries felt handicapped by their so-called "technology gap" with the United States. This gap has been narrowing fast in recent years - partly as a result of technologies and know-how transferred from the United States, and partly as a result of the innovative capabilities of the Europeans and Japanese and their increased expenditures for research and development. In some sectors, the West European countries and Japan are now challenging the U.S. position. A major technological gap continues to exist, however, with the less developed countries, Eastern Europe, and (except for some areas) with the U.S.S.R.

The Commerce Department report points out that the United States enjoys a particular trade advantage over other countries in the export of technology-intensive products. This advantage does not rest on one or a few particular innovations, but a continuous flow of new technological developments, since technological advances are transitory in nature and tend to be limited, improved upon, or made obsolete by still newer innovations.

As their export products mature, many multinational corporations establish manufacturing facilities overseas. They are able to do so successfully on the strength of their superior technology. Through foreign affiliates MNC's are able to extend the useful life of their technologies beyond the time when their exports are no longer competitive because of lower costs abroad.

The Commerce study states that there is no evidence that multinational corporations manufacture abroad in order to return part of their foreign production to the United States. Still, according to the study, U.S. imports under items 806.30 and 807 of the U.S. Tariff Schedules, providing for a duty-free reentry into the United States of U.S.-origin goods, have shown a potential trend which could cause dislocations among industries that are subject to stiff import competition. These possible problems should, however, not be attributed directly to technology transfers, it points out. If and where they arise, more aggressive adjustment assistance programs for affected industries and workers are advocated as a method of dealing with them.

21.

The study points out that past attempts to control the international flow of capital and technology have caused great administrative difficulties and did not operate well. In addition, more far-reaching problems might come up: foreign governments, acting in their own interest, can hardly be expected to cooperate. Also, since technology is often some unique knowledge embedded in the minds of a few individuals, restraints might have to be placed on the inter-personal relationships of the individuals involved. The study cautions that the net effect of a control program might very well be to encourage additional foreign efforts to develop their own technologies and to imitate independently those of the United States.

The Harvard research group reaffirms that the increases in U.S. exports of manufactured goods depend primarily on the continuous introduction of new products into existing industries and the emergence of new industries. Our technologically most advanced industries (e.g., computers and aircraft) are very large exporters whose overall trade balance has continued to increase fast from around \$6 billion in 1960 to \$9.1 billion in 1965 and \$9.6 billion in 1970. The Harvard group estimates that the 1965-70 rise in exports would have been even larger by about \$1.5 billion except for (1) the special provisions of the U.S.-Canadian Automotive Agreement, (2) the fact that some of our export products might have been relatively mature by 1970 and, therefore, might have been replaced by local production, and (3) that inflationary conditions in the United States in recent years have affected U.S. exports, even though U.S. exports are generally considered less price-elastic than imports.

Two industries are cited as examples of how technological innovations can have a favorable impact on U.S. trade. The computer industry has increased its trade balance substantially from \$181 million in 1963 to \$1,001 million in 1970, although some of its sub-industries, such as consumer electronics, have had large trade deficits. Similarly in the chemical industry, some older products are beginning to register trade deficits and some more mature products have ceased to grow. Nevertheless, the trade balance of the chemical industry has continuously improved as a result of a sufficient number of product innovations. These are the industries, the Harvard group comments, that should be assisted in expanding their resources, rather than older industries which are no longer competitive in world markets.

Emergency Committee for American Trade (ECAT)

The information developed in the survey of 74 MNC's re-enforces the prevalent view that both the United States and foreign economies benefit from technology transfers. Eighty-five percent of all survey respondents made at least some of their production technology available to foreign firms, while 69% obtained technology from abroad. Some firms indicated that licensing their technology had permitted them to export parts, components, or capital goods to markets which they previously had found impenetrable. In some industries, foreign technologies had enabled the U.S. importer to hold or regain a significant part of the U.S. market from import competition.

22.

The survey also found that most of the respondents regarded licensing of technology the third best alternative when neither exports nor direct investments appeared practicable.

As far as the possible curtailment of technology transfers is concerned, ECAT warns that, since the exchange of technology has had a positive effect on the U.S. trade balance, attempts to combat unemployment by curbing the export of technology is to seek "simplistic solutions to complex problems....U.S. dependence on foreign technology did not end with the discovery of penicillin or the invention of the computer or the jet engine (both foreign inventions), but continues to the present day with a major dependence on imported technology in numerous industries, such as flat-glass and the metal-working industries."

National Foreign Trade Council (NFTC)

The results of the survey of 86 MNCs among its members show that the problem of "run-away" plants is centered in a very few industrial sectors and in a few components or relatively simple products. "Highly advanced" technologies had been transferred to foreign affiliates in only one or two cases. In all the rest, the technology was labeled "intermediate" or "low level."

NFTC found considerable evidence in its survey that the continuation of U.S. foreign direct investment and the transfer of American technologies were held beneficial to the United States and other economies and to international economic growth. The economic problems of this country would not be solved by restricting the outflow of technology, NFTC concludes, since technologies withheld would almost entirely involve lower-grade skills that could readily be imitated elsewhere, especially by lower-wage labor.

National Association of Manufacturers (NAM)

The National Association of Manufacturers acknowledges that the multinational corporation is one of many important channels for transmitting technology throughout the world. It stresses, however, that the technological lead of the United States is dwindling and attributes this to - among other things - better education, improved technical abilities, and more aggressive innovations abroad. The survey confirms that, in the long run, rather than damaging U.S. trade and employment, technology transfers by U.S. multinational corporations actually help them. In addition, it points out that many U.S. innovations are based on scientific breakthroughs imported from abroad.

The NAM doubts that technology exports by U.S. firms are responsible, to a significant extent, for the recent rise in U.S. imports. The Association reaffirms what other studies said before: in such high import areas as steel and automobiles, foreign countries have been a "unique" source of technology for U.S. corporations.

23.

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THE MULTINATIONAL CORPORATION - AN OVERVIEW

The Problem

Multinational corporations (MNC's) are not a new development and, in the case of the United States, they go back at least to the 1850's. However, during the 1940's a new element emerged. This was not the concept of the multinational enterprise, with its perception of a common corporate strategy, which was already well established, but the capability of having the management of that strategy take place at a common nerve center based on a flow of common information. Thus, when nations began to articulate national goals and priorities, often on the basis of economic development plans, they were confronted by entities (the MNC's) that could move across boundaries, institute policies, and undertake activities which could frustrate these national efforts.

This apparent conflict between the multinational corporation, with its supranational point of view, and the nation-state, with its national economic concerns and special interest groups, has given rise to a host of economic and political problems. What is at issue at this juncture is the degree of freedom that should be allowed the multinational corporation or the nature and extent of regulation that should be imposed on its present operations and future growth in order to make it better serve often divergent national interests.

In the last 15 years, two events have focused public attention here and abroad on the activities of U.S. multinational corporations. One was the massive influx of American capital into Europe, especially into the Common Market countries. This investment produced an economic revolution in management and technology. As a direct consequence, the EEC countries became potent competitors of the United States in our own as well as in foreign markets within relatively few years. The impact of this movement has been dramatically (but not completely accurately) portrayed by the French journalist-politician Servan-Schreiber in his book The American Challenge. As Fortune magazine observed, Servan-Schreiber appeared to miss the main point which is that not only U.S. business but business everywhere is outgrowing national boundaries; an economic infrastructure is evolving which is laying the basis for a world economic and political community.

The second event was the persistent deficit in the U.S. balance of payments during much of the past two decades. This was a deliberate U.S. policy during the early 1950's to promote European recovery from the Second World War. Although the causes of the deterioration in our balance of payments position were a composite of many trade and non-trade factors,

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some critics focused on the massive outflows of investment capital which were attributed to the activities of multinational corporations. U.S. trade unions blamed "runaway" plants in Mexico, Hong Kong, Taiwan and Korea which operated with cheap labor and efficient American technology for the "export of jobs" which, they alleged, were jeopardizing the traditionally high standard of living of American workers. These allegations led to proposals for restrictive trade and investment measures. Recent legislation introduced at the urging of the AFL-CIO leadership (S. 2592, "The Foreign Trade and Investment Act of 1972," introduced on September 28, 1971 by Sen. Hartke) calls for stringent controls on all direct investment activities, withdrawal of certain tax privileges, and also advocates strict regulation on transfers of U.S. technology to U.S.-owned subsidiaries and non-affiliated companies abroad.

These developments, as well as the large growth in imports after 1965, are in the view of some critics related to the operations of multinational corporations. In this situation, there is a general feeling that "something needs to be done" to insulate highly vulnerable sectors of the American economy from external competition in order to prevent a loss of U.S. jobs and to stem the capital outflow associated with U.S. foreign investment. One reaction was the imposition of mandatory foreign investment controls in January 1968. There is, however, some feeling that this does not go far enough and that perhaps our whole attitude toward liberal trade and investment policies needs to be re-evaluated.

There is a similar ambivalence toward the multinational corporation as viewed by the capital-receiving country. There the fear is that giant American corporations will devour native industries and impose alien controls over their economy. On the other hand, those countries do not dispute the fact that the international corporations have contributed substantially to their welfare and technology, and there is understandably a reluctance on their part to do anything to disrupt the benefits already attained by the presence of these companies. Yet in a world of rising economic nationalism, there is a kind of inchoate uneasiness that economic policy formulation is slipping into foreign hands and that something needs to be done to retrieve the levers of economic control and to reassert political sovereignty.

The Statistics of International Investment

Definition of the multinational corporation. There is no agreed definition of what constitutes a multinational corporation and many authorities look at it in different ways. Some authorities define it as a company whose foreign sales have reached a ratio of, say, 25% (or some other figure) of total sales. Some find the definition in organization, i.e., a company that has global product divisions rather than an international division. Others look to the distribution of ownership, nationality mix of managers, or directors as the principal characteristics. Professor Raymond Vernon of Harvard University, an

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outstanding authority on the multinational corporation, regards it as a company that attempts to carry out its activities on an international scale, as though there were no national barriers, on the basis of a common strategy directed from a corporate center. According to Vernon, affiliates are locked together in an integrated process and their policies are determined by the corporate center in terms of decisions relating to production, plant location, product mix, marketing, financing, etc. Mr. Maisonrouge, President of IBM World Trade Corporation, characterizes the multinational corporation as one that: (a) operates in many countries, (b) carries out research, development and manufacturing in those countries, (c) has a multinational management, and (d) has multinational stock ownership.

Number of multinational corporations. Because the definitions are imprecise, it is impossible to say how many companies qualify as multinational corporations. For purposes of regulation, the Office of Foreign Direct Investment (OFDI) lists over 3,000 U.S. companies although not all would satisfy the criteria cited above. Mr. Judd Polk of the International Chamber of Commerce (ICC) estimates that 150 companies, about half of them U.S. companies, fall into the category of international companies. Perhaps 200-300 large firms form the bulk of the multinational corporation universe. Fortune's lists of the 500 largest U.S. and the 200 largest foreign corporations include most of these.

Significance of the Multinational Corporation

A 1968 study of international investment by the Organization for Economic Cooperation and Development (OECD) (based on 1966 data) provides the most recent investment information available on a relatively comparable basis (see Table 1 below). This study indicates that in terms of book value at the end of 1966, there was close to \$90 billion in overseas direct investments by Development Assistance Committee (DAC) countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States). Thirty billion dollars, or 33%, was invested in the less developed countries. Of this sum, \$11.9 billion was invested in petroleum, \$8.0 billion in manufacturing and \$2.8 billion in mining and smelting. The comparable total U.S. direct investment figure for 1966 is \$54.5 billion, or about 60% of the global total. The United Kingdom is second with \$16 billion, followed by France, Canada, Germany and Japan.

The OECD figures also show that, despite the allegations of Servan-Schreiber, about 40% of total direct investment abroad is held by non-U.S. citizens. Since the figures are based on incomplete data, actual investments are probably somewhat higher. It should be stressed that for all countries covered by the OECD report, the data are reported in terms of book value which understate the current or market value. If the data are adjusted for accrued value, the \$35 billion of non-U.S. investments could, according to Professor Rolfe, easily reach \$50 billion. This would still exclude

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the countries not covered in the OECD study and would also exclude portfolio investments which are fairly substantial in terms of European investments in the United States.

The real significance of the multinational corporation is further highlighted if one relates its annual output to investment, trade and GNP. According to Polk, there is roughly a 2 to 1 relationship between output and asset values. Applying this ratio to the \$90 billion in direct investment of the DAC countries for 1966, the total value of international production associated with this direct investment would appear to be at least \$180 billion. If to this one adds portfolio investment, associated output rises to around \$240 billion. In comparison, the \$130 billion of exports from these countries is dwarfed by the output of their overseas investment holdings.

Looking at the United States alone, direct investments in 1966 were about \$55 billion, which implies about \$110 billion in associated output. By 1970, direct investment had risen to \$78 billion, so that the total output figure would have risen to \$156 billion. If portfolio investments are included, total long-term private investments for 1970 rose to \$105 billion and estimated output to close to \$210 billion. Output associated with U.S. production abroad is thus five times the size of U.S. exports. This disparity is expected to widen if present growth trends continue, since exports are growing at about 7% a year while the output of international companies is growing at 10%.

Another indicator of the significance of U.S. foreign investment is the fact that since 1968 net foreign investment income (repatriated earnings, royalties and fees less direct foreign investment outflows) has been greater than net receipts from the trade account. This shift, as compared to the earlier 1960's, has resulted from the decline in our export surplus and the continued increase in investment income net of direct investment outflows. The latter contributed \$3.5 billion to our balance of payments in 1970, compared to \$2.1 billion from the trade account. This compares to a \$4.9 billion net balance on trade account and a \$0.5 billion net balance on direct foreign investment account in 1960. The trend is even more pronounced in this direction in the past few years.

In terms of total national income and production, the United States actually invests abroad a smaller proportion of GNP than do other major investing countries. According to Professor Rolfe, the United Kingdom, the Netherlands, and Switzerland invest proportionately more of current income than we do; France and Germany lag behind the United States but promise to catch up. (See Table 4)

Highlights of Investment Experience

The following are among the important international investment trends in the 1960-70 period:

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1. Book value of U.S. direct investments more than doubled, rising from \$32 billion in 1960 to \$78 billion in 1970. The bulk of this investment was accounted for by direct investments by U.S.-based multinational corporations. Total long-term private investments, direct and other, rose from \$49 billion to \$120 billion over this period.

2. Of the \$78 billion in book value of direct investments in 1970, developed countries accounted for \$53 billion and developing countries for \$25 billion. Among the developed countries, the largest investments were in Canada (\$23 billion), and Europe (\$25 billion), including \$12 billion in the EEC countries. Among developing countries, investments with a book value of \$15 billion were in Latin American and other Western Hemisphere countries.

In comparative terms, direct investments in Canada dropped from 35% of total U.S. direct investments abroad in 1960 to 30% in 1970. Investments in Latin America declined from 25% to 20%, while those in Europe rose steeply from 21% to 31% of the total over this period.

3. In terms of industrial distribution, of the \$78 billion in direct investments in 1970 about 70% are in manufacturing (\$32 billion) and in petroleum (\$22 billion).

In terms of comparative trends over the 1960-70 period, direct investments in manufacturing rose from 35% of the total to 42%, while investments in petroleum, although rising absolutely, declined in proportion from 34% to 28%.

4. Total earnings on direct investments by U.S. affiliates abroad were \$62.3 billion over the 1960-70 period. They rose from \$3.5 billion in 1960 to \$8.7 billion in 1970. Of the \$8.7 billion, \$4.6 billion came from investments in developed countries and \$4.1 billion from developing countries. In terms of direct investment income repatriated to the United States (i.e., direct investment interest, dividends and branch earnings plus direct investment fees and royalties), such income came to \$57.2 billion between 1960-70. In 1960 such income was \$2.9 billion; by 1970 it had risen to \$7.9 billion.

Motives for Investing Abroad

Sorting out the motivations underlying either individual or collective behavior is a very complex process which is not readily amenable to quantification or to facile generalizations. Yet criticisms of the motives underlying activities of multinational companies by certain industry and labor groups have tended to oversimplify the motives for investing abroad or have even implied invidious motives to specific investments.

If one were to inquire into the motives for international investment by multinational companies, the following might be typical: (1) a need

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to get behind tariff walls to safeguard a company's export markets; (2) greater efficiency and responsiveness by producing in the local market as compared with exporting to it; (3) the possibility of lower production costs which make it cheaper to produce components abroad; (4) the fear that competitors going abroad may capture a lucrative foreign market or may, by acquiring cheaper sources of supply, threaten the domestic market position of the company; (5) a need to diversify product lines to avoid fluctuations in earnings; (6) a desire to assist licensees abroad who may need capital to expand operations; (7) a desire to avoid home country regulations, as, for example, U.S. antitrust laws.

In a more general sense, however, a fundamental force impelling corporations to invest abroad is the quest for profit. As with domestic investment, foreign investment must be weighed in terms of alternative investment opportunities in order to reach an optimum return on capital within a reasonable time period and with a reasonable differential for the risks involved in foreign operations.

Certain industries are by nature international and their motives for investing abroad are clear. These include the extractive and plantation industries. In these cases, the sources of materials are located abroad and developing these resources has required international investment. Thus, companies have had to set up international production, refining and marketing facilities abroad.

The proliferation of international companies in the manufacturing field is governed by a more complex set of motives. Firms may be motivated by offensive or defensive strategies. An example of the former is the case when an international firm attempts to link its technology, reputation, and managerial capacity with low cost production inputs (i.e., labor, raw materials, etc.). The company may feel that producing abroad is cheaper than exporting from the United States. Much of the migration of U.S. capital to Europe in the last decade may be explained in these terms. On the other hand, Pechiney Aluminum Company of France came to the United States because it felt it could profit by combining superior technology with lower cost capital and electrical energy here rather than elsewhere.

Licensing often leads to direct investment because in time the licensor feels he can better exploit his technological advantage by manufacturing abroad rather than by licensing foreign firms. Very often the opportunity to expand sales may be inhibited by the lack of capital of the licensee and manufacturing facilities may be established to take advantage of anticipated opportunities.

Another dominant motive for going abroad is the desire of companies to be near the market so that products can be supplied and serviced more quickly. In addition, products can be tailored to local tastes and costs of production and transportation costs can be minimized.

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The desire to surmount tariff walls is a major defensive reason for investing abroad. Getting behind the EEC tariff wall was certainly a major consideration in U.S. companies going abroad in the last 15 years.

Another defensive motive is the "follow the competitor strategy." In this case, the investment is made to prevent market preemption by a competitor and/or to keep market outlets and sources of supply open. Service companies often invest abroad for defensive reasons because their customers have also done so. This is particularly true of banks, insurance companies, management consulting firms as well as manufacturing companies.

Another motive for investing abroad is to diversify product lines. Diversification can also serve as a defensive motive and can shield the international company from cyclical movements, strikes or threats to its sources of supply. Some large U.S. multinational companies have at times been able to supply their domestic requirements by importing components from subsidiary companies or affiliates abroad.

The Impact of the Multinational Corporation

The most significant impact of multinational enterprise is in the internationalization of production and in the incipient development of a world economy. In this process, the investment decisions and operations of companies are increasingly viewed in terms of world allocations of resources and of maximizing world welfare. The international company has become the most important vehicle for developing a world system based on a more rational allocation of resources than has been the case in the past.

Closer to home, multinational corporations are alleged to have adversely affected several areas in the domestic U.S. economy. These are discussed below.

Export displacement. The charge that MNC's foreign production displaces U.S. exports appears to arise from a small number of specific cases; the working assumption ought to be that the establishment of facilities abroad may displace particular exports, but not exports generally.

U.S. exports have grown about 7% a year in the past decade despite the large capital outlays abroad. A Department of Commerce study disclosed that in 1965 (the most recent year studied) about \$7.9 billion of total manufactured exports of \$17 billion were shipped to U.S. affiliates abroad. This amount was accounted for by a sample of 271 U.S. parent firms. Thus, if this sampled estimate were to be applied to total U.S. manufactured goods exports, somewhere around 25% is shipped to U.S. affiliates by international companies based in the United States.

The usual reasons cited in support of the view that direct investments abroad by U.S. firms are beneficial to U.S. exports include the following:

(a) Relative production costs, tariffs and other trade restrictions make it difficult for American firms to export from the U.S. Thus, producing affiliates are established. Profits and dividends are generated which are repatriated to the home country. Incomes in the capital receiving country are increased which in turn generate demand for imports from other countries including the United States.

(b) If investments in foreign production facilities were not made by U.S. companies, others would, so that U.S. exports would eventually be displaced by foreign competition.

(c) Foreign-based production facilities enable U.S. companies to expand their line of goods sold abroad.

(d) U.S. investments especially in developing countries lead to demand for U.S. capital goods exports and for replacement equipment.

(e) Even when finished goods cannot be exported from the U.S., establishment of foreign production facilities makes possible an outflow of U.S. components for further processing and assembly abroad.

The defensive character of most foreign investment has been shown again in recent studies. Most of the firms surveyed insisted that their foreign production operations do not affect their exports adversely and that without them, most exports of intermediate and capital goods and about half of all associated exports to their subsidiaries would be lost. As a rule, production by U.S. affiliates abroad does not compete with U.S. domestic manufactures. Most of it is sold in foreign markets, and only a small amount in a few industrial sectors is shipped back to the United States. Excluding Canadian automobile exports to the U.S. because they are governed by special factors, only about 7.5% of all U.S. imports came from U.S.-owned foreign companies.

Effect on employment. Among the most vociferous opponents of the multinational corporation and of liberal trade and international investment policies in recent years have been the trade unions. In appearances before Congressional committees, labor spokesmen have advocated protectionist trade policies and drastic curbs (as exemplified by the Burke-Hartke bill) on direct investment and technology transfers by U.S.-based multinational companies. The ostensible reason for this historical reversal of labor's traditional free trade philosophy was the claim that by investing abroad multinational corporations were "exporting jobs" and highly efficient U.S. technology to low cost labor market areas and were as a result undermining living standards of American workers and causing a loss in export markets formerly served from the United States. Labor further alleges that these companies caused additional

harm to the American worker by importing goods manufactured in their foreign subsidiaries with cheap labor and efficient U.S. technology which competed unfairly with products manufactured by high wage labor in the United States.

In general, U.S.-based multinationals went offshore when it was necessary to protect an existing foreign market which it could no longer serve economically with exports from the United States. Thus, there was no real choice between going abroad or exporting from the United States; the real choice was to go abroad or lose a profitable foreign market. The issue, therefore, is whether, in the face of international competition, U.S. firms should abandon the field to competing companies and thereby give up existing or prospective markets for U.S. products, or whether they should take the preemptive or defensive investment needed to retain or perhaps even extend these markets.

Another relevant consideration is that U.S. firms are often forced to go abroad to protect their share of the U.S. market. By servicing imports from foreign subsidiaries, and by maintaining the employment of workers in the design, distribution and engineering end of the operation, existing jobs are being preserved rather than eliminated.

In pushing its claim that foreign direct investment exports jobs, labor unions overlook the fact, noted above, that about a fourth of all U.S. manufactured exports go to U.S. affiliates abroad. The jobs supplying this portion of the export market would not exist or would be materially reduced without the foreign affiliates.

It is also useful to point out that much of labor's criticisms have little to do with U.S. multinational corporations. Those industries with heavy foreign direct investments send few imports to the United States. In 1968, only 8% of total U.S. foreign subsidiaries' sales were exported to the United States. If automotive imports from Canada are excluded because they are governed by the terms of the 1965 U.S.-Canadian Auto Agreement, the proportion of total sales by U.S. foreign subsidiaries of U.S. multinational companies to the United States was only 4.6%. On the other hand, the areas of greatest competition from imports are in shoes and textiles which are served mainly by foreign-owned firms and not by U.S. multinationals. There is very little direct U.S. investment by multinational companies in such enterprises. Even in the case of auto and steel imports, it is not competition from foreign-based subsidiaries of U.S. multinationals that is giving us trouble but competition from foreign-owned auto and steel plants which have relatively free access to the American market.

Studies of this problem have indicated that, on the average, manufacturing industries with the highest investment abroad reported the largest

increase in domestic employment. Actual reductions in domestic employment and production in industries with high foreign investment were found to be quite rare. These jobs would have been lost at any rate since the products or components involved had come to be manufactured by competitors abroad or were no longer cost-competitive in overseas markets. Foreign production actually saved U.S. jobs in that the import of components and parts from low-wage countries kept the final product competitive in world markets.

A reasonable interpretation of available evidence leads to the conclusion that U.S. foreign direct investment is not contrary to the interests of U.S. workers but may, in fact, be a positive factor in stimulating U.S. employment and economic activity. The preceding observations suggest that:

- (1) U.S. import competition problems stem from the output of foreign-owned enterprises, not from U.S. affiliates;
- (2) U.S. foreign direct investment accounts for one-quarter of total U.S. exports and provides an important stimulus to the domestic economy and employment;
- (3) Where the United States and third country markets are supplied by American affiliates abroad, elimination of these facilities would result not in increased U.S. employment but in replacement of such output by production by foreign competitors;
- (4) Variations in employment resulting from fluctuations in domestic economic activity are greater than changes often attributed to import competition or to the alleged export of jobs abroad.

Transfer of technology. This concept involves much more than the transfer of "technical know-how". Technology is itself part of a complex social process which involves many other factors and institutions. In the framework of this discussion it includes, in addition to new techniques, such elements as control systems, accounting systems, managerial and marketing skills, etc. Beyond that it involves educational development, motivational factors, and a favorable political and economic milieu in which technology is fostered and stimulated.

There is a tendency sometimes to think that technology transfer is essentially a one-way street, from the United States to other countries. Available evidence strongly indicates that the United States has been a net supplier of new technologies to the world. It has, however, benefited substantially from the free international flow of technology by acquiring foreign scientific inventions, foreign innovations, and an unquantifiable amount of technology through the acquisition of foreign firms and the grant-back of improvements made by foreign firms on licensed U.S. technology.

Technology transfers are hard to measure, but have often been expressed in terms of royalty and fee receipts and payments. U.S. receipts for

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the use of patents, licenses, and other services from overseas companies have consistently outstripped such payments by U.S. MNC's to foreign firms. From 1960 to 1970, receipts for such services amounted to \$17 billion compared to a mere \$1.6 billion in U.S. payments to foreign companies. The fact that royalty and fee receipts from affiliated firms (over \$13 billion) exceeded those from non-affiliated companies (\$4 billion) is an indication that most U.S. technology was exported to U.S.-controlled enterprises and not to unaffiliated companies.

Political impact. Professor C.P. Kindleberger of MIT has compared the development and spread of the multinational corporation to the role of the domestic corporation in developing a national market within the United States. In its development, it has broken down regional barriers, has led to an equalization and a wider distribution of economic benefits and to an impressive surge in overall economic growth. But it has also produced political problems to which adjustments had to be worked out. Similarly, a good deal of the visibility which the multinational company has attained in recent years has resulted from the political impact it has had on various national governments as they attempt to adjust to the economic impact.

The ambivalence toward the multinational corporation by nation-states has tended to blur the articulation of policy. Professor Kindleberger has described this attitude as a "love-hate syndrome." In the case of many European countries, it has been estimated that the multinational corporation has contributed about 2-10% a year to overall capital formation and about 5-15% a year to the growth of industrial capital. It has increased employment in depressed areas and has contributed to national welfare and, as such, it was welcomed. But it has also sharpened competition and has tended to lock host countries into relationships with other national economies. International companies have often taken decisions which have interfered with national economic development plans, and introduced an element of "foreignness" into national decision making which has often been resented. Because of its mobility and flexibility the international company can change technology, product mix, markets, etc. Host countries have not decided how much they like, what they do not like, and what they should do about it. This uncertainty and ambivalence have often led to complaints about foreign ownership when the real question is one of control. Proposals to dilute control of the international corporation by the head office through use of joint ventures is a technique favored in many countries which want the capital and know-how these companies bring in but prefer to retain policy control within their countries.

In the less developed countries the success of the multinational corporation is both a source of its strength and weakness. It has proven itself to be a most efficient mechanism for deploying financial resources, technological know-how, managerial expertise and the latest scientific organizational techniques to maximize production and profit. In the process it has tended to disturb old cultural patterns and antiquated economic practices while bringing many benefits in the way of new industries,

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social infrastructure, more employment, a more skilled labor force, as well as increased taxes, revenues and exports to the host country. The adjustment process occasioned by these changes has led to frictions with indigenous economic interests and with host governments. Nationalistic tendencies have often led to an anti-foreign investment bias, expropriations of foreign-owned companies, to advocacy of quasi-socialistic development plans and to espousal of nationally owned public sector enterprises or joint ventures where the foreigner holds a minority interest. These conflicting cross currents have come at a time when the possibility for developing an integrated world economy based on a more rational allocation of world resources, which the multinational corporation is uniquely equipped to bring about, run counter to the inward looking, essentially nationalistic and statist biases of many less developed countries.

In fact the future role of multinational corporations in assisting the development of the less developed world hinges on the possibility of working out a modus vivendi between the companies and the national governments which preserves enough autonomy and profitability for both parties. The international company has played and can continue to play an important part in their economic development if a favorable investment climate can be fostered.

Even among developed countries this ambivalence toward the international company is an issue. In Canada where foreign capital (principally from the United States) controls close to half of manufacturing industry and generates a substantial proportion of the nation's GNP, there has been active controversy over what should be done to limit activities of foreign companies. The issuance of the Gray Report in May 1972, which proposes to set up a high-level review board to scrutinize foreign takeovers of Canadian enterprises and to veto those proposals it regards as contrary to the national interest, is a case in point. In Japan, the policy is more clearly expressed. It is to keep control of the economy in Japanese hands. In France, the government has looked askance at the penetration of American companies in advanced technology fields and in a number of cases has intervened to prevent pending mergers. Even in the United Kingdom, one of the major recipients of American capital, there have been rumblings over foreign control and the need to preserve national sovereignty. The same is true of Australia. The United States, too, has not been immune. Recent experiences with the British Petroleum-Standard Oil of Ohio and the Zout Organon, N.V.-International Salt Company mergers, which led to intimations of antitrust actions by the Department of Justice (but which were, however, never carried out), have stirred rumblings in Europe over our real commitment to unhampered international investment in the United States.

What the foregoing illustrations reveal is a general uncertainty and uneasiness on the part of political authorities as they try to grapple with, and adjust to, the fact of economic life wrought by the growth of international corporations. Thus, while there may be active controversy over the impact of the multinational corporation on the economies of the

capital exporting and recipient countries, the political impact is unambiguous. In this arena, a whole range of proposals have been made -- from forcing joint ventures on new investors to outright expropriation of old ones -- in an attempt to exert political sovereignty over a field increasingly revealing characteristics of economic internationalism. In a number of countries, U.S. investments have been nationalized; in others, proposals verging on confiscation have been approved by national parliaments; and, in still others, disinvestment schemes are under consideration. As indicated above, the anti-foreign investment climate is not confined to the less-developed world; more subtle schemes to hamper the future growth of foreign direct investment are under consideration in a number of developed countries as well, with pressures arising from disaffected labor in the investment-originating country and from political factors on the side of the recipients.

It was to a certain extent inevitable that the rapid growth of the multinational corporation in the last two decades should have evoked the kinds of reactions that have been experienced in many countries. It is equally clear that a modus operandi needs to be worked out between investing and recipient countries in which new ground rules for future investment are articulated and accepted. The conclusion that one is led to from recent experience is that purely national solutions to investment disputes only serve to exacerbate rather than solve them. An international mechanism for setting conventions of conduct and for settling investment disputes has been advocated by knowledgeable observers as a way out of the presently developing impasse in this area. A number of organizations already exist which can be utilized and expanded for these purposes: The World Bank, the OECD, UNCTAD, and the GATT. Without the requisite arrangements for balancing national and corporate objectives, the unique contribution which international investment, and, in particular, the multinational corporation, can make toward advancing world living standards and building a world economy would be jeopardized.

May 5, 1972

Table 1

Direct Foreign Investment, Accumulated Assets,
by Major Countries, End 1966
 (book value, in millions of dollars)

Countries	Petroleum (LDC)	Min. & Smelt. (LDC)	Mfg. (LDC)	Other (LDC)	Total (LDC)
World	25,942 (11,892)	5,923 (2,801)	36,246 (8,047)	21,472 (7,230)	89,583 (29,970)
United States	16,264 (6,975)	4,135 (1,827)	22,050 (4,124)	12,113 (3,915)	54,462 (16,841)
United Kingdom	4,200 (2,167)	759 (298)	6,028 (1,471)	5,015 ^c / (2,255)	16,002 (6,184)
France	^d (670)	^a (200) ^b / ₁	^a (1,230) ^b / ₁	^a ₁	4,000 ^b / (2,100)
Germany	200 (65)	100 (38)	1,800 (645)	400 (97)	2,500 (845)
Sweden	^a ₁	^a (65)	^a (96)	^a ₁	793 (161)
Canada	^a ₁	250 ^b / (202)	2,988 ^b / (332)	^a ₁	3,238 (534)
Japan	^a (222)	^a (71)	^a (270)	^a (33)	1,000 (605)

Note: Italy, Holland, Switzerland, and Belgium data not available;
 Australia total investment is \$300 million.

a Not available.

b Estimate.

c Including agriculture of 1,022 (864 in the less-developed countries, or LDC's).

d Total French oil production estimated at 57.2 million tons in 1966.

Source: Compiled from OECD, DAC (68) 14, Annex C (April 23, 1968).

U.S. DIRECT INVESTMENT ABROAD
TOTAL, ALL INDUSTRIES, millions of dollars

TABLE 2

	BOOK VALUE	EARNINGS	REINVESTED EARNINGS	CAPITAL TOTAL	OUTFLOWS FOR BOR.	TOTAL DIRECT INVEST. FLOWS
ALL AREAS						
1960	31865	3546	1254	1694	n.a.	2948
1961	34684	3815	1054	1599	n.a.	2653
1962	37145	4235	1198	1654	n.a.	2852
1963	40736	4587	1507	1976	n.a.	3483
1964	44480	5071	1431	2328	n.a.	3759
1965	49474	5460	1542	3468	52	5010
1966	54799	5702	1739	3661	445	5400
1967	59491	6034	1598	3137	278	4735
1968	64983	7022	2175	3209	785	5384
1969	71016	8123	2604	3254	631	5858
1970	78090	8733	2835	4403	378	7288
DEVELOPED COUNTRIES						
1960	18391	1675	845	1472	n.a.	2317
1961	20979	1748	663	1145	n.a.	1808
1962	22890	1899	758	1364	n.a.	2122
1963	25639	2219	1195	1471	n.a.	2666
1964	28635	2509	1059	1903	n.a.	2962
1965	32312	2722	1074	2635	n.a.	3709
1966	36661	2781	1180	3187	n.a.	4367
1967	40670	2891	1143	2263	n.a.	3406
1968	43499	3046	1491	1875	n.a.	3366
1969	47886	4108	2135	2129	n.a.	4264
1970	53111	4629	2059	3221	n.a.	5280
LESS DEVELOPED COUNTRIES						
1960	13474	1871	409	222	n.a.	631
1961	13705	2067	391	454	n.a.	845
1962	14255	2336	440	290	n.a.	730
1963	15097	2368	312	505	n.a.	817
1964	15845	2562	372	425	n.a.	797
1965	17162	2738	468	833	n.a.	1301
1966	18138	2921	559	474	n.a.	1033
1967	19421	3143	455	874	n.a.	1329
1968	21484	3676	684	1334	n.a.	2018
1969	23130	4020	469	1125	n.a.	1594
1970	24979	4104	826	1182	n.a.	2008

Table 3

Growth of U.S. Direct Investments Abroad, by Area and Industry
1929 - 1970 a/

	Amount in Billion Dollars			Percent of Total		
	1929	1950	1970 _{p/}	1929	1950	1970 _{p/}
All Areas, Total	7.5	11.8	78.1	100.0	100.0	100.0
Canada	2.0	3.6	22.8	26.7	30.5	29.2
Latin America	3.5	4.6	14.7	46.7	39.0	18.8
Europe	1.4	1.7	24.5*	18.7	14.4	31.4
Middle East & Africa	0.1	1.0	5.1	1.3	8.5	6.5
Other areas	0.5	0.9	11.0	6.6	7.6	14.1
Developed Countries, Total . . .	n.a.	n.a.	53.1	n.a.	n.a.	58.0
Less Dev. Countries, Total . . .	n.a.	n.a.	21.4	n.a.	n.a.	27.4
International, Unallocated . . .	n.a.	n.a.	3.6	n.a.	n.a.	4.6
All Industries, Total	7.5	11.8	78.1	100.0	100.0	100.0
Mining and Smelting	1.2	1.1	6.1	16.0	9.3	7.8
Petroleum	1.1	3.4	21.8	14.7	28.8	27.9
Manufacturing	1.8	3.8	32.2	24.0	32.2	41.2
Other	3.4	3.5	17.9	45.3	29.7	23.0

Notes: Detail may not add to totals because of rounding.

a/ Book value at yearend

p/ Provisional

* Excludes Eastern Europe

n.a. Not Available

Source: Survey of Current Business, passim

Table 4

Capital Outflows Compared to Gross Domestic Product for Selected Industrial Countries, 1968
(Millions of U.S. Dollars or Equivalents)

	<u>Gross Domestic Product</u>	<u>Capital Outflows, (Direct, Portfolio, Other Private Investment Abroad)</u>	<u>Percentage</u>
Canada	\$ 67,200	\$ 1,685	2.5%
United Kingdom	102,480	2,035	2.0%
Belgium	19,420	336	1.7%
France	127,202	2,762	2.2%
Germany	135,000	2,062	1.5%
Italy	74,932	1,547	2.1%
Netherlands	25,248	709	2.8%
Japan	142,494	1,631	1.1%
Switzerland	16,899	696	4.1%
United States	860,200	7,386	0.9%

Source: International Monetary Fund. Balance of Payments Yearbook, Volumes 22 and 23 and International Financial Statistics, December 1971.

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An American Trade Union View of International Trade and Investment

The subject of international trade and investment is, unfortunately, as complex and confused, as it is important. Moreover, it is usually an emotional issue, too, because it involves terms and code-words that are carried over, as in a religious ritual, from the English economists of 100-150 years ago. And it involves national interests, business interests and workers' jobs, as well as international relationships.

Take the theory of comparative advantage -- the bedrock on which the free trade concept rests. It is an elegantly logical theory. But its reference points involve the production of such products as wine, nails and lace, the industrial world of the early 1800s. The comparative advantage of the Bordeaux region for the production of wine, I think, is fairly clear. But that's hardly an issue in international trade and investment today, when technology is a key factor. For example, the theory gives us little insight into the comparative advantage of Taiwan, for the production of consumer electrical goods for the U.S. market, in the 1970s.

The theory assumes that international trade is arm's length transactions between nationals of one country with nationals of another, in markets that involve price, as well as product competition. This is also

elegant, but it's not true. Governments have direct and indirect subsidies for exports and barriers to imports -- Japan, in particular, but every other important nation, as well, including, to a relatively small degree, the U.S., too.

Moreover, as far as the U.S. goes, in the neighborhood of about 25% of what the U.S. government reports as imports and exports is composed of closed-system, intra-corporate transactions between U.S.-based multi-national companies and their foreign subsidiaries. Perhaps as much as an additional 25% is between the U.S.-based multi-nationals and their foreign licensees and other foreign firms with whom they have patent and joint venture arrangements. What do these realities of global intra-corporate transactions and technology-transfers have to do with the theory of comparative advantage?

In addition, the theory assumes the complete mobility of workers, as well as capital and management across international boundaries. I don't believe that detailed comment is needed on such assumption.

So the theory serves no useful purpose for American policy makers -- or the policy makers of any country -- in the 1970s. Yet this is what one finds in the economics textbooks, in the newspapers and, frequently, in the speeches of government spokesmen. It's hardly respectable, in most academic and government circles in the U.S. -- or in most international circles -- to question the theory of free trade. To do so, is often considered bad taste or evidence of poor education. Nevertheless, in the real world of current international economic relationships, the theory has little relevance.

Another difficulty is the cast of characters on this issue. Obviously, there are those who find it most difficult to break with the elegant theory. But more importantly, there are those, who use this basic and increasingly obsolete article of liberal economic faith as a cover for their vested interests. There is nothing wrong in openly and directly representing an interest group, but there is a considerable identity-crisis or fraud among the cast of characters on this issue. Frequently, the name and the face may be those of a prominent liberal academician or political leader, who claims to be completely objective, while the voice is the voice of a multi-national corporation, an international bank or a foreign government.

So it's a complex and confused matter and sometimes emotional, as well.

Let me try to present an outline of what we of the AFL-CIO have been trying to explain.

The American economy is in trouble in its international relationships. The monetary aspects of this trouble -- on which most bankers and economic theorists have concentrated their attention -- these monetary aspects are largely the reflection of basic problems concerning production and employment, merchandise exports and imports, American investment in other countries and the transfer of American technology to foreign operations. At stake are the American standard of living and whether the U.S. will remain an industrial nation, with various types of industries and production.

So the issue is not a labor and trade union problem, alone. It is also a business and management problem. It is a national issue that involves the nature of the national economy and American society.

The world economy has been changing considerably in the past 20 years. As part of that change, the American position in world trade has been deteriorating rapidly since the early 1960s. Imports shot up, while the rise of exports lagged far behind. Moreover, the U.S. position in world trade deteriorated in composition, as well as in total volume -- the deterioration was concentrated in manufactured goods and components, including new and sophisticated production.

This deterioration has resulted in the net loss of about 900,000 job opportunities from 1966 to 1971. The situation is worsening in 1972 -- with the further loss of tens of thousands of additional job opportunities. The industrial base of the American economy is being undermined and narrowed.

Merchandise imports were \$2.7 billion greater than exports in 1971 -- the first officially reported trade deficit since 1893. This trade deficit jumped to a yearly rate of \$7.2 billion in the first-half of 1972. Many more jobs are being wiped out by the rising tide of imports than are involved in lagging exports.

Between 1965 and 1970, there was the direct displacement of 122,500 jobs in radio, TV and electronic component production, according to the industry association. Scores of thousands of additional jobs are being wiped out in a rapidly spreading number of industries.

Communities throughout the country are adversely affected. The loss of industrial payrolls -- due to the deterioration of America's position in world trade -- means the erosion of the tax base of many communities, as well as the loss of potential retail sales for local merchants.

Substantial parts of entire industries or product-lines are being displaced. These adverse impacts are hitting relatively new and sophisticated product-lines, as well as older industries.

Suddenly, during the course of the 1960s, the U.S. became a net importer of a growing, wide variety of products -- including steel, consumer electrical goods, autos, trucks and parts, as well as clothing, textiles, footwear and glass. Even in such goods in which the U.S. remains a net exporter, such as construction and mining machinery, the U.S. share of world exports declined in the 1960s, the U.S. position deteriorated.

Many imports, of course, do not compete with American products. Some imports are obviously essential for U.S. production. Some other imports are important to provide diversity for the American standard of living. But the sharp rise of imports, in recent years, has been overwhelmingly in goods that are directly comparable to U.S. made products.

During the 1950s, trade experts told us that about 30% to 40% of imports were comparable to American products. But, in 1966, according to the U.S. Department of Labor, approximately 74% of imports were comparable with U.S.-produced goods, while 13% were not produced here and 13% were in short supply in the U.S. at that time.

It is reasonable to assume that about three-quarters of imports into the U.S., at present, are comparable to U.S.-produced goods. So, during the past two decades, while the volume of imports skyrocketed, the percentage of these imports, that is comparable to U.S.-produced goods, approximately doubled. The obvious result of this compound deterioration has been the substantial displacement of U.S. production and employment.

This deterioration has been located essentially in manufactured goods. Imports of manufactured products more than quadrupled between 1960 and 1971 -- from \$6.9 billion to \$30.4 billion. In the first-half of 1972, manufactured imports soared to a yearly rate of \$37 billion -- more than five times greater than in 1960. And the September 1972 issue of Fortune magazine points out that "the bulk of U.S. imports of manufactured goods today compete head-on with American goods."

The deterioration can also be seen in the following: In 1960, U.S. exports of manufactured goods were close to twice as great as manufactured imports. However, by the first-half of 1972, imports of manufactured goods were at a yearly rate of \$3.4 billion greater than manufactured exports. And the actual gap is undoubtedly greater, in terms of impact on the American economy, because the Commerce Department's figures on imports are understated, since they are the foreign port value of the products, rather than their value at the U.S. port of entry, which includes the additional costs of transportation and insurance.

Estimates indicate that, in 1971, imports were about 15% of steel sales in U.S.; approximately 20% of the U.S. auto market; something like 35%

of TV sets; over 60% of phonographs; more than 90% of radios and tape recorders; nearly 60% of sewing machines and calculating machines; 80% of electronic microscopes; about 35% or more of shoes. Baseball is an American game, but about 90% of baseball mitts, sold in the U.S., are imports.

Similarly, large proportions of U.S. production of other industries are being displaced -- such as typewriters and shirts, industrial equipment and knit goods, pianos and tires, work clothes and glass.

It's not only finished products. It is also components. Look at a U.S. made TV set, for example, if you can find one -- and many of its components are imported.

This process, which displaces U.S. production and employment, often results in little, if any, price benefit to the consumer, who is also a wage or salary earner. Imports are usually sold at the American price or close to it. The mark-up on imports is almost always significantly greater than on U.S. products. So the economy loses a growing part of its productive base, workers lose their jobs, while the major benefits go to the profit margins of the companies involved.

Moreover, the recent devaluation of the American dollar -- which was loudly advertised as the solution to these problems -- has actually made a small contribution to the continuing inflation that plagues the American people. And the U.S. position in the world economy continues to get worse.

Major Causes of the Deterioration

Some decline in America's economic position in the world was to be expected in the early years, after World War II. This was the period in the late 1940s and 1950s, when the war-ravaged economies of the other industrial nations were reviving, with the assistance of American aid. But this decline did not halt or taper off, by the end of the 1950s, when the other industrial nations were back on their feet. Instead, it accelerated in speed and widened in scope, during the course of the 1960s.

Temporary factors in the latter 1960s -- such as the rising U.S. price level, the capital goods boom and the Vietnam war -- aggravated the deterioration, temporarily, but did not cause it. The basic, under-lying causes of the deterioration are to be found in the rapid changes in world economic relationships, which are continuing at present -- retarding the expansion of U.S. exports and spurring the very rapid rise of imports of an increasing variety of products.

The major causes of this accelerated and widespread deterioration are the following:

1. In the world of the 1960s and 1970s, nations manage their economies. Other countries have direct and indirect subsidies for their exports plus direct and indirect barriers to imports. The result is that foreign products surge into the huge and still lucrative American market, while U.S. exports are often blocked or their expansion is retarded.

U.S. government policy, however, has not responded to these major changes in the world economy. Instead, government policy has been based on the 19th century theory of free trade and on world economic conditions of the late 1940s and 1950s, which are hardly relevant in the 1970s.

2. The export of American technology has been reducing or eliminating America's technology and productivity leadership in many industries and product lines. U.S. firms have transferred American technology and know-how to their foreign subsidiary plants. And there have been additional technology transfers through patent agreements and licensing arrangements of U.S. firms with foreign companies.

As a result, foreign plants, operating with American technology, probably are as efficient or nearly as efficient as similar factories in the U.S. But with wages and fringe benefits that frequently are 50 to 90 percent lower -- and longer working hours -- the unit-cost advantage can be substantial. There may be the additional advantages of lower taxes and operating in markets protected by foreign governments.

So while the pace of productivity advance in the American economy in 1947-1971, shot up about 45% from the rate of advance in 1919-1947 -- a yearly rate of 3.2% per year in 1947-1971 as against 2.2% per year in the previous 28 years -- the transfer of American technology and know-how contributed substantially to the sharp advance of productivity in other countries, particularly since the rise in those countries started from a much lower level.

One description of this process was indicated by Nathaniel Brenner, Director of Marketing, Coates and Weller Corp., in an article in the Chemical and Engineering News. He wrote:

"For many years our advanced products enabled us to compete in international markets despite high prices (and high wage rates).

"What has happened in the 1960's and continues is that American corporations, via licensing agreements, foreign plant construction, and other multi-national arrangements, have given away for a very small portion of real cost and value, this advanced technology and with it, the jobs it created. When a multi-national corporation licenses a product abroad, it gives away the technology created by Americans educated at public expense, and the American jobs which produce that product, for the 5 or 10% profit represented by the license fee or return on invested capital. Result -- the American worker loses a job, the U.S. loses an export product and becomes an importer of that product, but the corporation still nets 5 or 10%. Result -- unemployment plus balance of payments problems. Naturally, the foreign producer can sell for less -- he hasn't had to invest in the education, the R&D, or the wages which support the American System."

One example of technology-transfers can be seen in the following items of U.S. technology that have been licensed by General Electric to Japanese firms -- from a list of 84 separate licensing agreements: Carrier System Microwave device; torpedo; a new type of radar; an M-61 Vulcan type of 20 mm machine cannon for defense aircraft; gun sight for F-4E jet fighter; technologies pertaining to the hull of space ships, communications systems

of space ships and other controlling mechanisms for space ships; nuclear fuel energy; aircraft gyro compass system, and boilers for nuclear power reactors. These involve some of the most sophisticated types of industrial products -- including defense-related items.

There probably are thousands of additional examples of direct technology transfers through the operations of foreign subsidiaries of U.S. companies and additional thousands of such transfers through patent and license agreements and other joint-venture arrangements of U.S. companies with firms in other countries.

3. Sharply rising investments of U.S. companies in foreign subsidiaries have been key factors in the export of American technology, the displacement of U.S. production and loss of American jobs.

Direct investments of U.S. firms in foreign facilities shot up from \$3.8 billion in 1960 to \$14.8 billion in 1971. The book value of such investments in foreign facilities rose from almost \$32 billion in 1960 to more than \$78 billion in 1971.

Although an estimated 25,000 foreign affiliates are controlled by about 3,500 U.S. corporations, the bulk of these foreign operations is highly concentrated among the corporate giants. Prof. Peggy Musgrave of Northeastern University reports that, in 1966, "over 80 percent of taxable income which U.S. corporations received from foreign sources... went to 430 corporations with asset size in excess of \$250 million."

The Chase Manhattan Bank's newsletter reported last year that "foreign sales of U.S. affiliates in manufacturing alone totalled almost \$60 billion in 1968 and are estimated at between \$70 and \$75 billion in 1970."

The sales of U.S. foreign affiliates in manufacturing, therefore, have been more than twice the volume of exports of manufactured goods from the U.S. in recent years. Some of these shipments have been to the U.S., where the goods and components are sold in direct competition with U.S.-made products. Another portion of these sales is in foreign markets, often in competition with U.S. exports.

Mr. ~~Stuart~~ Perkins, president of Volkswagen of America stated: "The Americans exported their industry, where other countries exported their products."

This process, which displaces U.S. production and employment, is encouraged and subsidized by the U.S. government. The deferral of federal income taxes on earnings of foreign subsidiaries until the profits are repatriated and the full crediting of foreign tax payments against the U.S. income tax liability -- both of these tax devices amount to about \$3.3 billion per year, according to Prof. Musgrave. That's not small potatoes.

Prof. Musgrave points out: "It should be recognized that the economic and political effects of maintaining a share of foreign markets via foreign production are very different from doing so via domestic production and export. The principal difference lies in the effects on labor productivity and shares in national income. Foreign investment may enhance the private profitability of U.S. capital, but it is likely to reduce the real wage to U.S. labor as well as the Government's tax share in the profits."

4. The mushrooming growth of multinational corporations, most of them U.S.-based, is a new factor in the accelerating deterioration of the American position in the world economy.

Multi-national companies attempt to use a systems approach to global production, distribution and sales, which are spread through plants, offices, warehouses, sales agencies and other facilities in as many as 40 or more countries. Such companies can and do juggle the production, distribution and sales of components and finished products across national boundaries and oceans, based on the decisions of the top executives for the companies' private advantage. They can and do transfer currencies across national boundaries, often beyond the reach of the central banks of nations.

A U.S.-based multi-national corporation can produce components in widely separated plants in Korea, Taiwan and the United States, assemble the product in a plant on the Mexican side of the border and sell the goods in the United States at American prices -- perhaps with a U.S.-brand name. Or the goods produced in foreign subsidiary plants are sold in foreign markets, in competition with U.S.-made products.

The complex operations of multi-nationals -- with the aid of advertising techniques -- have utterly confused the picture of the national origin of products. Ford's Pinto has been heralded as the U.S. answer to imported small cars, for example. But major parts of the Pinto are imported.

The complexity of multi-national corporate operations and their displacement of U.S. production and employment also can be seen in the agreement between the Chrysler Corporation of the U.S. and the Mitsubishi Motor Corporation of Japan.

Chrysler will buy an interest in Mitsubishi Motor Corp. of Japan. The Chrysler sales agency set-up in the United States is distributing the Dodge Colt -- an American brand-name compact, imported from Japan and produced by Mitsubishi. Mitsubishi, in turn, will sell in Japan the Plymouth Valiant -- produced by the Chrysler subsidiary in Australia.

The potential benefits of this deal to the Chrysler and Mitsubishi executives and stockholders are rather obvious. However, the result is the displacement of U.S. auto production, and with it, auto parts and assembly, as well as steel, glass, and tires. Moreover, the deal will also probably tend to result in the loss of U.S.-produced replacements of tires and parts.

What may be a rational decision for a U.S.-based multi-national company may be harmful to the American economy.

Mushrooming Foreign Investment Is Different
From Domestic Shifts In Industry Location

The global mushrooming of foreign investments of American firms is far different from the development of national companies, within the the U.S., in the latter 19th and early 20th centuries. It is far different from the shifts of industry location within the borders of the U.S.

The multi-national movement is not from a base in the industrial North and Midwest to other parts of the country, where U.S. laws apply, within reach of the Congress and federal courts. This is a movement to subsidiaries in other countries, with different laws and institutions, including different labor and social standards.

Within the confines of U.S. national frontiers, the spread of large national corporations was met gradually by institutional responses, such as the growth of national trade unions, and by government regulations, standards and controls. In the case of multi-national corporate operations, there is no common international culture or legal structure. There is hardly even an international framework for the rapid development of international social controls and regulations.

In addition, the closed-system, global intra-corporate transactions of multi-nationals are surely not trade, in the sense of arm's length transactions between the nationals of one country with another. They are not quite competitive. And they are not quite foreign. Yet they are entered in the U.S. government's economic accounts as merchandise exports and imports.

Some Major Effects of the Deterioration

If the deterioration of the U.S. position in world trade is permitted to continue through the 1970s, the consequences could be widespread and far-reaching for American society.

For example, with the U.S. record of failing to adjust adequately to the rapid displacement of labor from agriculture and coal mining in the 1950s and 1960s -- witness the urban problem and the depressed Appalachia region -- what will be the consequences of the continuing, rapid displacement of production and employment, by imports, in a growing and widespread number of industries and communities?

In addition, what are the long-run implications for American society of an economy with a narrowing production-base, increasingly dependent on imported industrial goods and even some services and whose income is largely derived from foreign investments and a variety of services? What kind of economy and society would that be?

American workers, in particular -- and the American people, generally -- cannot afford to dodge these fundamental issues.

The continued deterioration of the U.S. position in the world economy will probably have an adverse impact on the future advance of productivity in America. And, as Prof. Musgrave indicates, the foreign investments of U.S. capital -- with technology-transfers and displacement of U.S. manufactured production -- are "likely to reduce the real wage to U.S. labor as well as the Government's tax share in the profits," while they "may enhance the private profitability of U.S. capital."

In addition to these different impacts on labor and on the firms engaged in foreign manufacturing investments and in imports, there is also the issue of mobility. The adverse impacts of the deterioration of the U.S. position in world trade are much greater and tougher on workers than on capital, although there are adverse impacts, as well, on local businesses in hard-hit communities and on the communities, themselves.

Capital is mobile. Investments can be moved out of one business to another. They can be moved from one part of the country to another or to other countries.

Workers are less mobile than capital, and communities are not mobile, at all. Labor is not an automatically interchangeable economic resource or statistic, as some economists seem to believe. A displaced shoe worker in Maine does not automatically become a clerical worker in New York or even in Portland. With good fortune, the son of a displaced electronics production worker in Chicago may eventually become a computer programmer in the San Francisco area. But the displaced worker probably will be unemployed for

many months and probably will wind up with a job at lesser skill and pay, if he is fortunate enough to find a job.

Unfortunately, international trade experts -- in government agencies, business and the universities -- usually show little interest and much less knowledge about the labor and social impacts of developments in international trade and investment. As a result, so very little is known, in detail, about the employment impacts and other consequences for workers and communities.

In a statement to the Congressional Joint Economic Committee, the then Secretary of Labor, Dr. George Shultz, presented a rough estimate of the employment impact of imports. He reported that "about 1.8 million jobs in 1966 would have been required to produce the equivalent value of the 74% of imports that were competitive with U.S.-made products." Dr. Shultz later updated these estimates, in a statement to the Ways and Means Committee of the House of Representatives: "In 1969, if we had attempted to produce domestically goods equivalent in value to such imports, the Bureau of Labor Statistics has estimated that we would have needed 2.5 million additional workers..."

These estimates reveal the loss of about 700,000 job opportunities in the three years, 1966-1969, due to the sharp rise of those imports that displace U.S. products. During the same three-year period, the Bureau of Labor Statistics estimates that the number of jobs attributable to merchandise exports -- including jobs in agriculture, the services and transportation -- increased only 200,000.

In combination, these rough estimates indicate the net loss of approximately 500,000 job opportunities in 1966-1969.

The extension of this methodology through the year, 1971, by the AFL-CIO Research Department, indicates the net loss of about 900,000 employment opportunities in the five years, 1966-1971. The further deterioration in 1972 has undoubtedly meant additional net losses of job opportunities, bringing the total to approximately one million in the period from 1966 to 1972.

Although anything like a full picture of the direct displacement of production and employment, due to the deterioration of the U.S. position in world trade, is lacking, newspaper reports indicate the widespread nature of direct displacements. In March, 1970, for example, The Wall Street Journal reported that Zenith Radio Corporation, in the process of completing a large plant in Taiwan, had said it would "reduce its workforce by about 3,000 jobs this year, and more than one-third of those laid off will be blacks."

Paul Jennings, president of the International Union of Electrical Workers, reported to the Joint Economic Committee of Congress on July 28, 1970: "Last year, Westinghouse closed its Edison, N.J., TV plant and transferred production to one of its Canadian affiliates as well as to Japanese firms. It imports sets now for distribution under its own label... Emerson Radio and Phono division of National Union Electric also discontinued production of TV sets, closing down its Jersey City, N.J., plant, and transferring production to Admiral, which, in turn, transferred production of major TV product lines to Taiwan. Warwick Electronics transferred production from its Arkansas and Illinois plants to its Mexican facility..."

"About a year ago, General Instrument Corp. transferred TV tuner and other component production to its Taiwan and Portuguese plants, shutting down two New England plants and most of a third. Between 3,000 and 4,000 workers were permanently laid off... A few months ago, Motorola shut down its picture tube plant, selling its machinery and equipment to a General Telephone and Electronics subsidiary in Hong Kong."

An article on the electronics industry in The New York Times of September 19, 1971, stated:

"The Electronic Industries Association estimates that there has been an absolute loss of 30,000 jobs in radio and TV set manufacturing, or 18.6 per cent down from the peak in the years between 1965 through 1970. To this should be added 92,500 jobs in the manufacture of electronic components, down 22.6 per cent."

The article also reported:

"Mr. Reavey, vice president of Motorola, believes that the next step will be a race for big manufacturing facilities in Mexico with low wages, favorable taxes and reduced shipping costs. He set 1973 as the target date for major expansion there."

These are merely a few random examples of reports on the rapid, direct displacement of U.S. production and employment that is spreading across the American landscape -- throwing scores of thousands of American workers out of jobs, wiping out large segments of American product-lines, narrowing the nation's industrial base and adversely affecting many communities in different parts of the country.

Even, under the best conditions, there usually are some adverse employment-impacts from international trade and investment. But, under such conditions, the general benefits are far greater than the specific difficulties; the number of people, adversely affected, is relatively few. The troubles are localized, and the speed of troublesome changes is slow. Such process is susceptible to social and economic adjustment, if the government provides adequate assistance.

From the viewpoint of American workers and trade unionists, such policy would have made sense, under the conditions of the 1950s and early 1960s. It was organized labor that proposed an adjustment-assistance program in the mid-1950s and insisted that such program be included in the Trade Expansion Act of 1962; after it was enacted, in somewhat mutilated form, and the authorities failed to provide any assistance, it was the AFL-CIO that sought to make it workable and effective.

However, within a few years after the early 1960s, the whole picture changed. The speed of change accelerated sharply, involving the rapid displacement of U.S. production and the loss of scores of thousands of jobs each year. The adverse impacts became widespread -- through most parts of the country and in a spreading variety of product-lines, including advanced technology and sophisticated production. The accelerated speed and rapid spread of adverse impacts, since the early 1960s, drastically changed the nature of the problem. Under these conditions, adjustment assistance can no longer be viewed as an important policy mechanism.

There are other adverse impacts on workers in addition to job losses. Imports are sometimes encouraged as a supposed "discipline" on prices. However, the American consumer, who is overwhelmingly a wage and salary earner, often receives little if any benefit -- the imports are frequently sold at the American price, with substantially widened profit

margins to the importer. Or the price differential to the consumer is relatively small and the profit margin widens. So, frequently, the process results in the displacement of U.S. production and employment, while the consumer receives little, if any, benefit. The major benefit goes to the profit margin.

The "discipline" of imports is sometimes most effectively directed at workers' wages and fringe benefits and at the unions' ability to negotiate improvements. For example, the copper imports of major U.S. corporations, in 1967 and 1968, contributed to prolonging the strike of American copper workers.

Moreover, it is false to claim that expanding imports of manufactured goods, which displace U.S. products, somehow are always of benefit to American consumers, in the form of lower prices. There is little, if any, effective price competition in many major domestic markets, which are dominated by key, price-leading corporations, frequently U.S.-based multinationals. For example, the auto companies increased their prices on their 1971 models, despite a surge of auto imports. And shoe prices rose 38% between 1960 and 1970 -- faster than the 31% increase in the Consumer Price Index, as a whole -- while shoe imports mounted, displacing tens of thousands of job opportunities in American shoe plants and spreading distress in numerous communities.

The rapid and widespread deterioration of the American position in the world economy is undermining and narrowing America's industrial base, with the potential of far-reaching adverse impacts, in the period ahead, if it is permitted to continue. American society cannot prosper in the

long-run -- not even most of the businesses that may enjoy a short-run advantage -- if the national economy becomes dominated by hamburger stands, motels, importers, international banks and similar activities, without the broad base of diverse and varied industries and production.

The Need For Workable Remedies

Unfortunately, the U.S. government has failed, thus far, to develop and put into effect a set of policies that can halt the continuing deterioration.

The recent emphasis on changes in international monetary relationships and machinery, in itself, cannot possibly solve the problem.

The overdue action in late 1971 and early 1972, to bring about an increase in the value of major foreign currencies, such as the Japanese yen and German mark, in relation to the American dollar, can have only uncertain, uneven and essentially temporary effects on the U.S. position in world trade. The actual impacts, if any, will differ from one product to another; they will depend on the degree of changes among the world's currencies in relation to the dollar, the extent of offsets to such changes by foreign governments and the amount of time it takes multi-national companies to adjust to the changes in currency values. The much-needed improvement of the international monetary mechanism -- to replace the machinery established towards the end of World War II -- cannot possibly be viewed as a major solution to the export of American technology, capital and jobs and to the accompanying deterioration of the U.S. position in world trade.

Moreover, a continued process of devaluing the American dollar would tend to increase the price level and thereby would threaten to undermine the American standard of living. Yet it does not offer assurance that the deterioration of America's position in international economic relationships would be halted.

In the setting of the world economy of the 1970s, there is an urgent need for the U.S. government to face up to the realities of managed national economies, technology-transfers, American business investments in foreign manufacturing subsidiaries and the operations of multi-national companies and international banks.

Ideally, major parts of the solution to the causes of America's deteriorating position in the world economy probably are in the international arena, through international regulation of trade and investment. But there isn't even an international organization, at present, to develop and implement regulation of the operations of the multi-nationals. Moreover, there is no international law on the operations of multi-nationals, even for the protection of the multi-nationals, which have their own variety of problems.

On merely one aspect of international action -- the development of international fair labor standards in world trade -- organized labor has been urging the development of an international policy and international machinery for well over a decade. There are, as yet, not even any beginnings in this area.

Trade union coordination, among unions representing workers in the different plants and countries of multi-nationals -- by the unions directly or through the International Trade Secretariats -- holds forth a potential promise. Realistically, however, this valuable potential, which will undoubtedly expand as experience develops, has its limitations -- the degree to which collective bargaining can effect the basic operations of multinational companies and the inherent limitations of coordinating collective bargaining among unions in different countries, with different labor relations systems and practices.

The world is still a world of nation-states. International action, in the future, will require policies of national governments. And, at present, there is the need for U.S. government policies to deal with the realities of the world economy, which are considerably different from the 1930's or even the 1950s.

U.S. Rep. James Burke of Massachusetts, and Sen. Vance Hartke of Indiana have introduced the Foreign Trade and Investment Act of 1972, which is aimed specifically at dealing with the basic causes of America's deteriorating position in the world economy.

The bill, for example, would remove the tax subsidies and other incentives that encourage U.S. companies to establish foreign subsidiary operations. It would provide government regulation of the export of American technology and capital -- not elimination, but regulation and restraint.

It would also set up a "sliding door" limitation on most imports, except those that are not produced here or are in short supply. These limitations would be related to the level of American production -- annual import

quotas, based on the number of items imported into the U.S. in 1965-1969, as a percentage of U.S. output. In that way, imports would be guaranteed a share of the American market and would be permitted to increase as U.S. production rises.

This bill represents a pragmatic and moderate American response to the realities of the world economy, today -- a world that is far removed from the textbook theories of comparative advantage, free trade versus protectionism and free competition across national boundary lines.

The bill attempts to deal with the specific causes of America's troubles in the world economy -- troubles that will not go away and will not be solved by gimmicks, band-aids or peripheral actions. Moreover, America's problems in the world economy will probably get worse in the coming decade -- particularly, if the forecast of a serious energy shortage comes to pass -- unless there is a basic change in U.S. government policy. If existing difficulties are not solved, in a practical and workable way in the near future, they will mount in magnitude and scope in the coming years -- and will probably provoke extremist proposals and actions.

The Burke-Hartke bill's restraints on imports and on the outflows of technology and capital are tailored to meet America's needs in a world of managed national economies, technology-transfers and multinational corporations. The bill represents a practical way of dealing with a serious economic and social problem.

We, of the AFL-CIO, seek a strong and growing American economy that is an integral part of a strong and growing world economy. We are not isolationists. We are convinced that the practical alternative to senseless economic isolationism is the adoption of realistic government policies to meet America's needs in the world economy of the 1970s.

Moreover, a depressed American economy would not merely depress the condition of American workers and American business. It would also depress the economies of the rest of the world. A prosperous America, as a huge and lucrative market, is essential for the prosperity of the nations with whom we have continuing economic relationships. One of the things that is needed for a prosperous America is updated, modernized policies to deal with the realities of international trade and investment.

Opponents of the AFL-CIO's views usually have failed to present constructive alternatives. Some thoughtful critics may not agree entirely with all of the remedies we are proposing, but, I think, on reflection, they would agree that the AFL-CIO is placing the focus of public attention, in a practical and reasonable way, on a serious problem. And that problem is a serious one for American society as a whole, not for American workers and trade unions, alone. The long-run health and prosperity of American business and American workers -- and all Americans -- are linked together in the need to strengthen the position of the American economy, at home, as part of the world economy of our time.



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THE BENEFITS AND PROBLEMS OF MULTINATIONAL CORPORATIONS

Submission to the Senate Finance Committee
Subcommittee on International Trade

December 26, 1972

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THE BENEFITS AND PROBLEMS OF MULTINATIONAL CORPORATIONS

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INTRODUCTION

The multinational company, however defined, has come to symbolize many fundamental changes occurring in business and finance throughout the world. The entity is sometimes credited-- and more often blamed--for changes which would have happened whether or not the multinational firm had existed.

The early years of this century saw establishment of many of today's best-known multinational business firms. There are really only two major qualitatively new ingredients since World War II. The first might be called the internationalization of management systems. This development is a logical outgrowth of the technological advances in communications and transportation.

*This paper was prepared in response to the invitation of the Subcommittee on International Trade for submissions on the key issues raised by the activities of multinational corporations. The Center for Multinational Studies is affiliated with the International Economic Policy Association, a nonprofit research group based in Washington. It was created to research the issues involving, and publish factual information about, the multinational corporation and its impact on the U.S. and world economies. While the Center works with both academic scholars and business executives, the Center alone is responsible for the facts and opinions presented herein.

For example, the collection and use of market data on a global basis permits swift and informed investment decisions. The second new ingredient is internationalized production, especially in manufacturing industries, necessitated by the growth of international markets and made feasible by the technological and management revolutions.

Pages of argumentation can be devoted to the problem of defining a multinational company. For working purposes, a satisfactory definition considers a firm "multinational" when it maintains major production facilities in two or more countries outside its country of principal incorporation, and which derives a significant proportion of its total income from international operations. It probably does not make much difference whether such business entities are termed "international," "transnational," or "multinational."

ADVANTAGES AND BENEFITS

The principal benefits of multinationalism fall under the heading of "expanded markets." In a sense, by expanding and linking international markets in the modern world, the multinational corporation helps do for the global economy what the limited liability company did for the development of national markets in the nineteenth century by pooling capital and applying technology. International trade has increased dramatically since World War II, but the development and servicing of growing international markets continues to be handicapped by tariff and nontariff barriers to trade. Foreign

exchange restrictions and differentials in various factors of production and transportation are also influential. Because of its inherent flexibility and management skills, the multinational firm has often been able to surmount such problems and thus expand into foreign markets. A classical case in point is the upsurge of U.S. direct investment in the countries of the Common Market to enable U.S. companies to operate from within instead of outside the common external tariff. U.S. direct investments abroad rose from a book value of \$32 billion in 1960 to over \$86 billion in 1971. Approximately 30 percent of this investment is in Western Europe, another 30 percent in Canada, 20 percent in Latin America, and the remaining 20 percent in the Middle East, Africa, Japan and elsewhere.

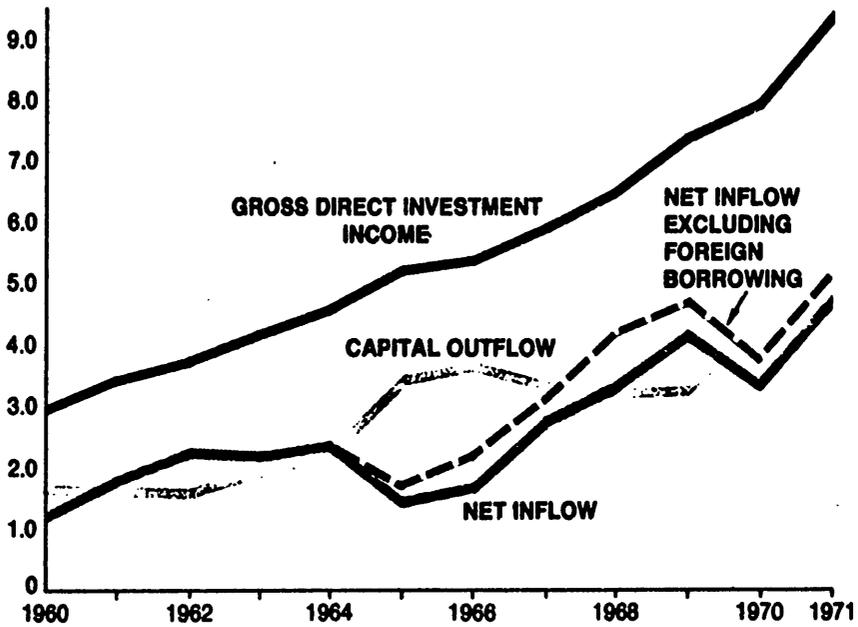
The Balance of Payments

As explained in Annex I of this paper, U.S. direct foreign investment--which in large part, although not entirely, is made by multinational firms--has had a positive effect on the capital and income account cumulatively and annually. It is not always recognized that this is the case, for U.S. balance of payments difficulties are often attributed, incorrectly, to foreign investment outflows. The accompanying chart ^{1/} speaks for itself. It should also be noted that for every year following World War II until 1971, the American private sector--including trade, tourism, and all forms of investment and private capital transactions--netted a surplus. The deficits were

^{1/} Reprinted with permission from The International Economic Policy Association's The United States Balance of Payments: From Crisis to Controversy, Washington, 1972.

CHART 1**U S FOREIGN DIRECT INVESTMENT OUTFLOWS AND INCOME**

(BILLIONS OF DOLLARS)



SOURCE: Survey of Current Business, June 1971, March 1972

created entirely in the government or public sector accounts, that is, for military expenditures and foreign aid grants and long-term government lending.^{2/} In 1971, U.S. direct foreign investment produced a net surplus of income and royalties over and above outflows of \$4.7 billion. The cumulative net total was \$21.8 billion from 1965 to 1971. Conservative estimates show a substantial further increase in the years ahead.

Trade

Precise measurements of the balance of trade effects of multinational corporations are difficult; nevertheless, based on reasonable assumptions, as explained further in Annex I, foreign affiliates of U.S. manufacturing firms can be easily credited with a total surplus of between \$4 and \$5 billion, after adjusting for the special U.S.-Canadian Automobile Agreement. Studies recently released by the Commerce Department tend to validate the foregoing aggregate estimate by showing for a sample 298 companies a 1970 surplus of \$2.3 billion in total exports to their foreign affiliates as opposed to imports from them.^{3/} When petroleum and other extractive industries--obviously large (and essential) net importers--are excluded from the sample, its trade surplus rises to \$3.2 billion. The figure for all affiliates would be substantially higher.

^{2/} See The United States Balance of Payments, cited, Appendix B for details.

^{3/} U.S. Department of Commerce Special Survey of U.S. Multinational Companies, 1970, Washington, D.C., November 1972. The companies surveyed accounted for 66 percent of total sales by foreign affiliates of American firms.

Combining the net surplus on investment with the net trade surplus of the multinational companies yields a net positive contribution by MNC's to the U.S. balance of payments of between \$8 and \$9 billion dollars.

Effects on Employment and Production

Although, as discussed in Annex II, there may be some adverse employment effects on a spot basis, there is ample evidence that multinationals have increased their domestic U.S. employment at a substantially greater rate than total U.S. private employment. The extent to which any domestic jobs have been displaced or "exported," as some labor spokesmen allege, depends on how much of the expanded production abroad might have been carried on successfully in the U.S., given foreign tariffs, import controls, transportation costs and other factors. Most studies published to date indicate that little, if any, of the production could have been performed in the U.S. on competitive terms. But even assuming that some could have been retained, the evidence is that U.S. multinational companies create even more American jobs, not only in production related to exports to overseas affiliates, but also in managerial, scientific, technical and service positions-- which tend to be higher paid with higher skills.^{4/} While difficult to quantify, there is little doubt that the ability of multinational firms to expand and to service foreign markets stimulates the U.S. economy and employment, especially in the skilled categories, and in the practical use of research, technology, and development.

^{4/} For some detailed estimates and an analysis of the methodological problems, see Job Displacement and the Multinational Firm: A Methodological Review, Robert G. Hawkins, Center for Multinational Studies, Occasional Paper No. 3, June 1972.

Do the MNC's foreign affiliates displace domestic production through imports to the U.S.? In the last year for which complete figures are available (1968), 78 percent of the overseas production by manufacturing affiliates was sold in the country of production, 14 percent went to third countries, and only eight percent was sold in the United States. U.S. sales of transportation equipment by American manufacturing affiliates in Canada are a special case because of the U.S.-Canadian Automobile Agreement. If these are excluded, less than \$2.5 billion was imported into the U.S. by American manufacturing affiliates throughout the world in that year. If Canada is omitted from the analysis entirely, the total was less than \$1 billion.

One of the lesser understood aspects concerns the "demand-pull" effect which foreign direct investment exerts on American exports. If foreign production displaces U.S. production, as some critics claim, a drop in U.S. exports should be expected. But at least one U.S. corporation, in researching its own history, found the opposite to be true. Union Carbide found that its exports expanded proportionately to its own foreign investment. The corporation found that fully 57 percent of its exports in 1970 were sent to its own foreign affiliates. Many of these exports were intermediate products which would probably have been bought elsewhere had Union Carbide not owned the affiliates. The corporation found, additionally, that exports to areas where Carbide has manufacturing facilities are at a higher level and grow as fast or faster than exports to areas where it has no plants or direct investment.^{5/}

^{5/} Union Carbide's International Investment Benefits the U.S. Economy, October 1972, pp. 2, 28, and Chart 1.

A survey by Business International explored this same question for a sample of 125 American manufacturers. It also found a direct correlation between the intensity of foreign investment by these companies and the growth rates of their exports and domestic employment. For example, the exports of Caterpillar Tractor rose substantially in four major markets after local manufacturing was initiated, the actual growth rate exceeding any reasonable projection that might have been made on the basis of pre-investment export performance.^{6/}

Aggregate figures from the Commerce Department also show that the export performance and domestic employment growth in industries characterized by heavy foreign investment has been better than those with light foreign investment. Even though foreign production and employment has also grown--and in some cases even more rapidly than at home--there has certainly been no aggregate displacement in the "heavy" foreign investment industries.^{7/} The question of the adjustment burden in meeting whatever displacement effect there may be in individual cases is addressed below.

Advantages to the U.S. Economy

The economy of scale that accrues to multinational companies from regional and continental efficiency tends to result in cheaper

^{6/} Business International Corporation, The Effects of U.S. Corporate Foreign Investment 1960-1970, Special Research Study, New York, November 1972.

^{7/} A detailed comparison (by three-digit SIC industries) is contained in Robert G. Hawkins' U.S. Multinational Investment in Manufacturing and Domestic Economic Performance, Center for Multinational Studies, Occasional Paper No. 1, Washington, D.C., 1972.

domestically produced goods which benefits consumers. Higher income to stockholders from repatriated earnings, license fees, and royalties also tend to increase real purchasing power in the U.S. To the extent that there is a shift of employment from labor intensive to capital intensive and higher paid employment, there is a benefit to workers as well.

Access to Raw Materials

U.S. multinational firms help to assure the U.S. economy access, on a commercially viable basis, to vital industrial raw materials-- including petroleum and other energy resources. As the demand for energy increases dramatically over the next few years, access to cheap and reliable supplies of fossil fuel will be even more important. Estimates of the trade deficit for fuel imports range from \$20 to \$30 billion annually by the early 1980's. The Secretary of the Interior projects a \$32 billion (in 1970 prices) gap between domestic metal and fuel consumption and production by the year 1985.^{8/} To avoid crippling cost increases in the domestic price structure, or vulnerability to supply shortages, American firms must have assured access to the rubber, bauxite, fibers, etc., involved. This function of locating, developing and importing is distinct from the manufacturing and marketing role of the MNC's; for here the MNC acts in the broad sense as a "purchasing agent" for the economy as a whole and to that extent deals with an increasingly critical national problem.

^{8/} First Report Under the Mining and Minerals Policy Act of 1970, Government Printing Office, Washington, March 1972.

Political Advantages

Foreign investment and multinational operations are, of course, multidirectional, and a case can be made that the interpenetration of national economies by foreign firms, on mutually beneficial terms, tends to create a reinforcing of interests in cooperative rather than antagonistic international economic behavior. The point has been made, for example, that the investment by the oil-producing countries in downstream production and marketing operations in the U.S. will create a "reverse hostage" for the U.S. investment in production facilities in those countries. A number of observers believe that the multinational company's far-flung interests lead it to exert such influence as it may have toward peaceful resolutions of international conflicts rather than their exacerbation and that, in many cases, the institution serves a conciliatory function. Rather than one-nation dominance over a set of resources, techniques and markets, a system now exists whereby each nation hosting or managing an MNC receives substantial quantifiable benefits from the operation. These operations meld national economic interest, however imperfectly, into a structure whose basic stability is everybody's concern. When all nations gain even slightly from the success of an institution, the probability of conflict is commensurately reduced.

Summary

The multinational companies are the most competitive sectors of the U.S. industrial economy and the cutting edge of American competitiveness in a world economy which is increasingly characterized by aggressive foreign competitors gearing themselves to operate in transnational markets. The U.S. multinationals have a significant positive effect on the balance of payments, and on the balance of trade. They provide access to resources and to markets, and tend to have a favorable qualitative impact on U.S. employment. They also can exert a positive influence for international cooperation.

THE PROBLEMS AND COSTS OF MULTINATIONAL FIRMS

The principal problem is posed by the MNCs' role as an agent of the adjustment process which is required by continuously changing patterns of international trade and investment. The speed with which technology and managerial techniques can be transferred has cut dramatically the lag between an innovation in a product or process and its international application. The familiar problems of regional or sectoral economic maladjustments have tended to become international adjustment problems and concerns, as the world becomes increasingly interdependent.

These developments would occur with or without the multinational corporation, but that institution is both a response to these developments and an agent which, in the process of responding, tends to accelerate their effects. Thus specific product lines and facilities are now rendered competitively obsolescent faster than in the past, and the economic and social costs of responding to these shifts are more concentrated over time and more readily apparent.

Effects on Labor

The allegation that "multinational companies export jobs" is not factually correct, as shown by the numerous detailed studies of this question which are discussed in Annex II. In the relatively few examples where domestic production lines have been closed down and reopened abroad, such as in some electronic industries, a case can usually be made that the production could not have been carried on successfully in the U.S. to serve either domestic or foreign markets, because of the

competition from imports. The so-called "multinational" question of who owns the production facilities abroad is distinct from the "trade" issue of what level of imports the U.S. can afford--and what are the consequences of restricting them. For it is often the case that if a U.S. firm did not service a foreign or the U.S. market with a particular product, a foreign firm would do so, and that of the two alternatives, participation instead of abdication by a U.S. firm is in the best interest of the U.S. economy. The alternative of closing of the U.S. market to most foreign production, implies the acceptance of economic inefficiency in production to the benefit of some interest groups, e.g., business and labor in the affected industry, but to the disadvantage of others, including consumers as a whole, and particularly the least affluent ones.

The belief that MNC's reduce domestic jobs is not supported by the actual domestic employment figures of multinational firms. The latest Department of Commerce study shows that domestic employment by the sample of 298 multinational companies surveyed grew by 2.8 percent a year between 1966 and 1970,^{9/} while total manufacturing employment grew less than one percent, and total private employment grew by only 2.3 percent annually. However, the employment abroad by the firms in this study grew by 5.8 percent annually; so an answer to the "export of jobs" question must rest on an estimate of how much, if any, of this employment increment abroad could have been achieved in the U.S. Many economists believe that relatively little of the foreign production

^{9/} Special Survey of U.S. Multinational Companies, 1970, Bureau of Economic Analysis, U.S. Department of Commerce, November 1972. The aggregate employment figures are calculated from 1971 Business Statistics, Office of Business Economics, U.S. Department of Commerce, Oct. 1971, p. 69.

has truly displaced U.S. production, since the markets reached by the foreign production of American affiliates could not have been profitably served from the United States facilities for a variety of reasons. What has been happening is that markets have been growing both domestically and overseas, and the MNC has played a role in both, without one being at the expense of the other. U.S. business, it is generally agreed, has a built-in conservatism regarding operations in an uncertain foreign environment and a preference for domestic production unless substantially lower profits or lost markets would result by not going abroad.

The allegation that multinational firms go abroad to seek "cheap foreign labor" has not been supported by any of the findings of numerous case studies and surveys cited in Annex II. Three-fifths of U.S. direct investment is in developed countries in Western Europe and Canada, where wage differentials are not that significant; and a substantial part is in the extractive industries which are necessarily located where the resources are. Moreover, there is substantial evidence, as noted earlier, that foreign investments have a significant "pull effect" on U.S. exports, adding to U.S. employment in manufacturing.^{10/} The production jobs thus created or maintained are augmented by others in management, in technical fields, and in supporting services. There is reason to believe that the job creating role of the multinational firm is at least as great as, if not greater than, any

^{10/} See the Business International Corporation survey and the Union Carbide study cited in notes 5 and 6.

job displacing effect which may exist. Despite the favorable aggregate picture, there can be a significant adjustment problem insofar as particular individuals, skill categories, and communities are concerned.

The Adjustment Burden

It is in this area, that of meeting the burden of adjustment to changing employment patterns, that those concerned about the effects of multinational companies may have the strongest case. The benefits cited above tend to accrue to the economy as a whole, and to new and higher skilled and salaried groups, while the jobs most likely to be lost by the acceleration in changes of production and trade patterns affect the less skilled elements of the work force. This suggests that one of the actions open to governments is an expanded and improved adjustment assistance mechanism; but, of course, realistic account must be taken of the total costs of such expanded programs and the impact of such costs on inflation and industrial competitiveness. This important subject was the subject of comprehensive hearings before the House Foreign Affairs Subcommittee on Foreign Economic Policy in April and May 1972.^{11/} IEPA's submission to these hearings proposed a revised and reorganized program of adjustment assistance with an "early warning" system for potential skill losses. More details are contained in Annex III.

Labor Relations Problems

From a union point of view, the spread of the multinational firm has increased the complexity of collective bargaining. It is more difficult for a union to discover the nexus of corporate power with

^{11/} Trade Adjustment Assistance Hearings, 92d Congress, Second Session.

which to negotiate; and some international union leaders express concern that employers can shift production of vital components to affiliates in other countries to avoid production and sales losses from labor disruptions. The attempt by some labor spokesmen to stop technological progress and shifts in production patterns is, in a sense, a new incarnation of the familiar "featherbedding" issue. But these same people are also seeking to develop their own remedy, namely, international collaboration among unions and what might be called "transnational collective bargaining."

Technological Transfers

The transfer of technology by direct investors produces real benefits for the U.S. in the form of royalties and fees--\$2.2 billion in 1971 and about \$14.6 billion in total, from 1961 to 1971--as well as profits. It also helps to stimulate interest in U.S. products, and thus expands markets for exports. There can also be some costs, in that the comparative advantage from high technology innovation can be diminished and foreign competition increased. However, research and technology, like other forms of ideas, cannot be imprisoned. The U.S. experience with government secrecy in both the atomic energy and missile technology areas since World War II shows that in the most sensitive areas, at most a delay factor can be introduced. The flow of basic scientific information now appears to be such that any advanced industrial nation can reproduce innovations. Efforts to control licensing and the transfer of technology--for example, whenever there might be an adverse effect on employment--might have the effect of forcing some competitors to

duplicate research and development efforts, with some higher costs to them but with no benefits to the U.S. economy. The only way in which the U.S. innovator can protect his invention abroad is to patent it, which means revealing whatever "secrets" may be involved. In many countries, others cannot be restrained from using the patents unless they are "worked" or available for licensing.

The flow of technology--contrary to some popular beliefs--is a two-way street and the U.S. has no monopoly on inventiveness. Other countries will surely attempt to retaliate by restricting foreign licensing of indigenous inventions. The ultimate costs from efforts to restrict technological transfers--efforts which are unlikely to be successful in any event--will probably outweigh any shorter term gains.

Problems for Governments

National governments are now beginning to repeat the arguments of state and local authorities in past years who felt the flexibility of diversified nationwide corporations enables them to avoid some local taxes or controls. Efforts to regulate multinational firms in the public interest, it is argued, might be met by large-scale transfers of operations to foreign jurisdictions. Currently, for example, there is talk about the possibility of companies moving to "pollution havens" if they cannot meet strict environmental protection standards. Consequently, the ability of national political systems to exert desirable political, economic, and social controls in such a world is sometimes questioned. All of these fears seem to conflict with the fact (explained further in Annex V) that a multinational corporation is subject to the

control of each jurisdiction in which it does business, and is therefore subjected to multiple layers of control, from local through state and regional to national governments, and in some cases, inter-governmental agreements.

The existence of different national tax systems and rates has created a complicated international problem; but, as discussed further below and in Annex IV, the international system has developed double taxation conventions which generally maintain approximate tax equality among operating subsidiaries of different nationalities in a given country.

Most multinational corporations have learned that their own economic survival in a given country depends on their ability to function as good local citizens. The few highly publicized cases of plants being abruptly closed or major policy changes being introduced contrary to the wishes of the host government on a takeover, have been shown to be an exception rather than the rule. The notion that international business can operate in a foreign country regardless of the wishes of that government is patently false, as shown by the cases of France and Japan which have been particularly sensitive to the issue, and whose administrative controls and "guidance" have proven quite effective. Even relatively small and weak countries have successfully imposed nationalization schemes on companies from many of the world's most powerful countries

Where the problems of political harassment, xenophobia and uncompensated expropriation are rampant, as they have been at various times in some Latin American countries, foreign investors are going to respond by reducing their commitments in that area and seeking whatever international legal remedies may be available. But despite the recent

complaints of Chilean President Allende, the "multinational" status of the corporation whose assets have been seized contrary to national or international laws has not really been helpful. They have been taken over anyway. Such a company may have a wider range of alternative investment choices, and one of them is to stay out of inhospitable countries. Who is the greatest loser from such decisions is an open question.

In view of this record, many of the political attacks on multinational companies can be seen as a search for a convenient scapegoat.

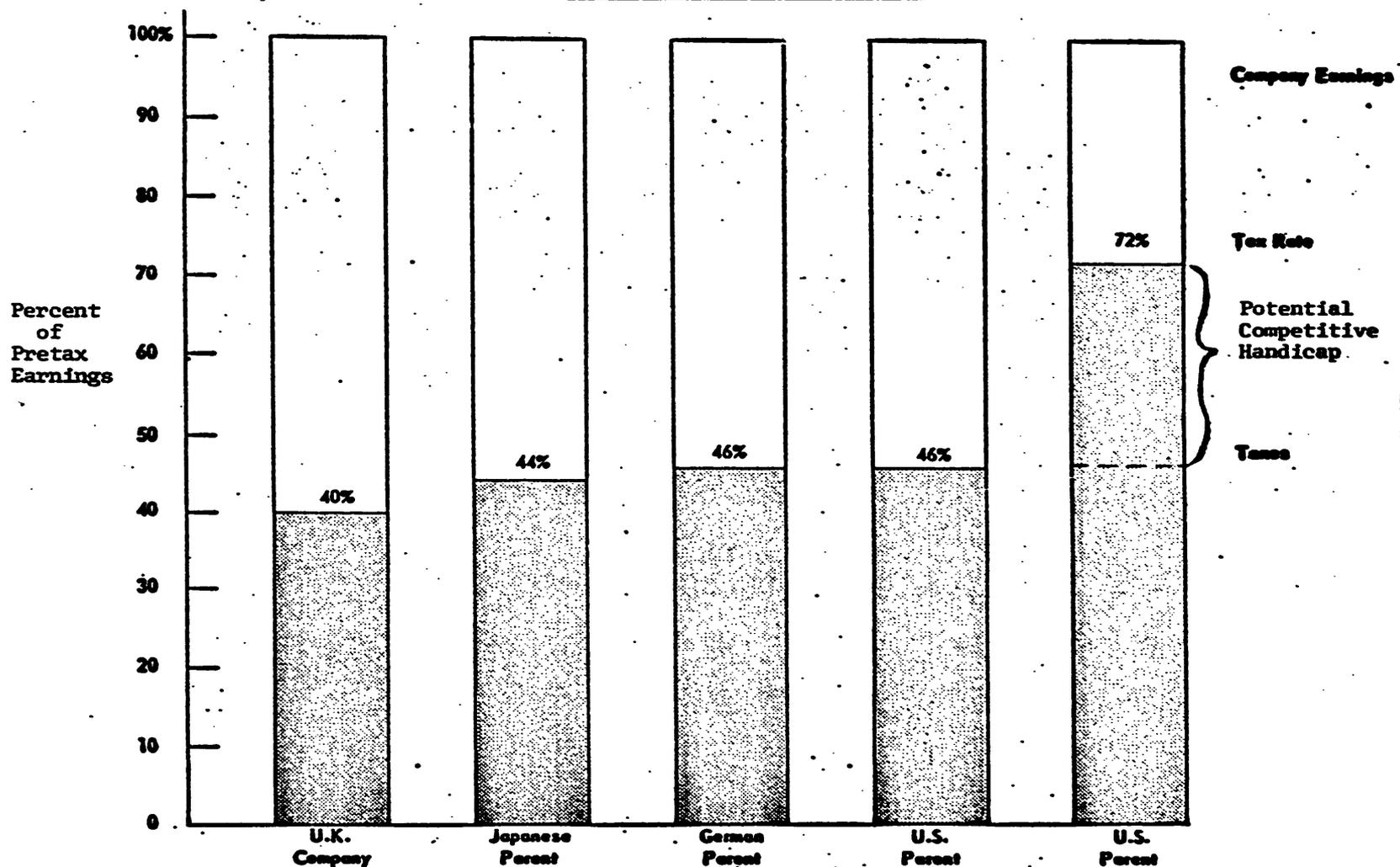
Taxation

Proposals to change the present system of multinational taxation have been made by tax reformers who seek a "neutrality" of tax effects on decisions as between domestic and foreign investment, and by critics of the MNC who seek to constrain its operations. The following chart shows the effects on American affiliates abroad of substituting a business deduction for the present tax credit. The 26 percent competitive handicap in terms of taxation and its effect on cash flow means that any so-called neutrality would become "inequality" in the treatment of U.S. subsidiaries abroad vis-a-vis their foreign competition. In addition, of course, such action would contravene the entire structure of international treaties designed to avoid double taxation and could subject the U.S. to various forms of retaliation.

Contrary to some popular misconceptions, income from foreign subsidiaries is taxed to the parent company--which is the U.S. taxpayer--when it receives the income, just like any other taxpayer. The so-called

CHART 2

COMPARISON OF AFTER TAX EARNINGS
FROM U.K. COMPANY OPERATIONS



Based on assumption that 70% of earnings are returned as dividends.

Source: See Annex IV, Table 2

"deferral" privilege reflects the fact that parents cannot always control the payment of dividends on earnings by their overseas affiliates due to government regulations, capital controls, or rights granted to other shareholders.

Finally, even though U.S. federal tax liabilities are reduced by the foreign tax credit, multinational companies, both American and foreign owned, pay billions of dollars to state and local authorities in the U.S. as well as abroad. In fact one recent survey shows that 83 companies earned \$18.3 billion before taxes on \$152 billion of world-wide sales, on which \$8.5 billion, or about 46 percent was paid in taxes. In this sample, income and withholding taxes on foreign corporate income took a larger share than those on domestic income.^{12/} This pattern seems reasonable, since taxes are a form of payment for services rendered by governments at all levels where the facilities are actually located. Further data on the tax question are contained in Annex IV.

International Monetary Effects

It has been widely stated that multinational corporations are a major factor in causing international speculative movements of funds and hence monetary crises. For example, a recent Newsweek article says that, "They (MNC's) were probably the prime force behind the whole currency crisis."^{13/}

There is, however, very little empirical evidence bearing on this point. What actions international treasurers do take is a reaction to

^{12/} National Association of Manufacturers New Proposals for Taxing Foreign Income, New York, 1972

^{13/} Issue of October 13, 1972, p. 28.

existing or oncoming disequilibria in currency markets and international payments imbalances, rather than a cause. Although there is no doubt that hedging by buying "forward" currencies and utilizing leads and lags in settling accounts can add to instabilities, when these instabilities occur, they are results of underlying economic facts. Business corporations, moreover, unlike banking institutions, do not often maintain large volumes of liquid, nonworking capital with which to engage in speculative transactions. A survey by the Commerce Department in May 1971 showed that a sample of large U.S. multinational corporations contacted had not moved significant amounts of funds in the period of intense speculation preceding the deutsche mark float.^{14/}

The rapid development of the Euro-currency market, from roughly \$2 billion in 1960 to approximately \$71 billion in 1971 (of which \$54 billion were Euro-dollars) has created a pool of liquidity which can shift rapidly among financial markets, serving the positive function of linking them together, while also being a destabilizing factor. Data is not available to identify the relative importance of various Euro-currency depositors nor to distinguish the role of multinational corporations from bankers, oil producers,^{15/} and others.

The measures which governments and international financial institutions can use to control currency crises, ranging from controls to deposit requirements, dual exchange rates, currency floats, wider

^{14/} Department of Commerce, Office of Foreign Direct Investment News Release, May 20, 1971.

^{15/} According to the Bank for International Settlements, the U.S. was the source of only \$6.1 billion of Euro-currency deposits while the Middle East was responsible for \$5.1 billion.

bands, and adjustment mechanisms, are too complex for discussion here.^{16/} But the problems and possible solutions exist quite independently of the multinational corporation, which often gets wrongly singled out as a scapegoat for monetary instabilities of which they are as often victims as causes.

However, the MNC has served to tie the world more closely together; so that balance of payments disturbances are transmitted more rapidly than before, although not necessarily through currency speculation. This requires a less sluggish international adjustment process if further balance of payments crises are to be avoided. Thus, monetary reform is needed; and it might very well improve the environment in which MNC's operate by reducing the need for the controls and restrictions which are now beginning to proliferate. Also, it is important to stabilize exchange rates so as to avoid artificial impediments, or stimuli, to international investment.

International Political Effects

There is a reverse side to the argument that multinational firms have a conciliating effect on international conflict, in that disputes between private business entities and host governments can and do exacerbate relations between governments. This is probably inevitable, since companies of a given primary nationality look to their governments, as they should, for support in cases where they are not granted reciprocal or national treatment or are treated other than in accordance with the principles of international law. The answer to problems in this area would appear to be the development of efficient

^{16/} See IEPA, The United States Balance of Payments, cited, ch. 6-8.

and trusted mechanisms for international arbitration of such disputes as that provided by the International Centre for the Settlement of Investment Disputes.^{17/}

CONCLUSIONS

While the foregoing suggests that there are some problems as well as advantages to be had from the institution of the multinational corporation, the latter are identifiable and quantifiable, for example, the gains for the balance of payments and trade. The problems, on the other hand, tend to lie more in the qualitative area--and often involve factors of which the multinational firm is merely a manifestation rather than a contributing cause, such as the increasing interdependence of the world economy and the acceleration of technological innovation. This tends, however, to make the MNC vulnerable to political attacks as a convenient scapegoat.

To the extent that one is concerned about such basic trends, there is, realistically, relatively little that can be done. Attempts to set back the clock of political economy, exemplified by the Hartke-Burke and other proposals to impose new taxes and capital and licensing controls on international business and establish restrictive quotas on imports, could damage the United States and world economies for years to come.

To the extent that the problem consists of adjustment to these trends, social, political, and economic mechanisms can be used more effectively by national governments to ameliorate, if not solve, the problems. The adjustment assistance proposals in Annex III are

^{17/} The Convention establishing the Centre has been signed by 63 states including many developing countries, but significantly, none of the major Latin American countries are parties. The Centre's first arbitration proceedings occurred in 1972, so that much remains to be done in this area. See Proceedings, ICSID, Sixth Annual Meeting, September 28, 1972.

an example. If the problem is seen as one of corporate responsibility, the corporations themselves are probably sufficiently alert to their own self-interest that they will avoid being labeled unresponsive to major currents of public opinion, whether the subject matter be employment, prices, taxes, or pollution. Indeed, one consultant to the labor movement has made the valid point that the mere raising of the issue about multinational corporations may have accomplished more good in constructive modifications to corporate behavior than any of the proposed legislative solutions could do.

Finally, to the extent that the problem is seen as one of a conflict between the economic power of multinational companies and the "sovereign" political power of nation-states, there have been a number of proposals to seek international chartering and regulation of MNC's. As noted in Annex V, the feasibility of this approach is open to question in today's world, since nations are reluctant to give up any of the controls they now exercise. And if they did not do so, merely another layer of controls would be added to those existing.

At the intergovernmental level, there are numerous conventions and agreements which regulate international trade, transport and monetary affairs, and which affect multinational business and investment. But a "GATT" for investments does not seem a practical possibility in the near term. A minimum requirement of such an agreement would be most favored nation, reciprocal, and national treatment of foreign private investments. It does not seem politically feasible right now that many less-developed countries will agree to such principles. Even regional efforts, such as the EEC's proposed European company law, continue to

encounter practical obstacles. The "Andean Code" may serve to harmonize local regulations affecting foreign investment, but the overall effect is likely to be to deter the inflow of private capital needed for development. Further data on the legal aspects of multinational business, including antitrust regulations, are contained in Annex V. Despite the numerous problems, however, consistency and harmonization of the international treatment of foreign investment (in taxation, standardization, antitrust, and other fields) is a desirable objective; and progress can be made through both inter-governmental and industry efforts, even if not on a "supernational" level.

Some of the apparent, if not actual, conflicts of interest could be reduced by wider acceptance of international "codes" of good behavior--for both investors and host countries. But despite numerous proposals and draft investment charters, such as the Pacific Basin Charter, these are necessarily voluntary and general in scope, mostly expressing the hopes of developed country interests. They can, however, serve as evidence of good will and thus help to disarm suspicions.

On balance, in the short to medium term, the clearly ascertainable gains and benefits of American multinational corporations outweigh the alleged harm they do. In the longer term, the picture is clouded by uncertainties about the pace and direction of global development and the kinds of national and international systems that are going to be required to motivate and control human behavior in the mass society. But to approach those problems, one must get through the intermediate

period with both as strong and healthy an economic base and as much international cooperation as possible. The multinational corporation is making an important contribution to that end.

Dr. N. R. Danielian, President of the International Economic Policy Association, has described the world's choices this way:

The primary issue confronting world leadership is how to organize the productive human and material resources, within each nation and among all nations, to meet human needs, without war. Since World War I, three competing concepts have been vying for public acceptance and political favor to accomplish this organization of resources within nations and on a worldwide scale.

One is the Communist system, based upon state ownership and control of productive resources within each nation, and through international subversion in other countries. Make no mistake about it, the Communist International is the twentieth century version of the nineteenth century economic imperialism.

Another form of economic organization, a remnant of the nineteenth century, is the national enterprise, based in one country, owned and controlled by private and governmental interests in varying proportions. Its two characteristics have been limited and inefficient markets wrapped in mercantilist mentality and the tendency to enfold themselves in the flag and identify with narrow nationalism. This system is clearly outdated; witness the development of trading blocs, of which the most prominent is the European Common Market.

The third is the multinational corporation, spanning nations and continents on the wings of jet transports and instantaneous wave lengths of satellite communications. If there is a wave of the future, this is it.

A thoughtful analysis will show, I believe, that the last has many advantages over the first two. It is more efficient, more flexible, more interested in a peaceful world, more consistent with personal freedom and political democracy. This does not mean one approves of everything some multinational corporations do; but there are other ways of improving their performance than by destroying them--as some critics, in and out of Congress, seem to be urging.^{18/}

^{18/} Economic Development and Multinational Enterprise: New Perspectives, remarks of Dr. N. R. Danielian at The Wharton School, University of Pennsylvania, November 28, 1972.

ANNEX ITHE IMPACT OF THE MULTINATIONAL FIRM ON THE U. S.BALANCE OF TRADE AND PAYMENTS

American direct investments abroad rose from a book value of \$31.9 billion at the end of 1960 to \$86.1 billion by the end of 1971, spread throughout the world but concentrated most heavily in Canada and Western Europe. This immense growth was financed by \$20.7 billion of retained foreign earnings and by \$33.5 billion of direct investment capital outflows by U.S. firms from 1961 to 1971 inclusive.^{1/}

These capital outflows, however, were more than counterbalanced by the income on U.S. direct investments. From 1961 through 1971, U.S. direct investors received \$49.1 billion in interest, dividends, and branch earnings, and a further \$14.6 billion in direct investment fees and royalties. This amounted to balance of payments receipts of \$63.7 billion in the same period compared with \$33.5 billion of capital outflows--for a net balance of payments advantage to the United States of \$30 billion.

^{1/}Of the \$33.5 billion in capital outflows, a portion (about \$3 billion) of the funds was acquired by sales of U.S. securities abroad by parent corporations and their Netherlands Antilles financial subsidiaries from 1965 to 1971, inclusive (only a minimal amount was involved prior to 1965). The substantial amount of securities issued by overseas subsidiaries themselves are not reflected in the book value figures, nor are the bank loan and other credit funds obtained abroad by U.S. corporations for direct investment purposes. The book value figures attempt to reflect the net foreign direct investment assets owned by U.S. residents and are thus not offset by direct investors' foreign liabilities.

In 1971, capital outflows totaled \$4.8 billion, but total income on direct investments was nearly twice as large, \$9.5 billion, for a \$4.7 billion surplus on direct investments--in a year which was almost totally devoid of surpluses in other balance of payments accounts.

Beyond the income and capital outflow statistics there is the contribution of direct investment to the merchandise trade balance of multinational firms. Only sketchy data is available on this subject. The U.S. Department of Commerce conducted a benchmark survey of direct investment for the year 1966, which was mandatory for U.S. direct investors. This survey found that for the 3,000 parent companies with 23,000 affiliates abroad, sales by affiliates overseas in the United States totaled \$5.9 billion, and U.S. exports to affiliates, \$7.8 billion. More significantly, as the total figures include imports of petroleum and minerals from affiliates, U.S. sales by manufacturing affiliates alone totaled \$2.7 billion, and U.S. exports to them, \$5.3 billion, for a \$2.6 billion surplus in 1966.

Since the 1966 direct investment survey, no further comprehensive study has been conducted on this matter. The most recent and most authoritative data is contained in the Commerce Department Special Survey of U.S. Multinational Companies, 1970, published in November 1972. This survey includes a sample of 298 companies with 5,200

majority owned foreign affiliates, a sample which, in the 1966 general survey, included 55 percent by value of foreign affiliate assets and 66 percent of affiliate sales; obviously the largest multinational companies. In 1970 the sample had \$7.5 billion in affiliate sales to the United States and \$9.8 billion in U.S. exports to affiliates, for a surplus of \$2.3 billion (up from \$1.8 billion for the same sample in 1966). Again, the inclusion of petroleum and mineral extraction industries, which are obviously net suppliers of essential raw materials to the United States and are not usually competitive with U.S. sources, distort the picture. The manufacturing affiliates--which are the subject of the major controversy--were responsible for \$4.8 billion in sales to the United States in 1970 compared to \$8 billion in U.S. exports. This surplus of \$3.2 billion for the sample compares with their \$2.6 billion in 1966.

Another factor distorts the quantitative measurement of the manufacturing affiliates' trade balance; the U.S.-Canadian Automobile Agreement of 1966 has resulted in an excess of U.S. imports of automotive supplies and automobiles from Canada over exports. This, of course, is included in the special survey in the accounts of the U.S. auto manufacturers. The "free trade" in automobiles and parts between the United States and Canada is a special case, since the agreement was reached with the accord of both industry and labor in the two countries. Removing exports and imports to and from Canadian transportation industry manufacturing affiliates, 1970 U.S. sales

by manufacturing affiliates are \$2.4 billion; U.S. exports to affiliates are \$6.2 billion, and the adjusted MNC trade balance is a surplus of \$3.8 billion for the special survey MNC sample. Including the remaining, smaller direct investors, would bring the total trade surplus in 1970 to well over \$4 billion.

Beyond these measurements of what contributions MNC's and direct investment actually make to the balance of trade and balance of payments, there is the hypothetical question of what these U.S. accounts would have been without any direct investment at all. In other words, is there a demonstrable cause and effect relationship? The best answers are to be found in the many studies performed on specific industries or companies, rather than in aggregate data. For example, the recent Union Carbide study, Union Carbide's International Investment Benefits the U.S. Economy, examines the company's major market products and affiliates. Assuming that there had been no direct investment activity from 1951 through 1970, it estimates that instead of the actual 1970 company total exports of \$253 million, a probable level of \$163 million in exports would have been achieved. The difference would have been due to the lack of purchases by affiliates of intermediate goods, the lack of aggressive marketing affiliates of U.S.-made goods to complement a foreign made line, and similar relationships. Such a pull for U.S. exports from foreign affiliates is probably the general rule rather than an exception. The survey of 125 American manufacturers recently released by Business International also found a correlation between foreign direct

investment and exports from the United States, with the latter tending to rise sharply once an overseas subsidiary had started to manufacture in a given market.^{2/} The Commerce Department's 1970 special survey showed that the MNC's included had 43 percent of their total exports of \$20 billion shipped to foreign-owned affiliates. The same percentage also applies to the manufacturing MNC's, which had \$16 billion in total exports. Although the evidence is not conclusive, it does not seem unreasonable to credit the MNC's foreign affiliates as a causative factor in about half the exports to them,^{3/} in the sense of being additive to what otherwise might have occurred. Applying, arbitrarily, a similar causative factor on the import side, there is still a substantial net plus for the U.S. balance of trade due to the operations of American multinational firms.

^{2/} Business International Corporation, The Effects of U.S. Corporate Foreign Investment 1960-1970, Special Research Studies, New York, November 1972.

^{3/} This is also the conclusion of Professor Robert G. Hawkins; see Job Displacement and the Multinational Firm: A Methodological Review, Center for Multinational Studies, Occasional Paper No. 3, June 1972, pp. 22-23.

ANNEX II
MULTINATIONAL CORPORATIONS AND U.S. LABOR IN
MANUFACTURING INDUSTRIES

It is alleged by some spokesmen for organized labor that "hundreds of thousands" of American jobs have been "exported" by U.S. multinational firms through their investments in manufacturing affiliates abroad.^{1/} In rebuttal, it has been argued that on the contrary, these same investments have saved hundreds of thousands of American jobs which otherwise would have been jeopardized by loss of markets to foreign competition.^{2/}

The facts are that overseas manufacturing affiliates of U.S. multinational firms have greatly expanded their production--to nearly \$60 billion a year in 1968, the last year for which detailed figures are available. At the same time, however, the industries where such foreign investment has been the heaviest have significantly outperformed the industries with light foreign investment in terms of domestic sales, exports and domestic employment.^{3/} One cannot, however, automatically deduce a cause and effect relationship between investment and performance, since these "superior" industries have expanded both at home and abroad; and it may be that the most aggressive management was in, or entered, the most promising fields, and tended to be "multinational" in outlook. By the same token, this evidence refutes the notion that jobs have

^{1/} See, for example, the statement by the AFL-CIO Executive Council issued at Bal Harbour, Florida, February 19, 1971, and Stanley Ruttenberg, Needed: A Constructive Foreign Trade Policy, AFL-CIO pamphlet, October 1971, pp 70-73.

^{2/} Robert Stobaugh and Associates, U.S. Multinational Enterprises and the U.S. Economy, Harvard Business School, 1971.

^{3/} U.S. Multinational Investment in Manufacturing and Domestic Economic Performance, by Robert G. Hawkins, Occasional Paper No. 1, Center for Multinational Studies, Washington, D.C., February 1972.

been "exported" in any aggregate sense because of overseas investments; for multinational firms have expanded their domestic employment significantly faster than American industry as a whole.^{4/}

The question, therefore, is whether the U.S. production would have been higher in the absence of overseas expansion. Few, if any, U.S. firms go abroad simply to go abroad. They invest overseas because they have no realistic alternative. In other words, markets, and hence domestic production, might have been less had they not done so. A recent survey by the Emergency Committee for American Trade on 74 U.S. corporations,^{5/} representing a broad spectrum of industries, shows that 57 percent of the respondents considered market demands the most important reason for the foreign investment decision. By contrast, only five percent of this group considered labor cost advantages-- what the AFL-CIO calls "roaming the world in search of profits by using cheap labor abroad"^{6/} as the primary cause of investing abroad.

Another study done by the U.S. Chamber of Commerce on 160 companies with foreign investments showed similar results. The most important and second most important reasons for establishing local operations were to service an existing market better, and to overcome tariff and

^{4/}U.S. Multinational Investment in Manufacturing and Domestic Economic Performance, by Robert G. Hawkins, Occasional Paper No. 1, Center for Multinational Studies, Washington, D.C., February 1972.

^{5/}The Role of the Multinational Corporation in the United States and World Economies, Emergency Committee for American Trade, February 1972.

^{6/}The Multinational Corporation, pamphlet published by the AFL-CIO Industrial Union Department, Washington, D.C., 1972.

^{7/}Trade Adjustment Assistance, hearings before the Subcommittee on Foreign Economic Policy of the Committee on Foreign Affairs, April-May 1972, p. 440.

trade barriers. The third reason was preemption of a market. In no case were low wage rates cited as of major importance. This is supported by the fact that about two-thirds of U.S. foreign direct investment is either in developed countries or in extractive industries, where wage rates are not likely to be a decisive factor.

U.S. multinational rubber companies discovered that raw material availability, freight costs, tariffs and inventory requirements all required investment in local foreign plants.^{8/} In almost every case, Goodyear, for example, had no choice but to invest abroad or lose a market. Notwithstanding, the U.S. multinational rubber companies consistently show a positive balance of trade that has actually increased in the past few years when the U. S. trade surplus diminished and while foreign competition, especially from European rubber processors, increased dramatically. The positive balance of exports over imports increased from \$129 billion in 1967 to \$228 billion in 1971.

Other case study research also shows that companies have little choice but to go abroad or lose their share of the market.^{9/} For example, a recent study by Union Carbide reports an instance in which a foreign country told it that Carbide has to service that country with a particular product from a plant inside that country.^{10/} If the company had opted to lose the foreign market, the inevitable result would be reduced product lines, and lower sales and profits--and, most important

^{8/}
Information on the Multinationals , The Goodyear Tire and Rubber Co.

^{9/}
The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade - An Assessment of Critical Claims and Legislative Proposals, National Foreign Trade Council, Inc., November 1971.

^{10/}
Union Carbide's International Investment Benefits the U.S. Economy, study published by the Union Carbide Corporation, New York, 1972, page 25.

to its employees, a reduction in overall exports. The "demand-pull" effect of foreign investment on exports from the United States is demonstrated clearly in the numerous cases reported by this study.

Some critics claim that micro-economic examples do not really establish the proposition. Aside from the cumulative evidence presented by Business International,^{11/} aggregate figures based on Commerce Department data also confirm the case study results, for "high" foreign investment industries have out-performed "low" industries in domestic production, exports, and employment. In the late 1960's the trade surpluses tended to decrease and in some cases turned to deficits; but even where deficits occurred, the trade deterioration was less than in industries with low foreign investment intensities.^{12/} In other words, U.S. corporations which had high foreign investment tended, in the aggregate, to protect their job holders and create additional jobs at home better than firms which had little or no foreign investments. Despite the belief of some European and labor critics of the multinational firm that the "U.S. has exported its export base," there is no evidence that foreign investment was a proximate cause of the trade balance decline which the United States has recently suffered.

^{11/}Business International, The Effects of U.S. Corporate Foreign Investment, 1960-1970, New York, November 1972.

^{12/}U.S. Multinational Investment in Manufacturing and Domestic Economic Performance, by Robert G. Hawkins, Occasional Paper No. 1, Center for Multinational Studies, Washington, D. C., February 1972.

That average domestic employment growth has tended to be higher in industries with high foreign investment than in industries with lower investment can be ascribed, in part, to the ability of foreign-based plants and operations to participate more intimately in the Western European economic recovery and to sell in these and other markets more efficiently than American firms without such overseas affiliates. The recently released survey by Business International of 125 American manufacturers found a direct correlation between intensity of their foreign investments and growth rates in domestic employment.^{13/} A Commerce Department survey shows that a sample of 233 multinational manufacturing firms increased their domestic employment between 1966 and 1970 by 7.6 percent,^{14/} while total American manufacturing employment rose less than 1 percent in the same period.

The difficulty with attempting to measure the net aggregate effects of foreign investment on domestic employment is that several assumptions must be made on which little empirical evidence is available.

^{13/} The Effects of U.S. Corporate Foreign Investment, 1960-1970, New York, November 1972.

^{14/} U.S. Department of Commerce, Special Survey of U.S. Multinational Companies, 1970, Washington, D. C., November 1972.

The most critical one is the percentage of the production by overseas manufacturing affiliates of U.S. multinationals which might have been carried out in the United States on a competitive basis; for only that which could have been performed domestically can be considered potentially displaced.

One study has posited a formula for measuring the net employment effect, ^{15/} the negative effect of the displacement of local production, noted above, plus three separate positive employment effects: (1) the stimulation of exports and its effect on U.S. production and employment; (2) "home office" i.e., managerial and technical, employment; (3) supporting firm employment, such as those supplying services.

The labor, or job equivalent has been calculated as a function of the dollar volume of output or shipments; a widely used average coefficient is 70 jobs or man-years per million dollars of output. ^{16/} Using that coefficient, the net job effects become negative only when a high proportion of foreign production is asserted as

^{15/}
Job Displacement and the Multinational Firm: A Methodological Review, by Professor Robert G. Hawkins, NYU Graduate School of Business Administration, Center for Multinational Studies, Occasional Paper No. 3, Washington, D. C., June 1972.

^{16/}
This represents a rounded average of Labor Department estimates of direct and indirect labor requirements in manufactured exports and the ratio of employment to gross production in manufacturing derived from Commerce data. See Table 2 of the study cited in note 15 above.

displacing domestic jobs. Reasonable assumptions about this displacement factor suggest that it is probably less than 10 percent of foreign production. This can be confirmed by common sense estimates of the world's ability and willingness to absorb increases in the U.S. exports which are allegedly displaced. And on this basis, the net job impact of multinationals is positive because the jobs lost are more than offset by the jobs created.

Whatever jobs may or may not have been displaced in the past, the adjustment has already had to take place; for a given job can only be lost once. But the annual increases in foreign production by American affiliates do require a continuing adjustment process. And here the true measure of the adjustment burden may be the gross displacement effect, since, even if an equal number of jobs are being created, the workers involved must still be retrained, often into new fields, and even relocated to take advantage of them.

Even the 40,000 to 60,000 gross annual adjustment burden posited by Professor Hawkins (on the basis of the medium and most reasonable assumptions about displacement) is quite small in relation to either the annual expansion of the U.S. labor force or the current levels of unemployment. The costs of meaningful adjustment assistance (as discussed in Annex III) should not be unmanageable for this segment of the overall problem. Normal attrition by retirement and job changes would account for many displaced workers. Indeed, a recent breakdown of Ford blue collar workers showed that 28 percent had

three years or less, and 50 percent had seven years or less employment with that company.^{17/} Thus, turnover, in the aggregate, would compensate for many displacements. A further mitigating fact is that even in 1971, a period of relatively high unemployment, only 10.4 percent of the jobless remained unemployed more than 26 weeks.^{18/}

In conclusion, the aggregate employment effects of the multinational firm and the tendency toward internationalization of production do not seem harmful. But the effects on particular individuals, skill categories, and local communities can be severe. This creates a presumption that the burden of adjustment should be shared by the economy as a whole and thus reinforce the case for a more effective adjustment assistance program, as outlined in Annex III.

^{17/} Statement of Douglas A. Fraser, Vice President, United Automobile, Aerospace and Agricultural Implement Workers of America, UAW before the Subcommittee on Foreign Economic Policy of the Committee on Foreign Affairs, House of Representatives, hearings on Trade Adjustment Assistance, May 17, 1972, p. 328.

^{18/} Ibid., p. 329.

ANNEX III
ADJUSTMENT ASSISTANCE

"Solutions" involving protectionism in trade and restrictionism in international investment are bound to be counterproductive. But if the national interest requires continued efforts to maintain the maximum possible freedom of movement for goods, capital, people and ideas, we must ask what can be done to prevent the adjustment burden from falling unfairly on a few. For labor is one of the least mobile of the capital-management-resource-technology-labor inputs to production. Numerous studies have shown that the activities of multinational companies probably create, in the aggregate, at least as many jobs as they displace through their production in foreign affiliates. These companies and their foreign investments are also not responsible for more than a tiny fraction of the American problem with imports. While this is a most relevant fact from a national policy standpoint, it is cold comfort to the worker whose job has been displaced.

There appears to be a widespread consensus that the present fragmented and highly limited program of adjustment assistance is totally inadequate to the national need. In the past decade only about 20,000 workers and two or three industries have been helped. Four things should be done:

First, the program as a whole must be overhauled, upgraded, redefined and reorganized and given central government direction.

Second, eligibility must be redefined so as to eliminate the requirement that the injury stem from increased imports due to negotiated tariff concessions. Instead the program should apply generally to import-related employment adjustments. Benefits can also be expanded and improved in level and duration with particular emphasis given to liberalizing the incentives to retraining and relocation:

Third, mechanisms must be devised for effective government-business-labor collaboration in a dual system of "forecasting": specifically, a reporting network must be established to give "early warning" of skills likely to become surplus. Similarly, the best information obtainable must be used to develop projections of skills likely to be in short supply; and finally, public and private resources must be mobilized to facilitate the transfer of skills from declining industries to new employment opportunities with the least possible human cost and with the economic cost transferred from the individual to the economy as a whole.

Fourth, some formula must be devised to provide a cutoff point in an expanded program so that its costs do not become an additional burden on the competitiveness of the American economy--whether via the inflationary effects of financing by borrowing, or the additional cost of production involved in financing by

taxation. Adjustment assistance can help to alleviate burdens of particular individuals, localities, and skill programs. Such assistance can facilitate transitions; but it will obviously be self-defeating at the point that substantial segments of the labor force are transferred, in effect, to the public payroll--or that it becomes an indefinite subsidy for inefficient or obsolescent industry. At some levels of domestic production displacement by imports, every country finds it politically and economically necessary to restrain further import growth, whether through voluntary quotas, action on balance of payments grounds under Article XII of GATT, or other means.

How the cutoff point can be defined, and how the responsibility for determinations should be allocated among Congress, the Executive Branch, and independent agencies, such as the Tariff Commission, are extremely complex questions. Detailed study needs to be devoted to answering them. There is considerable room for development in adjustment assistance before any such danger point is reached, but a theoretical upper limit must be provided.

One of the critical questions in the feasibility of such a program concerns the willingness of industry to disclose the "early warning" it often has as much as a year ahead of a probable plant closing. Some businessmen have indicated that they would be willing to give such notice as soon as the handwriting is clear on the wall, not only to the Government, but also to the workers affected; others are understandably more cautious, feeling that

premature disclosure on a speculative basis could be harmful not only to the company but to the employees. But most seem to agree that if a method could be devised whereby projected changes in demand for skill categories could be reported, but with individual company reports being confidential and the skill categories aggregated by regional area, they would be willing and able to cooperate.

What about the forecasting of skill needs? This may depend upon investment and plant expansion plans, and here too, a better system of industry reporting could be used; but over and above this, ways must be found to induce such expansion in labor surplus areas. This is by no means a problem unique to the United States, and a recent UNCTAD survey shows that many countries have programs for inducing location in depressed areas. This is too complex a subject to explore at length here, but the adequacy of the present dozen separate U.S. programs dealing with employment, business, or regional development would appear to merit the detailed scrutiny of Congress.

A general comment is pertinent here. Dislocations are the price of progress. The magnitudes of adjustment requirements are much greater in domestic technological and regional shifts than any that can be attributed to foreign investments, or imports. It is important, therefore, for the U.S. government to view this problem in its total national scope. Is there not a better way of utilizing the billions of dollars expended every year for

unemployment insurance, relief, rehabilitation and welfare than to pass out government handouts for not producing? Those concerned about redistribution of wealth often forget the primary fact that for everybody to have more to consume, we must all produce more. And the first starting point is to train unemployed workers for gainful employment. If we could develop a cohesive program to achieve this nationally, the relatively small part of this problem caused by foreign imports or investments would disappear.

ANNEX IV
THE MULTINATIONAL FIRM AND
INTERNATIONAL TAXATION

The corporate tax rates of developed countries do not differ greatly, ranging from 35 percent for Japan to 50 percent for France and Canada (with the U.S. rate at 48 percent). There is a tendency toward even closer alignment of rates, especially with the advent of an expanded EEC. But the treatment by different countries of their multinational corporations operating abroad can vary greatly. Some countries follow a strictly territorial approach and exempt foreign income from tax, both when earned abroad and when brought home. Much can be said for this practice from the standpoint of equity and simplicity.^{1/} Many countries adopt policies, some of an administrative nature difficult to quantify, which encourage direct investment and trade through tax reductions, deferrals or even subsidies. The general U. S. policy has been to give a credit up to the amount of the U. S. tax (48 percent) for foreign taxes paid on earnings from overseas subsidiaries to prevent the inequity of double taxation.

There have been recommendations, such as those in the Hartke-Burke bill, that U.S. tax laws be revised to treat as a business deduction, the tax credit now given U.S. firms for payments of foreign income taxes, and to impose U.S. taxes on foreign source income from controlled foreign corporations when earned (rather

^{1/} Report of the President's Task Force on Business Taxation, September 1970, p. 41.

than when received by the U.S. stockholder). Other proposed changes include: imposing capital gains taxes on foreign income, tightening depreciation rules for foreign operations, imposing taxes on income for licenses and patents transferred abroad, and terminating the special tax exemption for U.S. personnel working abroad.

The present U. S. tax policies relating to foreign-source income are the outgrowth of decades of experience and study, and many so-called "loopholes" were corrected in the Revenue Act of 1962. Their application to U.S. MNC's operating abroad has been coordinated with the tax systems of other countries in more than thirty treaties, listed in Table 1. The President's Task Force on Business Taxation in 1970 found that the U. S. tax laws present unnecessary obstacles to American business in selling goods or services in foreign markets and recommended steps to reduce these obstacles.

From the standpoint of the U.S. balance of trade and payments and competitive access to vital resources it is important that the MNC's operating abroad should be able to maintain and even improve their competitive position in the world economy. Thus the case for worsening that position through new and punitive tax rules must sustain the burden of proof that the inequality of international taxation which would result will not harm the national interest

in an increasingly competitive world. The objective of those who advocate neutrality of tax factors affecting domestic and foreign investment must, therefore, be defined in an international as well as a domestic context, and must take account of all kinds of taxes, not just those on income, and the difficulties of effectively harmonizing international tax rates and systems.

Sales of foreign manufacturing affiliates grew at 12 percent per year from 1960-1970 while total U.S. production grew at 6.7 percent annually. While there are a few reported cases of spectacular windfalls, there are no systematic and factual analyses now available to show that overall profits abroad are substantially higher than at home in the same business. One recent study found that taxes actually take a higher percentage of foreign-source corporate income than domestic corporate income.^{2/} As pointed out by the numerous studies cited in Annex II, business generally goes abroad not to seek higher profits but to keep markets, expand into new markets which cannot be served by exports, for access to natural resources, and to lower costs by expanding the volume of production and sales. But the benefits of expanded business are balanced by the additional risks involved in operating abroad. These risks are only partially compensated by the tax treatment now accorded to foreign-source income. If treated as domestic income for tax purposes, as some tax reformers propose, the risks of foreign direct investment could come to outweigh the gains.

^{2/} This is based on a survey of 83 companies which earned \$18.3 billion on \$151.9 billion in 1971 of worldwide sales. Of this, \$8.3 billion went to pay U.S. and foreign income and withholding taxes. Fifty percent of foreign corporate income went to taxes compared with 44.5 percent of domestic. Some 58 percent of the after-tax foreign earnings were actually remitted to the U.S. See New Proposals for Taxing Foreign Source Income, National Association of Manufacturers, New York, 1972, page 20.

Multinational corporations pay taxes of various kinds not only to the U.S. Treasury, but to all of the U.S. State and local jurisdictions, as well as to local, regional and national jurisdictions abroad, wherever they operate. The available tax credits serve to avoid double taxation, but MNC's in no way escape taxation; and they generally bear a tax structure far more awkward and costly to administer than if they had remained purely domestic in their scope.

The present U.S. tax treatment of foreign investments reflects a considered U.S. policy decision that it is in the best interest of the United States to compete successfully in foreign markets by foreign investment as well as by exports. Congress in 1961 and 1962 held lengthy hearings on taxation of foreign-source income and concluded that the United States must continue to encourage U.S. foreign investments.

Conflicting views were presented then and continue to be advanced as to what the U.S. position should be regarding foreign direct investments, the operations of multinational corporations, and the tax principles to be applied. But the issue is not one of "tax reform" or of "tax loopholes" since any that may have existed were closed in 1962; rather, it is one of fundamental importance to both the U.S. and the international economy.

The possibility, cited by proponents of change,^{3/} that up to \$3.5 billion in additional tax revenue could be gained

^{3/} See, for example, Peggy Musgrave, Tax Preferences to Foreign Investment, Joint Economic Committee: The Economics of Federal Subsidy Programs, Part II, International Subsidies, Government Printing Office, Washington, D.C., June 1972. Some of Mrs. Musgrave's arguments are answered in the July 31, 1972 statement of Dr. N. R. Danielian, President, International Economic Policy Association, submitted in these same Joint Economic Committee hearings.

depends on the assumption that business could and would continue to operate abroad even with net profit margins substantially reduced while the risks continue the same.

If they could not continue, however, and did not have comparable investment opportunities in the United States, their earnings and hence the entire tax base would be reduced. Consequently, tax gains would be far less in reality than might be calculated hypothetically. Even the objective of "tax neutrality" may, in fact, be unobtainable since inequality for the foreign operations of U.S. firms would result unless other countries also changed their tax systems. If they did revise them in analogous ways to discourage foreign investment, the U. S. tax revenues and employment would suffer as foreign investors withdrew from the U.S. market. If they retained their present system, U. S. firms would be at a considerable competitive disadvantage in terms of cash flow as well as net earnings. The effects of unilateral U.S. changes of the type proposed in the Hartke-Burke bill on the taxation of subsidiaries in the United Kingdom, for example, with parents of U.S., U.K., German and Japanese nationality are shown in Table 2.

To measure the aggregate national effects of tax changes is admittedly a complex and controversial calculation; but effects on individual companies can be calculated. They are undoubtedly adverse; and this in itself would harm the economy as a whole.

The study on this subject by the American Cyanamid Company found that the tax provisions on Hartke-Burke would force it to withdraw from many foreign markets and to decrease exports by about 50 percent with a proportionate loss in domestic employment.

The 3M Company estimates that one in eight, or 5,000 of its 40,000 U. S. employees are dependent upon 3M's ability to compete in the international market. The Bendix Corporation believes that adoption of the Hartke-Burke bill would be extremely serious for the company, and that a significant share of their direct exports would not have been possible in the absence of their foreign investment base. Goodyear believes that "the tax provisions alone of the Hartke-Burke bill could seriously impair not only our foreign operations but also our domestic operations..." The Chairman of the Board of the Eaton Corporation has referred to "the tragic effect passage of the bill could have on U. S. business and the economics of the world," and has suggested as a more apt title for the bill, the "Depression and Unemployment Act of 1972."

While it is impossible to calculate the potential loss of market value in stocks of companies affected by tax changes of this magnitude, it is clear that a multinational firm which has the taxes on its overseas earnings rise to 72 from 48 percent, could suffer substantially and might undergo permanent distortions. Domestic capital spending, dividends, debt service and capital structures would all be altered. Even though these consequences

cannot be measured econometrically on the basis of the data and models now available, the proponents of change clearly have the burden of proof that the substantial losses would not outweigh the gains sought. The "revenue" gain might, as suggested above, prove illusory in the long run, as the income being taxed dried up under competitive pressures. The "gain" of forcing reinvestment in the United States in the hope of stimulating domestic production and employment also seems illusory in the light of the analyses presented in Annex II. And the losses of the present benefits to the U.S. balance of trade and balance of payments, as outlined in Annex I, could well prove serious in the long term.

TABLE 1

U.S. DOUBLE TAXATION TREATIES ON INCOME TAXES
In force January 1, 1972

- | | |
|--------------------------------------|-----------------------------|
| 1. Australia, 1953 | 12. Japan, 1953, 1972 |
| 2. Austria, 1957 | 13. Luxembourg, 1946 |
| 3. Belgium, 1953 | 14. Netherlands, 1948 |
| 4. Canada, 1942 | 15. New Zealand, 1951 |
| 5. Denmark, 1948 | 16. Norway, 1951, 1972 |
| 6. Finland, 1952 | 17. Pakistan, 1957 |
| 7. France, 1949 | 18. South Africa, 1952 |
| 8. Federal Republic of Germany, 1954 | 19. Sweden, 1939 |
| 9. Greece, 1953 | 20. Switzerland, 1951 |
| 10. Ireland, 1951 | 21. Trinidad & Tobago, 1970 |
| 11. Italy, 1956 | 22. United Kingdom, 1946 |

The following treaties are in force through extension of the operation of the treaties indicated to newly independent countries:

U.S.-U.K. Treaty, 1946:

23. Barbados
24. Gambia
25. Jamaica
26. Malawi (formerly Nyasaland)
27. Nigeria
28. Sierra Leone
29. Zambia (formerly Northern Rhodesia)

U.S.-Belgium Treaty, 1953:

30. Burundi (formerly Urundi)
31. Rwanda (formerly Ruanda)
32. Zaire (formerly Belgian Congo)

TABLE 2

COMPARISON OF AFTER TAX EARNINGS
FROM COMPANY OPERATIONS IN
THE UNITED KINGDOM

	<u>U. S. Parent Co.</u>		<u>German</u> <u>Parent Co.</u>	<u>Japanese</u> <u>Parent Co.</u>	<u>U. K. Co.</u>
	<u>Present</u>	<u>With</u> <u>Hartke-Burke</u>			
U.K. Earnings before tax	100	100	100	100	100
U.K. Corporate Income Tax	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>	<u>40</u>
Net After U.K. Corporate Tax	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>	<u>60</u>
Distribution (70%) ^{1/}	42	42	42	42	-
U.K. With- holding on Dividend ^{2/}	6	6	6	4	N.A.
Total U.K. Tax	46	46	46	44	40
Home Country Tax on Parent Company	-	<u>26</u>	-	<u>3/</u>	<u>N.A.</u>
Total Tax	<u>46</u>	<u>72</u>	<u>46</u>	<u>44</u>	<u>40</u>
Net After Tax	<u><u>54</u></u>	<u><u>28</u></u>	<u><u>54</u></u>	<u><u>56</u></u>	<u><u>60</u></u>

Table 2 shows the after-tax earnings of a U.S. corporate shareholder on the profits derived from the operations of a subsidiary in the U.K. and the effect the enactment of the Hartke-Burke tax provisions would have on those earnings. A comparison is also made with German and Japanese corporate shareholders having subsidiary companies in the U.K. as well as with a local U.K. company.

^{1/} A seventy percent distribution percentage was assumed.

^{2/} U.S. and German withholding based on 15 percent rate; Japanese on 10 percent rate pursuant to U.K.-Japanese bilateral agreement.

^{3/} An average corporate tax rate of 45 percent was assumed.

ANNEX VLEGAL AND ANTITRUST ASPECTS OF MULTINATIONAL CORPORATIONS

In recent years, some inexact notions about the legal status of multinational corporations have come into common usage through such phrases as, "American companies in Spain," or "British multinational firms in the United States." The point is, of course, that there is no such thing as an "American" corporation in Spain-- as any Spaniard will quickly point out; there are only Spanish companies organized under, and in accordance with, Spanish laws. They may or may not be wholly or partially owned by foreign individuals or companies, but they are, of necessity, Spanish corporations. Likewise, British Petroleum is fully as much an American company as Standard Oil when it operates as a Delaware or other corporation in the United States.

While it is an obvious consequence of the present international legal system, this fact and its implications are not always fully recognized. Jurisdiction is based primarily on the legal situs of the corporation, and not its parentage. Each country, including the United States, has certain categories of restrictions, e.g., that foreigners may not own certain real estate judged as strategic or control communications companies. But this is an illustration of, rather than an exception to, the principle that a corporation is subject to the law of the place in which it does business, and/or which grants it the status of a limited liability organization.

In addition to this jurisdictional base, various countries and particularly the United States also apply extraterritorial jurisdiction to foreign affiliates owned by parent companies of their nationality. Thus American subsidiaries in Europe can be enjoined or indicted for actions in violation of U.S. antitrust laws, if they could reduce the competition affecting the international or domestic commerce of the United States. Likewise, foreign subsidiaries have often been subjected to U.S. strategic trade controls on the ground that there is no reason for an American firm to be able to fill orders from Germany which public policy prohibits being filled from Detroit.

Although there are a few much publicized examples of conflicts of jurisdiction, e.g., American companies in Canada prohibited from selling to Communist China or Cuba, these are exceptions rather than the rule; and private international law has developed a fairly coherent body of conflict of laws principles for resolving jurisdictional problems. This is not to say that there are not many and complex problems in the field of international business law and regulation; but the modern multinational corporation has established itself within the framework of traditional notions of sovereignty and extra-territoriality, rather than by creating new legal forms.

Generally speaking, countries attempt to apply the principles of national and reciprocal treatment to foreign investors, whether direct or portfolio. These two principles mean that corporations owned by nationals of State A are allowed to do in State B whatever

corporations owned by nationals of that state are allowed to do, and that State A allows corporations established under its jurisdiction but owned by nationals of State B the same privileges as B extends to State A's investors. While this pattern is usually followed among developed countries, there have been major problems in obtaining such treatment for foreign investors in developing countries, particularly in Latin America. This is, however, more a political, and to a lesser extent economic, problem than a legal one. It follows that the more established norms of international law and objective arbitration and conciliation procedures can be accepted and applied, the less will be the tendency for investment disputes to create political frictions between states.

In spite of the move toward international regulation of trade through GATT, regional blocs and commodity agreements, international regulation of investments has been left primarily to bilateral treaties, such as those of friendship, commerce, and navigation (FCN) and taxation. Even the proposed EEC Company Law and the Andean Regional Pact constitute supplements to, rather than substitutes for, national laws. Major producing countries for petroleum and some other raw materials have attempted to coordinate their positions regarding investments.

A number of international organizations engage in studies and advisory recommendations, such as the Organization for Economic Cooperation and Development (OECD), United Nations Conference on Trade and Development (UNCTAD), the International Labor Organization (ILO), and the regional bodies of the United Nations such as the Economic Commission for Europe (ECE), the Inter-American Economic and Social

Council (IA-ECOSOC), the Inter-American Committee for the Alliance for Progress (CIAP), the Economic Commission for Asia and the Far East (ECAFE). In recent years, these bodies have taken up the subject of the multinational corporation in various forums, but without producing either significant new data, or as yet, a consensus on actions for governments.

Granting some success in international regulation of trade and monetary arrangements, international agreement on investment and international business and the rights and duties of investing companies and host countries have usually been unsuccessful. The U.N. Conference on Trade and Employment in 1948 attempted to establish a code of conduct that failed of ratification. Efforts to control restrictive business practices have resulted only in agreement to consultation. Numerous different conventions have been proposed on foreign investments: 1949, International Chamber of Commerce, Quebec; 1958, The Swiss Government; British Parliamentary Group; 1959, Sir Hartley Shawcross and European Colleagues; 1963, OECD; 1969, The Atlantic Institute; ICC, Istanbul; 1971, The Pacific Basin Council. The World Bank's International Centre for the Settlement of Investment Disputes was established in 1966. As of July 1, 1972, it has been ratified by 63 countries, but conspicuously lacking are the countries of Latin America and the Near East oil-producing countries (although Egypt has ratified). Codes of behavior on international investments have had their greatest hurdle with differing attitudes

between developed and developing countries. Some countries have resorted to bilateral investment guarantees to give protection from expropriation, depreciation, and civil violence, and the World Bank is interested in fostering international guarantees.

Even with this record of failure in multilateral cooperation on investment policies, many scholars continue to advocate international controls; some see it as the only relief from international chaos, as MNC's are developing a "one world approach" and are the "surge of the future." George Ball has referred to the "withering away of the state."^{1/} Raymond Vernon sees problems unless there is a "joint exercise of national economic sovereignty."^{2/} Charles I. Kindleberger recommends international controls.^{3/}

While greater harmonization of business regulation principles and practices appears desirable, and in certain respects could be helpful to international business, multinational agreements are always difficult to negotiate. In the investment field they would have to touch on expropriation, antitrust, taxation, export controls, security regulations (trading with the enemy), capital transfers, balance of payments controls, and perhaps even accounting practices, every one a contentious subject and also one which affects the national interest. Individual states have adequate, if differing, national

^{1/} Joint Economic Committee, Subcommittee on Foreign Economic Policy, Hearings on Multinational Corporations, July 1970, Part 4, pp. 904, 760.

^{2/} Ibid., December 1969, Part 1, p. 148.

^{3/} Ibid., July 1970, Part 4, p. 759.

standards which can be exercised to give greater control of operation within their borders. Consultation and cooperation will always be useful, of course; and the greater the harmonization and standardization on an international basis of the basic bilateral undertakings, the better. But the prospects for effective international legal forms for the operation and regulation of multinational business seem, at best, to be very long term. The fundamental sovereignty of the nation-state is proving to have a much longer "half-life" than the would-be innovators have imagined.

Antitrust Aspects

The U.S. antitrust laws to control unfair business practices have long been considered the most stringent in the world. The 1914 Webb-Pomerane Act was an unsuccessful effort to grant American companies exemption from antitrust laws in their competition with foreign cartels. During the occupation of Germany and Japan, a U.S. policy effort tried to break up the monopolies of those countries and to encourage an "American" attitude toward combinations in restraint of trade.

The U.S. attitude has been one of encouraging competition. Except for monopolies of public utilities and others, which are controlled by administrative agencies, there has been an antipathy to "bigness." By contrast, the Europeans fear big business less, and resort to greater stress on price and other administrative controls. Articles 85 and 86 of the EEC Rome Treaty prohibit restrictive agreements and practices which are apt to affect trade between the member states, but they do not apply to activities outside the EEC. Although foreign

reaction to the extraterritorial effects of U.S. antitrust laws has resulted in international incidents, the American Courts have, in general, been careful to avoid action abroad in conflict with local foreign laws.

There have been a number of international efforts to control restrictive business practices. The United Nations Conference on Trade and Employment in 1948 produced the Habana Charter which contemplated the establishment of an International Trade Organization and a code for the conduct of the members' mutual relations. Chapter V of the Charter deals with control of restrictive business practices; but the Charter was never ratified by a sufficient number of countries to come into operation.

From 1951-1955, an ad hoc committee of the United Nations Economic and Social Council prepared a draft proposal based on Chapter V of the Habana Charter, but ECOSOC took no action on the proposal. There were negotiations on this matter in GATT over the period 1954-1960; a mild proposal was adopted in 1960 providing for bilateral or ^{4/} multilateral consultations but it seems never to have been used.

The Council of the Organization for Economic Cooperation and Development (OECD) on October 5, 1967 adopted a recommendation "Concerning Cooperation Between Member Countries on Restrictive Business Practices Affecting International Trade." The paper recommends closer

^{4/}This material draws on testimony of Anthony M. Solomon, Assistant Secretary of State for Economic Affairs, before the Hart Subcommittee on Antitrust and Monopoly of the Senate Judiciary Committee, which is printed in the 1966 hearings at pp. 452, 456-8.

cooperation between member countries as their laws permit in the form of consultations, exchanges of information and coordination of efforts regarding restrictive business practices, but makes it clear that this should not, in any way, be construed to affect such questions as sovereignty or the extraterritorial application of laws on the subject.

Many insist that the administration of the U.S. antitrust laws places American MNC's at a disadvantage in competing with firms abroad. Certain exceptions have been made under the Defense Production Act to allow cooperation between oil companies and in certain other cases considered to be in the national interest. Additionally, the courts have taken into consideration the importance of U.S. foreign economic policies. Yet more could probably be done in the antitrust field by enforcement officers and the courts to adopt a reasonable or "common sense" attitude toward the special problems of American firms operating abroad, as well as toward the inhibiting effects which "literal" enforcement policies can have on prospective foreign investment in the United States. In short, administrative guidance and discretion is probably a better tool for solving the problems that do exist than sweeping reforms of the basic legislation--which could open up a veritable Pandora's box of new problems!

In conclusion, what seems reasonable (and historically most doable) is, in the first instance, to achieve greater tolerance among sovereign nations of each others laws by withdrawing from the extraterritorial assertion of their jurisdictions, except when

faced with serious questions of national security. In the longer term, countries should work towards greater harmonization of policies in taxation, antitrust laws, rules of fair competition, accounting practices, protection of investments and environmental standards.

Overseas Operations of
the U. S. Automotive Industry

Submitted to the
Subcommittee on International Trade
of the
Senate Finance Committee
by the
Motor Vehicle Manufacturers Association
of the United States, Inc.

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Preface

U. S. automotive manufacturers have been substantial overseas investors for more than half a century in order to participate in foreign markets. Assertions are now being made that such investments result in moving jobs and taxable income outside the United States. As will be shown below, the industry's overseas investment in foreign corporations has been absolutely necessary to compete effectively in the world automotive markets and has, in fact, increased U. S. employment and taxable income.

I. Introduction

This paper discusses some aspects of the foreign investments which have been made by U. S. motor vehicle manufacturers. The leading automobile manufacturers have substantial foreign operations and may thus be classified as "multinational" corporations. It should be recognized that the word multinational is used as a convenience only. There is really no such thing as a corporation which is multinational in the sense of being outside the normal governmental control applicable to all operations in each country in which a company has subsidiaries.

The U. S. automobile manufacturers are incorporated in the U. S. Their operations abroad almost invariably take the form of investments in corporations organized in the respective countries in which they operate. Both the U. S. corporations and the foreign corporations in which they invest are subject to the laws of the country in which they are incorporated and in which they operate. Generally speaking, the laws of all countries require that dealings between the affiliated corporations be at arm's length. The idea that a "multinational" company is somehow free of the laws of all countries is a myth.

II. U. S. Automotive Overseas Investments

U. S. firms invest abroad because there is no practical alternative by which they could participate in the foreign markets.

A. Foreign Restrictions

The U. S. motor vehicle manufacturing industry gained early world dominance in the production of vehicles. In 1900 U. S. production was almost half of the world total and by 1920 it exceeded 90 percent (Exhibit 1). During these early years the automobiles used in Europe were basically the same size as those used in the United States -- for example, the Model T, and later the Model A, were sold in both places. However, freight costs, and in some cases, tariffs, forced the American producers to assemble cars in foreign countries to serve the foreign markets; Ford was an early leader, setting up assembly operations in Canada in 1905 and in Britain in 1911; General Motors acquired a Canadian manufacturer in 1914 and Vauxhall Motors in Britain in 1925; Dodge Brothers established United Kingdom operations in 1922.

During the early years the U. S. manufacturers typically shipped components from the United States to be assembled abroad. Later, two factors caused the U. S. manufacturers to begin manufacture of components abroad. First, tariff restrictions in some countries forced them to do so; for example, in 1915 Britain imposed a 33-1/3 percent tariff on automobiles and components. Second, in

the 1930's a new market era began. In the United States, larger cars began to be made; whereas, in Europe, manufacturers concentrated on small cars, as shown.

Size of U. S. and European Automobiles*

	<u>U. S.</u>		<u>Europe**</u>	
	<u>Overall Length</u> in.	<u>Engine Displacement</u> cu. in.	<u>Overall Length</u> in.	<u>Engine Displacement</u> cu. in.
1920	146	171	N.A.	N.A.
1930	155	194	144	62
1940	192	217	158	64
1950	198	217	160	69
1960	211	348	160	73
1970	216	350	159	91

*Based on largest volume model in each year.

**Data are for Germany. Cars in other European countries would be even smaller.

SOURCE: Correspondence with U. S. firms.

There are many reasons for the difference in vehicle size; more crowded road conditions in large consuming countries such as many in Europe, and lower per capita incomes abroad. Road distances and trip lengths are greater in the U. S. The fact that cars used in Europe were different in size from those in the United States encouraged the U.S. manufacturers to begin the manufacture of components in Europe to serve the European assembly operations. (Relative vehicle size is considered further in a subsequent discussion of U. S. imports, Section III. A.)

After World War II the less developed countries, realizing the importance of the automotive industry to industrialization, began a systematic pattern of forcing firms to assemble locally. This was followed by "local content" laws requiring an increasing amount of the components to be made locally. The Latin American nations particularly have used local content requirements to develop their local industry (Exhibit 2).

Tariffs and tax structures which penalize large car and high horsepower engines also inhibit the use of U. S. built vehicles in foreign countries. Exhibit 3 shows that a Mercedes Benz 220 is generally taxed much less than an American Motors Gremlin of much lower purchase price. In addition to tariffs and taxes on vehicles, gasoline in most of the European countries, for example, is two to three times as costly to the motorist as in the United States. This also discourages the use of high horsepower engines.

The resulting pattern in most countries, whether developed or less developed, was that U. S. firms began to export to serve local markets, then established assembly operations, and finally began to produce the components locally.

Japan is a different case. Since the late 1930's the Japanese government has discouraged foreign producers and limited foreign investment in domestic automotive companies. Only very

recently have non-Japanese firms been allowed to invest in the Japanese automobile industry -- on a limited basis -- and only in companies controlled by Japanese nationals.

An indication of recent levels of foreign investment by the transportation equipment industry in foreign countries is contained in Exhibit 4. Responding to the actions of foreign-owned producers the largest portion of the investment has been in Europe. The automotive industry accounts for the preponderant share of these expenditures.

B. Cost Differences Between the U. S. and Foreign Nations

An examination of technological and cost considerations also demonstrates that exporting from the U. S. is not a real alternative.

Cost Comparison

U. S. labor costs are substantially higher than any other industrialized nation. The table below, showing comparative hourly labor costs in several countries, illustrates this point.

MANUFACTURING INDUSTRY

1970

	<u>Average Total Hourly Labor Cost*</u>
Japan	\$.95
Great Britain	1.60
Italy	1.73
France	1.82
W. Germany	2.27
U.S.	4.18

* Including fringes and benefits.

Source: Industry Week, October 4, 1971

Further, material costs appear to be somewhat lower in foreign nations. For example, in 1971 sheet steel was about \$170 a ton in England, \$180 on the continent, and \$220 in the U. S.¹ In 1968, U. S. Steel Corporation had an average sales revenue of \$205 for every ton of shipments, whereas Yawata, the largest Japanese producer, had only \$110². Although these differences are reduced by the revaluation of 1971, they remain substantial in many cases.

Technology and Productivity

Operating at a substantial disadvantage in terms of labor and material costs, U. S. firms could hope to compete by exporting

only if they enjoyed offsetting advantages in technology and productivity. This is not the case. While precise comparisons of relative productivity are not available, some reasonable assumptions can be made, based on observable facts. First, automotive technology is available in all industrialized nations, as are the capital resources to mobilize this knowledge. It is argued by some that U. S. multinational firms give away superior U. S. technology which is a national resource. However, the U. S. does not monopolize the development of technology. The variety of automotive innovations created in foreign nations and applied in the U. S. is extensive and impressive. Further, the existence of foreign operations provides a broader base of production over which U. S. firms can spread the high costs of research and development.

Second, foreign nations have skilled management and labor resources. Third, industries in many foreign countries possess plants and equipment that are relatively newer and more efficient than U. S. facilities because they were substantially rebuilt after World War II.

The largest non-U. S. motor vehicle manufacturing companies are shown in Exhibit 5. Exhibit 1, referred to in Section II. A., shows the growth in world wide vehicle production to the point where U. S. production now accounts for only 32 percent of the world total.

Thus, although there are no direct productivity comparisons, there is no basis to assume that the U. S. enjoys any special position in terms of technological capability. This fact, coupled with a manufacturing cost disadvantage including transportation, indicates the virtual impossibility of exporting U. S. built vehicles in any substantial numbers.

Another factor affecting comparative costs is that of currency exchange rates. An improved international monetary system should provide for timely adjustments in the exchange rates of those currencies that have become either over valued or undervalued.

III. The Impact of the U. S. Investment on the Balance of Payments/Trade

A. Imports

To date, foreign car manufacturers have primarily exported compact cars to the U. S. market. These exports have represented a relatively low-risk entry strategy for foreign firms, because cars exported to the United States are basically the same as those made for local use. Hence, if the foreign firm has a bad year in the U. S. market, it still has its own local market to take a substantial part of its output. Of

course, lower costs make it possible for them to absorb the freight and duty and still have competitive prices in the United States. In addition, many foreign firms have a large local market for small cars which allows them to achieve significant efficiencies of scale in this vehicle size (low unit costs) and this is reflected in relatively low prices in the U. S.

Automotive imports reached an early peak in 1959, but then declined with the advent of American-made compacts which reduced imports until the mid-1960's. Imports have increased from 7.3 percent of the U. S. market in 1966 to 15.1 percent in 1971. This increase occurred in spite of an increase in American-made compacts and subcompacts from 8.4 percent in 1966 to 19.5 percent in 1971 (12.1 percent compacts and 7.4 percent subcompacts -- Exhibit 6). These figures suggest that regardless of the production of compacts and subcompacts in the United States, imports can capture a significant share of the U. S. market.

Most of the imports are from foreign manufacturers rather than subsidiaries of U. S. firms. Exhibit 7 shows that in 1971, 1.3 million cars were exported to the United States by foreign manufacturers compared with only 170,000 from exporting U. S. subsidiaries abroad. Furthermore, the percentage of production

exported to the United States also confirms the high propensity of foreign firms to export to the United States. For example, in 1971, U. S.-owned firms abroad that export to the U. S., exported about 7 percent of their production to the United States. In contrast, the European and Japanese firms exported about 13 percent of their production, with Volkswagen's percentage being 35 percent and Toyota's being 19 percent.

B. Exports

With an ever-increasing number of nations manufacturing automobiles; with an increasing amount of production abroad; with different market conditions abroad compared with the United States; and, with substantially lower costs abroad than within the United States, it is not surprising to find that the U. S. share of the world export market has declined. The volume of U. S. unit exports has changed little in the past two decades while other producing nations, such as Japan and Germany, have sustained huge increases (Exhibit 8). In spite of the growing value of exports from the U. S. to countries other than Canada, including a growing volume of parts to foreign subsidiaries, the long-run net trade balance has declined from a \$1 billion surplus in 1951 to a \$2 billion deficit in 1971 (Exhibit 9).

A large proportion of U. S. vehicle exports consists of exports to Canada. This is a special relationship resulting from the 1965 Automotive Products Trade Act. The Act provides for duty-free trade by manufacturers between the two nations in vehicles and components (subject to certain protective conditions). U. S. motor vehicle manufacturers have been able to integrate the operations of their Canadian subsidiaries with their own U. S. operations in order to achieve production specialization.

Although net exports to Canada have recently shown a deficit, figures for the first nine months of 1972 show that the deficit has narrowed. (The figures in Exhibit 9 exclude snowmobiles which are also covered under the terms of the U. S.-Canadian Automotive Products Agreement.)

C. Non-Trade Transactions

The effects of non-trade transactions on the U. S. balance of payments are illustrated in Exhibit 10. The motor vehicle and parts industry has experienced a steadily increasing positive net contribution over the past decade, reaching the level of \$197.9 million in 1970, nearly one-third of the total of all industries. (These data are taken from a 1972 survey by the Emergency Committee for American Trade (ECAT) and include responses from three motor vehicle manufacturing firms accounting for over 90 percent of U. S. production, and three large parts supplier firms³.)

IV. Impact on U. S. Employment

Direct investment overseas has contributed a net increase in the level of U. S. employment over what it would be, had U. S. automotive firms not expanded operations into foreign nations. Overseas investment does not "export" jobs that would otherwise be filled by U. S. workers. In most instances, it is a case of manufacturing abroad or losing those markets entirely. In the process, substantial numbers of U. S. jobs are created by the export of parts, capital equipment, and associated exports.

Employment in the motor vehicle and equipment industry over the past decade has shown a gradual rise (Exhibit 11). To be sure, in some years employment has slumped because of strikes, as in 1969 and 1970; however, the general trend has been upward.

The average hourly earnings of production workers has shown a steady increase, being higher in each year than in the prior years. Furthermore, these earnings have increased at a higher rate than the consumer price index.

Data from the 1972 ECAT survey show that average annual employment growth rate for 1960-70 for the manufacturing firms surveyed, was 1.4 percent. This is less than the rate of 2.5 percent for motor vehicle and parts manufacturing firms, and 3.3 percent for all respondent multinational manufacturing firms³.

Contrary to the views sometimes expressed, the main determinant of the overall employment level is government fiscal and monetary policy, not foreign trade or the employment condition within a particular industry.

V. Conclusions

U. S. motor vehicle manufacturing firms invest abroad because there is no alternative except to abandon sales in foreign markets.

The result of this investment is a positive contribution to the level of U. S. employment, tax revenues, and the balance of payments and trade.

Exhibit 1

MOTOR VEHICLE PRODUCTION IN UNITED STATES AND WORLD, 1900-1971

(000 units)^a

<u>Year</u>	<u>United States</u> ^b	<u>World</u>	<u>United States as a Percent of World</u>
1900	4	9	44
1905	25	63	40
1910	187	255	73
1920 ^c	2,227	2,383	93
1929	5,337	6,348	84
1939	2,508	4,021	62
1946	3,100	3,913	79
1955	9,204	13,743	67
1958	5,121	11,289	45
1965	11,138	24,267	46
1968	10,820	28,383	38
1969	10,206	29,810	34
1970	8,284	29,403	28
1971	10,672	33,411	32

^aThroughout this paper, units include all motor vehicles (cars, trucks, and buses) unless otherwise stated.

^bForeign subsidiaries of U.S. firms are not included in United States.

^c1920 data for Germany and United Kingdom uncertain; recorded as zero in world trade.

Source: "1971 World Motor Vehicle Data," Motor Vehicle Manufacturers Association of the U.S., Inc., Detroit; Wards' 1970 Automotive Yearbook (Powers & Co., 1970, Detroit), as quoted in Raymond Vernon, Manager in the International Economy (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1972), pp. 435, 437, 441.

Exhibit 2

LOCAL CONTENT SUMMARY FOR PASSENGER CARS MANUFACTURED IN SELECTED COUNTRIES

<u>Country</u>	<u>Percent Local Content Required</u>		
	<u>1961</u>	<u>1966</u>	<u>1971</u>
Germany	0	0	0
England	0	0	0
Australia	0 ^a	0 ^a	0 ^a
Mexico	0	60	60
Brazil	98	100	100
Venezuela	0	25.75 ^b	43.25 ^b
Argentina	60	95	95
Uruguay	0	MD ^c	16
Chile ^d	0	50	70.2
Peru	0	0	35
South Africa	0	45	54.5
New Zealand	MD	MD	MD
Belgium	0	0	0
Switzerland ^a	0	0	0
Denmark	0	0	0
Portugal	0	15	25

^aLocal content is encouraged by duty reduction incentive.

^bLocal content requirements have changed in six month periods. Yearly average shown.

^cMD = Mandatory Deletion Requirement.

^dIntent of government but no producer has met these requirements.

Source: Private correspondence, major automotive manufacturers.

Exhibit 3

Annual Motor Vehicle Use or Registration
Taxes for Selected Countries (1972)
(U.S. \$)

Passenger Car	Wt. (lbs)	Eng. Cap. (cc)	US(NYC)	UK	Austria	Belg.	France	Germ.	Italy	Neth.	Den.	Sweden	Austl.*	Brazil	Japan	
Fiat 500	1,146	500	\$ 12	\$ 55	\$ 19	\$ 18	\$ 12	\$ 22	\$ 12	\$ 44	\$ 43	\$ NA	\$ 12	\$ 114	\$ 54	\$ 191**
Renault R8	1,720	1,000	13	55	19	27	18	45	37	71	53	NA	NA	114	54	196
Fiat 124	1,885	1,197	14	55	21	31	18	54	47	80	72	52	21	151	63	370
Volksw. Beetle	1,807	1,584	14	55	31	40	47	71	80	71	74	43	21	161	72	260
Toyota Cor. 1600	1,900	1,588	14	55	31	40	47	71	80	80	72	52	NA	161	63	196
Datsun PL 510	2,140	1,595	16	55	31	40	47	71	80	89	72	52	26	161	72	260
Ford Pinto	2,050	1,600	15	55	NA	NA	NA	NA	80	NA	NA	NA	NA	161	72	267
Fiat 125	2,205	1,608	17	55	31	40	47	76	80	89	72	60	NA	161	72	360
Peugeot 404	2,405	1,618	18	55	31	40	47	76	80	98	72	69	27	161	72	377
Opel Rek. 1700S	2,315	1,698	17	55	31	40	47	76	88	89	72	60	NA	161	72	410
Volvo 142-2	2,640	1,986	20	55	31	52	47	89	111	106	96	69	NA	151	72	410
Ford Taunus	2,470	1,998	19	55	31	52	47	89	111	98	96	60	NA	203	72	375
Mercedes Benz 220	2,690	2,197	22	55	35	60	59	98	123	115	125	87	32	203	163	1,260
GM Vega	2,213	2,296	17	55	35	60	59	103	168	89	72	NA	NA	161	163	964
Opel Admiral	3,329	2,784	25	55	52	88	59	125	217	133	173	104	NA	203	163	1,717
AMC Gremlin	2,572	3,802	20	55	77	136	196	174	314	106	96	NA	NA	203	163	1,460
Chev. Elair 6	3,980	4,098	32	55	103	150	196	183	314	160	173	103	NA	203	163	1,510
Buick Skylark 8	3,610	5,738	27	55	116	266	196	259	500	142	173	113	NA	247	163	1,807
Ford Galaxy 8	4,132	5,754	33	55	116	286	196	259	500	168	173	NA	63	426	163	1,827
Chry. Newpt. 8	4,315	6,557	35	55	116	349	196	259	573	177	173	148	NA	426	271	2,348
Cadillac 62-8	4,845	7,738	41	55	116	445	196	349	632	195	211	174	NA	426	271	3,012

* State of Victoria

** Commodity Tax: levied on duty paid value at time of purchase.

Source: Motor Vehicle Manufacturers Association of the U. S., Inc.

Exhibit 4

Estimates of Plant and Equipment Expenditures
by U.S. Corporations' Foreign Affiliates
in the TRANSPORTATION EQUIPMENT Industry

(In Millions of U.S. Dollars)

A R E A

<u>Year</u>	<u>All Areas</u>	<u>Canada</u>	<u>Latin America</u>	<u>European Common Market</u>	<u>Other European</u>	<u>Other Areas</u>
1960	336	63	47	128	74	23
1961	473	60	52	181	141	39
1962	585	65	81	245	123	71
1963	530	94	50	155	166	65
1964	726	167	76	161	178	144
1965	873	224	73	278	180	118
1966	966	255	71	373	191	75
1967	795	234	88	245	134	94
1968	618	194	90	146	86	102
1969	796	211	104	210	180	91
1970	1,060	289	112	335	216	108
1971 ^P	1,000	173	116	440	165	106
1972 ^P	1,032	183	204	360	149	136

Source: Survey of Current Business; U.S. Department of Commerce, Office of Business Economics, Volume 51, Numbers 3 and 9, March and September, 1971.

P = projection.

Exhibit 5

Passenger Car Production of Largest
Non-U.S. Companies in 1971

(000's)

<u>Country</u>	<u>Firm</u>	<u>Total Production</u>
Japan	Toyota	1,400
	Nissan (Datsun)	1,102
	Toyo Kogyo (Mazda)	301
	Mitsubishi	261
	Honda	215
Italy	Fiat	1,372
Germany	Volkswagen	1,361
	Daimler-Benz	284
	Audi NSU Auto Union	276
France	Renault	1,069
	Citroen	578
	Peugeot	559
Britain	British Leyland	887
Sweden	Volvo	214

Source: Compiled by Motor Vehicles Manufacturers Association from various sources.

Exhibit 6

U.S. NEW CAR REGISTRATIONS BY GENERAL MARKET CATEGORIES, 1966-70

(percentages)

	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
High price	2.8	2.9	2.6	2.9	2.3	2.9
Medium price	17.9	17.8	17.0	16.8	13.7	15.1
Regular size	30.4	28.6	27.0	25.9	22.5	20.9
Intermediates	23.6	21.8	24.0	22.2	21.0	18.1
Specialty/sports	9.4	12.8	11.7	11.1	10.3	8.6
Compacts	8.4	6.7	7.1	9.8	13.8	12.1
Subcompacts	-	-	-	-	1.6	7.4
Miscellaneous U.S. cars	0.1	0.1	0.1	0.1	0.1	0.1
Imports	7.3	9.3	10.5	11.2	14.7	15.1

Source: Ward's 1971 Yearbook, p. 145; 1972 Yearbook, p. 125.

EXHIBIT 7

PASSENGER CAR EXPORTS TO UNITED STATES, (1) AS A PERCENTAGE OF PRODUCTION, 1971

Name	(000's)	
	Production (no. of units)	Exports to United States (2) (no. of units)
I. OWNED BY U.S. FIRM		
Opel (Germany)	730	86
Chrysler-France	484	5
Ford (Germany)	446	53
Ford (U.K.)	367	0
Chrysler (U.K.)	282	26
Vauxhall (Britain)	<u>199</u>	<u>0</u>
Total	2,508	170 (7% of production)
II. NOT OWNED BY U.S. FIRM		
Toyota (Japan)	1,400	271
Fiat (Italy)	1,372	43
Volkswagen (Germany)	1,361	509
Datsun/Nissan (Japan)	1,102	182
Renault (France)	1,069	16
Austin-Morris (U.K.)*	666	37
Citroen (France)	578	1
Peugeot (France)	559	6
Toyo-Kogyo (Japan)	301	18
Daimler-Benz (Germany)	284	33
Audi NSU Auto Union (Germany)	276	19
Mitsubishi (Japan)	261	27
Honda (Japan)	215	8
Volvo (Sweden)	214	47
B.M.W. (Germany)	164	12
Standard Triumph (U.K.)*	137	20
Alfa Romeo (Italy)	123	2
Subaru (Japan)	115	10
Saab (Sweden)	73	12
Jaguar/Daimler (U.K.)*	31	6
Porsche (Germany)	<u>22</u>	<u>16</u>
Total	10,323	1,295 (13% of production)

1. North American type passenger cars produced in Canada are not included.

2. Data in this column are new registrations of passenger cars in the U.S.

Source: Motor Vehicle Manufacturers Association of the U.S., Inc.

Exhibit 8

MOTOR VEHICLE EXPORTS FOR SELECTED COUNTRIES
(000 Units)

	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>	<u>Japan</u>	<u>Sweden</u>	<u>U.K.</u>	<u>U.S.A.</u>
1926.....	74.3	59.8	2.2	34.2	-	-	33.4	313.6
1927.....	57.4	52.0	4.1	33.3	-	-	36.3	393.1
1928.....	79.4	46.0	8.0	28.3	-	-	32.8	515.8
1929.....	101.7	49.2	7.8	23.7	-	-	42.2	546.2
1930.....	44.6	31.1	5.6	19.2	-	-	30.0	245.2
1931.....	13.8	26.3	11.5	11.9	-	-	24.4	135.8
1932.....	12.5	19.2	11.3	6.4	-	-	40.3	70.1
1933.....	20.4	25.5	13.5	7.1	-	-	51.9	111.5
1934.....	43.4	25.0	13.4	9.0	-	-	57.9	242.2
1935.....	64.3	18.9	24.9	14.4	-	-	68.6	271.4
1936.....	55.6	21.2	37.4	15.0	-	-	82.3	285.8
1937.....	65.9	25.1	69.6	25.9	-	-	99.2	395.2
1938.....	57.8	23.8	79.2	19.4	-	-	83.7	276.7
1939-1945...	-	-	-	-	-	-	-	-
1946.....	68.1	32.8	-	3.1	-	-	129.4	331.1
1947.....	83.8	83.8	-	10.6	-	-	199.5	534.4
1948.....	48.2	73.2	6.8	14.2	-	-	298.3	421.4
1949.....	29.6	101.3	15.3	17.5	-	-	350.0	274.4
1950.....	34.3	121.8	83.5	21.9	5.5	3.3	541.9	251.7
1951.....	60.5	125.7	120.0	32.3	6.7	5.0	505.0	434.7
1952.....	79.9	106.0	136.9	26.5	0.9	6.1	437.1	296.5
1953.....	45.2	113.6	177.5	31.5	1.1	4.8	412.1	288.9
1954.....	11.0	141.2	298.2	44.1	1.0	8.1	490.8	358.0
1955.....	18.4	173.1	404.0	74.6	1.2	10.9	528.6	386.8
1956.....	19.0	194.0	484.6	87.0	2.4	17.1	462.1	372.4
1957.....	20.1	265.0	584.3	119.1	6.6	28.1	547.3	335.7
1958.....	16.4	374.2	733.4	169.3	10.2	41.7	596.2	268.1
1959.....	11.8	603.7	871.0	221.2	19.3	54.8	697.0	266.3
1960.....	20.6	581.1	982.8	203.9	38.8	62.2	716.1	322.5
1961.....	12.4	433.8	1,006.2	245.0	57.1	61.2	538.7	259.0
1962.....	15.5	552.9	1,101.9	319.1	66.7	70.4	694.6	232.0
1963.....	22.8	604.3	1,331.8	305.3	98.6	80.3	774.8	267.8
1964.....	51.9	552.2	1,499.0	331.1	150.4	95.5	848.0	360.9
1965.....	103.4	613.1	1,527.3	326.7	194.2	108.1	793.8	167.7
1966.....	297.9	787.4	1,637.4	393.6	255.7	126.8	722.0	256.5
1967.....	543.8	835.0	1,463.2	426.9	362.2	142.8	637.8	363.2
1968.....	803.0	958.1	1,919.8	587.1	612.4	157.9	818.6	422.6
1969.....	1,124.3	1,174.8	2,055.7	630.1	858.1	164.1	952.8	437.8
1970.....	928.8	1,525.4	2,103.9	671.0	1,086.8	213.1	862.7	379.1
1971.....	987.4	1,631.6	2,293.0	680.5	1,779.0	237.8	915.8	486.8

Source: Compiled from various sources, by Motor Vehicle Manufacturers Association of the U.S., Inc.

Exhibit 9

U.S. AUTOMOTIVE EXPORTS & IMPORTS
(Adjusted for U.S.-Canada Trade Agreement) (1)

(Millions of U.S. Dollars)

Year	Exports			Imports			Net Balance of Exports over Imports		
	Total	To Canada	To Balance of World	Total	From Canada	From Balance of World	Total	Canada	Balance of World
1946	\$ 631	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ 629	\$ -	\$ -
1947	1,279	-	-	2	-	-	1,277	-	-
1948	1,005	-	-	31	-	-	974	-	-
1949	842	-	-	10	-	-	832	-	-
1950	794	168	626	24	-	24	770	168	602
1951	1,306	238	1,068	40	2	38	1,266	236	1,030
1952	1,124	255	869	61	3	58	1,063	252	811
1953	1,082	317	765	56	1	55	1,026	316	710
1954	1,156	257	899	56	1	55	1,100	256	844
1955	1,367	376	991	89	1	88	1,278	375	903
1956	1,516	461	1,055	150	2	148	1,366	459	907
1957	1,467	380	1,087	345	7	338	1,122	373	749
1958	1,227	342	885	563	7	556	664	335	329
1959	1,281	424	857	868	21	847	412	403	9
1960	1,411	419	992	644	14	630	767	405	362
1961	1,300	389	911	398	11	387	902	378	524
1962	1,401	487	914	534	13	521	867	474	393
1963	1,567	544	1,023	588	25	563	979	519	460
1964	1,880	639	1,241	737	76	661	1,143	563	580
1965	2,160	889	1,271	925	231	694	1,235	658	577
1966	2,563	1,376	1,187	1,818	805	1,013	745	571	174
1967	3,003	1,888	1,115	2,454	1,370	1,062	571	518	53
1968	3,785	2,634	1,151	3,954	2,214	1,740	(169)	420	(589)
1969	4,421	3,139	1,282	4,879	2,950	1,929	(458)	189	(647)
1970	4,290	2,924	1,366	5,389	2,990	2,399	(1,099)	(66)	(1,033)
1971#	5,110	3,781	1,329	7,365	3,876	3,489	(2,255)	(95)	(2,160)

First Nine
Months

1971	-	2,741	-	-	2,830	-	-	(89)	-
1972	-	3,217	-	-	3,251	-	-	(34)	-

Preliminary.

NOTE: U.S. exports and imports exclude snowmobiles.

(1) From 1964 U.S. exports to Canada adjusted to show actual transaction values by using entirely Canadian import data converted to U.S. dollars, \$0.925 for 1964-1969 and \$0.958 U.S. for 1970, and \$0.990 U.S. for 1971. U.S. parts exports to Canada (Canadian imports) adjusted to exclude tooling charges in millions of U.S. dollars as follows: 1966 - \$28.7; 1967 - \$44.4; 1968 - \$47.2; 1969 - \$74.9; 1970 - \$89.1.

SOURCES: Compiled by the Motor Vehicle Manufacturers Association of the U.S., Inc. from U.S. Department of Commerce data and from Dominion Bureau of Statistics for the U.S. exports to Canada starting with 1964 as shown in the Fifth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965.

EFFECTS OF NON-TRADE TRANSACTIONS ON U. S. BALANCE OF PAYMENTS, 1960, 1965 AND 1970
(In Millions of Dollars)

<u>Industry Group</u>	<u>Total Inflows</u>			<u>Total Outflows</u>			<u>Net Contributions to U. S. Balance of Payments</u>		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
Food & Kindred Products	27.0	60.5	96.9	37.9	31.3	65.5	(10.9)	29.2	31.4
Paper & Allied Products	19.0	40.4	70.9	12.0	103.3	131.2	7.0	(62.9)	(60.3)
Chemicals & Allied Products	55.3	135.3	267.5	15.5	98.1	82.1	39.8	37.2	185.4
Primary & Fab. Metal Industries	29.5	23.4	90.1	14.3	8.9	160.1	15.2	14.5	(70.0)
Machinery, Except Electrical	70.0	287.8	962.8	109.6	434.4	761.6	(39.6)	(146.6)	201.2
Machinery, Electrical	43.0	73.4	77.5	22.8	36.4	86.4	20.2	37.0	(8.9)
Motor Vehicles & Parts	146.3	390.3	485.3	404.3	242.8	287.4	(258.0)	147.5	197.9
Aircraft & Parts	1.0	3.0	30.7	0.0	1.0	3.5	1.0	2.0	28.2
Instruments & Related Products	13.5	30.6	122.7	32.3	26.5	79.7	(18.8)	4.1	43.0
All Other Industries	60.4	83.3	154.3	46.5	29.4	85.9	13.9	53.9	68.4
TOTAL, All Respondents	465.0	1,128.0	2,358.7	695.2	1,012.1	1,743.4	(230.2)	115.9	615.3

SOURCE: Emergency Committee for American Trade (ECAT) Survey, February, 1972.

Exhibit 11

EMPLOYMENT IN UNITED STATES
IN MOTOR VEHICLES AND EQUIPMENT MANUFACTURING INDUSTRY (SIC 371)

Year	Annual Averages			
	All Employees (000's)	Non-Production Workers (000's)	Production Workers (000's)	Production Workers' Average Hourly Earnings (dollars)
1961	632.3	153.2	479.1	2.86
1962	691.7	157.7	534.0	2.99
1963	741.3	167.7	573.6	3.10
1964	752.9	173.7	579.2	3.21
1965	842.7	183.8	658.9	3.34
1966	861.6	191.3	670.3	3.44
1967	815.8	188.9	626.9	3.55
1968	873.7	192.9	680.8	3.90
1969	913.5	204.1	709.4	4.10
1970	797.3	193.0	604.3	4.22
1971	842.1	191.2	650.9	4.72

Source: U.S. Department of Labor, Employment and Earnings Bulletin 1312-8, United States, 1909-71, pp. 256-58. Revised data for 1969, 1970, and 1971 from special tabulation of Bureau of Labor Statistics.

REFERENCES

- 1 Financial Times (London), April 13, 1971.
- 2 Magazine of Metals Processing, May, 1970.
- 3 "The Role of the Multinational Corporation in the United States and World Economics," Emergency Committee for American Trade (ECAT), 1972.

The Role of Multinational Corporations

in the

American Tire Manufacturing Industry:

A Statement

by the

Rubber Manufacturers Association

1940

INTRODUCTION

This statement summarizes the results of a study made by the Rubber Manufacturers Association (RMA) of the multinational operations of the five U. S. major tire manufacturers¹ who have plants and related facilities in a number of foreign countries.

The RMA study was made because of increasing public attention to the effect of U. S. multinational operations on the U. S. economy. Specifically, RMA sought to develop facts about the tire industry responsive to the charge that multinational corporations (MNCs)² are a principal force for the export of American jobs, capital and technology, as well as for increasing imports, all to the detriment of the U. S. worker and the U. S. economy. This charge, persistently repeated by American labor unions, resulted in the introduction of the 1972 Foreign Trade and Investment Bill in Congress to restrict and otherwise inhibit the activities of multinational corporations. Such legislation is of critical importance to the U. S. tire industry, and, accordingly, the premises on which it is based must be tested in the light of all pertinent industry facts.

¹ Firestone Tire & Rubber Company, General Tire and Rubber Company, The B. F. Goodrich Company, Goodyear Tire and Rubber Company, and Uniroyal, Inc.

² For the purposes of this statement, a multinational corporation is a firm with substantial production operations in two or more foreign countries which works toward the accomplishment of overall corporate objectives.

The RMA study focused on three points:

- 1) international trade and investment flows in tire manufacturing;
- 2) the dimensions of U. S. tire company investment in foreign countries; and
- 3) the conditions and tax climate in the U. S. and abroad, under which U. S. companies can most effectively compete.

The study leads to five principal conclusions:

First, U. S. tire companies invest in production facilities and related operations in foreign countries in order to compete in foreign markets. They cannot compete effectively in those markets from a U. S. export base.

Second, U. S. tire company investments in foreign countries generate U. S. exports of manufactured products to those countries.

Third, U. S. investment in foreign plants and facilities has not adversely affected U. S. employment. Over the 8-year period covered by this study, employment in the domestic tire industry has grown.

Fourth, imports of tires from U. S. subsidiaries are a negligible factor in the domestic U. S. market. Most of the U. S. tire imports are from foreign-owned plants and have been increasing each year.

Fifth, to remain competitive U. S. tire manufacturers must be permitted to operate their total business on equal terms with their foreign competitors insofar as tax constraints and technology mobility are concerned.

The foregoing conclusions all derive from one central fact: competition for international tire markets in the 1970's is fierce and accelerating. U. S. manufacturers must seize a competitive edge wherever they can find it, if they are to avoid being forced out of existing markets or foreclosed from new ones.

A U. S. withdrawal from a foreign production base will be promptly filled by foreign manufacturers who have the competence, capacity and commitment to exploit every opportunity to the fullest. And in the last analysis, the competitiveness and growth potential of U. S. tire companies in this country will increasingly be eroded.

I. TRADE AND INVESTMENT FLOWS

A. The Import-Export Question

The U. S. automotive replacement tire market¹ is mainly served by U. S. production. In 1971, however, imports from all foreign sources accounted for 6% of that market, which is a significant increase over the 1.4% of the replacement market share in 1964. Imports from foreign subsidiaries of U. S. tire companies accounted for only 6/10ths of 1% of the U. S. replacement market.

Table "A"
Source of Replacement Shipments

	<u>Units</u>	<u>Percentage</u>
<u>Domestic Production (1971)</u>	153,000,000	94%
<u>Imported from Foreign Manufacturers</u>	8,500,000	5.4%
<u>Imported from U. S. Subsidiaries</u>	1,000,000	.6%
	<hr/>	<hr/>
<u>TOTAL</u>	162,500,000	100%

Further statistics (Table "B") show that slightly more than one percent of all replacement tires produced by foreign subsidiaries of U. S. corporations in 1971 were exported to the United States, while almost 99 percent were sold either in the country of manufacture or exported to a country

¹ The RMA study addressed only the replacement market for tires (automobiles, trucks and buses) because statistics are not available on the number of foreign produced tires that are placed on new domestic cars nor on imported vehicles. It is likely that some 13 million foreign produced tires were supplied with the 2.6 million autos imported during 1971.

other than the United States.

Table "B"
Destination of Total Replacement Tires Produced by Foreign
Subsidiaries of Five U. S. Corporations in 1971

	<u>TIRE UNITS</u>	<u>PERCENTAGE</u>
<u>Exported to U. S.</u>	1,022,161	1.3
<u>Sold in Country of Origin or</u> <u>Exported to Other than U. S.</u>	79,312,539	98.7
<u>Total Production</u>	80,334,700	100.0

Furthermore, less than 2% of total dollar volume of all products, including tires, produced in the foreign plants of the five major companies is accounted for by sales to the United States. The other nearly 99% of total dollar volume of foreign production is attributed to sales in the country of manufacture or to countries other than the United States (Table "C").

Table "C"
Destination of 1971 Dollar Volume for Overall Foreign
Production of Five U. S. Corporations
(Tires and All Other Rubber Products)

	<u>Dollar Value (\$000)</u>	<u>Percentage</u>
<u>Sales to U. S.</u>	45,278.9	1.8
<u>Sales to Other Than U. S.</u>	2,441,486.1	98.2
<u>Total</u>	2,486,765.0	100.00

The same pattern is true for exports of tires from the U. S. Out of total U. S. production in 1971 only 2 million were exported, a negligible 1.3% of the 153 million domestic replacement tires.

These data tell the story clearly. A tire manufacturer builds his plant in a particular country to serve that country and nearby markets that

have no domestic manufacturing capability. No American tire company establishes a foreign manufacturing plant in order to be able to export its production back to the U. S. Thus a discrete or "segmented" international tire market grows up. At its center are the production facilities of each competing tire manufacturer. The market parameters are dictated by logistical, commercial and nationalistic (or multinational bloc) constraints particular to that market, as more fully described hereafter. As a practical matter, it is not possible to compete within that segmented market by exporting from the U. S.; U. S. tire manufacturers have the choice of competing from within or not competing at all.

B. The Balance of Payments

The domestic tire industry has contributed positively to the U. S. balance of payments on a generally upward curve, as shown by the following statistics (Table "D", Chart No. 1). During the period from 1964 to 1971, the favorable balance of payments figure for the five major American tire companies was \$2,590,500,000.

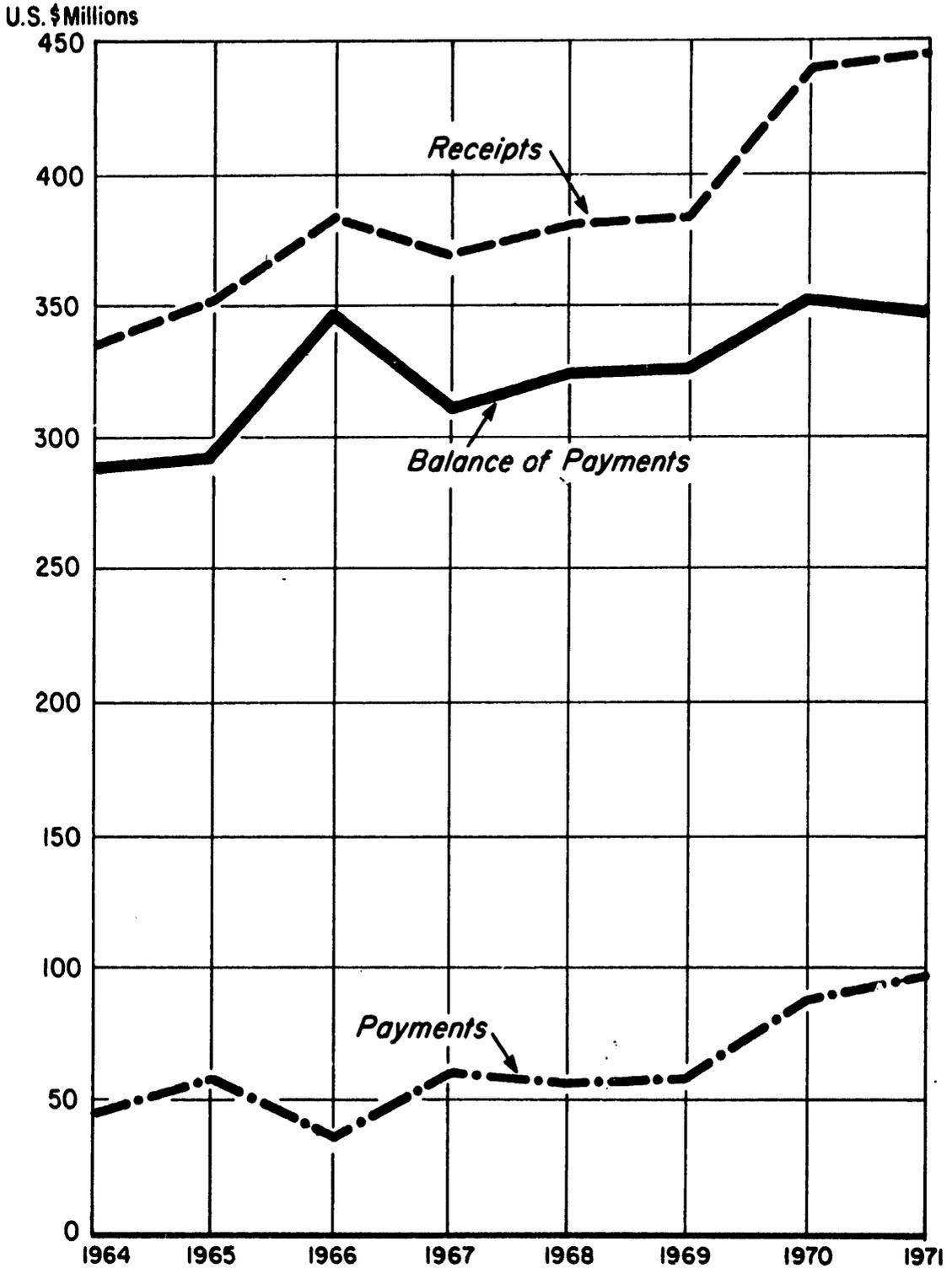
Table "D"
 Effect on Balance of Payments Resulting From
 Multinational Corporation Manufacturing Operations
 in the American Tire Industry
 (US \$ - Millions)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>8 Year Average</u>
<u>Receipts</u>									
Exports of Manufactured Products to Subsidiaries, Affiliates and Associates	138.3	153.1	162.6	156.8	154.4	139.5	167.8	178.2	156.3
To Others	<u>111.2</u>	<u>119.0</u>	<u>120.5</u>	<u>99.1</u>	<u>105.5</u>	<u>118.2</u>	<u>118.1</u>	<u>116.2</u>	<u>113.5</u>
Total Exports	249.5	272.1	283.1	255.9	259.9	257.7	285.9	294.4	269.8
Dividends, Royalties and Other Incomes	<u>85.5</u>	<u>78.9</u>	<u>99.6</u>	<u>114.8</u>	<u>121.3</u>	<u>124.8</u>	<u>153.2</u>	<u>151.2</u>	<u>161.1</u>
<u>Total Receipts</u>	355.0	351.0	382.7	370.7	381.2	382.5	439.1	445.6	385.9
<u>Payments</u>									
Imports of Manufactured Products	20.0	21.6	22.5	27.2	46.5	51.3	71.9	69.7	41.3
Net Capital Outflows	<u>26.6</u>	<u>37.6</u>	<u>12.8</u>	<u>31.9</u>	<u>9.8</u>	<u>4.9</u>	<u>15.0</u>	<u>28.2</u>	<u>20.8</u>
<u>Total Payments</u>	46.6	59.0	35.3	59.1	56.3	56.2	86.9	97.9	62.1
<u>Balance of Payments - Favorable</u>	288.4	292.0	347.4	311.6	324.9	326.3	352.2	347.7	323.8

8-year total favorable balance of payments - \$2,590,500,000

Chart No. 1

**Balance of Payments for Five Multinational Corporations
in the American Tire Manufacturing Industry**



II. THE REASONS FOR AND DIMENSIONS OF FOREIGN INVESTMENT

A. Non-Tariff Barriers and Costs of Entry

Tires imported into most foreign countries face a significant disadvantage vis a vis local manufacture. Tariffs, transportation charges and border tax adjustments are the significant elements of the cost of entry disadvantage that imports must overcome. But there are other less evident barriers and biases too. The relationship between the automotive manufacturer and tire producers in the home country tilt the scale in favor of local manufacture. Public procurement of tires for governmental uses are similarly biased. Distribution systems are more easily set up when there is a home market production base. Public acceptance of and preference for a certain make of tire is more easily achieved when there is an identifiable production presence in that market.

Taken in sum, these factors have compelled U. S. tire manufacturers to conclude that they can compete effectively with foreign manufacturers only from within the various nationalistic walls that characterize most producer nations. It is not a question of viable alternatives, exports versus investment in foreign plants, with roughly equivalent advantages and disadvantages on each side. There is no alternative, and there has not been for many years -- to compete in a foreign market a U. S. tire manufacturer must be present there in the same force and depth as his foreign counterpart.

Given the foregoing reasons for U. S. investment in foreign plants and facilities, and the segmented nature of international tire markets, it follows, as set forth below that U. S. tire company investment in foreign manufacturing and employment levels in U. S.-owned plants does not bear on or conflict with U. S. investment in domestic manufacturing and employment levels in domestic plants.

B. Dimensions of Foreign Investment

The following data (Table "E" and Chart No. 2) show that there has been a steady annual increase in new manufacturing investment in plant and equipment by U. S. multinational corporations in the tire industry both in the U. S. and abroad.

In reviewing these statistics, three important factors should be noted:

- 1) The percentage of domestic manufacturing investment as a total of worldwide investment over an 8-year period has averaged 70.0% versus 30.0% for foreign manufacturing investment as a percentage of total.
- 2) In every year the dollar value of manufacturing investment in the tire industry has been higher in the United States than in all other foreign countries where U. S. multinationals have facilities.
- 3) The total amount invested in American operations in 1971 would have been significantly higher had it not been for the general economic downtrend, and the strikes which occurred in 1970 in the tire and automobile industries.

In short, the average amount of manufacturing investment made by the American tire manufacturing industry in domestic operations (over an 8-year period) has been $2\frac{1}{2}$ times the amount invested in foreign facilities.

Table "E"

Annual New Manufacturing Investment In Plants
And Equipment of U. S. MNC's
In The Tire Manufacturing Industry
(Exclusive of New Acquisitions)

(US \$ - Millions)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>8 Year Average</u>
U. S. A.	171.0	244.5	276.7	300.8	390.7	467.4	420.7	278.3	318.7
Foreign	<u>61.0</u>	<u>100.0</u>	<u>141.6</u>	<u>121.3</u>	<u>141.3</u>	<u>185.8</u>	<u>141.3</u>	<u>216.3</u>	<u>138.6</u>
Total	232.0	344.5	418.3	422.1	532.0	653.2	562.0	494.6	457.3

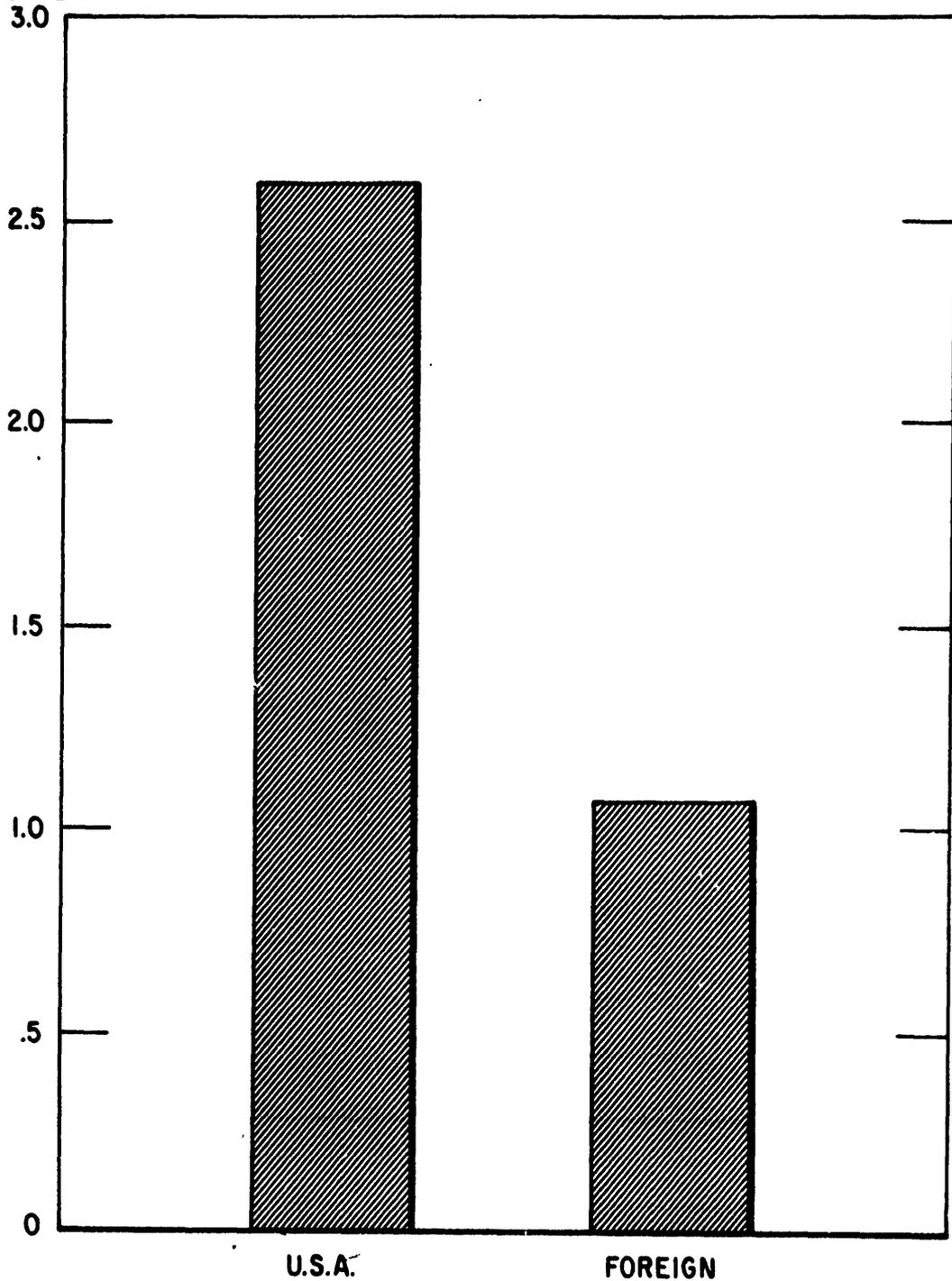
Dollar Volume of Manufacturing Investment Over 8-Year Period

U. S. A.	\$2,550,100,000	Domestic Manufacturing Investment as % of total = 70.0%
Foreign	<u>1,108,600,000</u>	Foreign Manufacturing Investment as % of total = 30.0%
Total	\$3,658,700,000	Domestic investment compared to foreign investment = <u>2½ times</u> the amount invested in foreign facilities.

Chart No. 2

8-Year Investment in Plants and Equipment of U.S. MNCs in the Tire Manufacturing Industry

U.S. \$Billions



C. Dimensions of Domestic and Foreign Employment

Just as U. S. tire company investment has followed a pattern of segmented growth as between the U. S. market and foreign markets, so have employment growth patterns been similarly segmented. For the last eight years there has been a marked stability in domestic production employment as a percentage of the worldwide production employment of U. S. multinational tire manufacturers, as shown in the following data (Table "F" and Chart No. 3).

For the eight year period from 1964 through 1971, domestic production employment among these five American companies increased by 16,561 workers while foreign production employment increased by 15,536.

Again it should be stressed that the increase in domestic employment in the American tire manufacturing industry for 1964-71 would have exceeded 16,561 workers had it not been for three serious factors:

- 1) the general economic downturn which commenced in 1970;
- 2) strikes in the tire and rubber industry in 1970;
- 3) strikes in the automobile industry in 1970.

These three factors produced the following consequences:

- a) reduced employment;
- b) reduced earnings; and
- c) a consequent reduced investment in new manufacturing facilities.

Table "F"

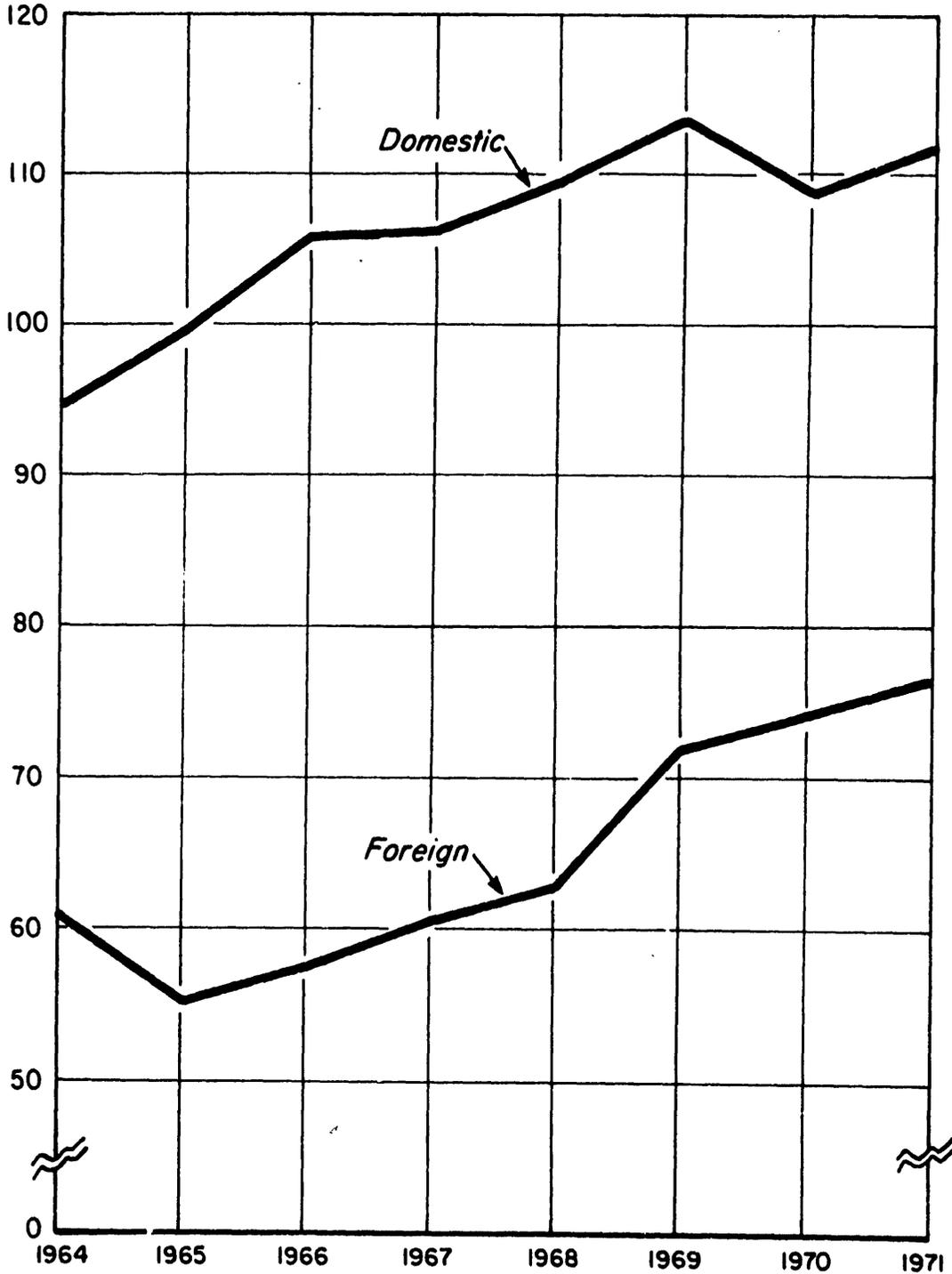
Domestic and Foreign Production Employment
For Five
U. S. Multinational Corporations
In The
Tire Manufacturing Industry

	<u>Average Annual Number of Production Workers</u>								<u>8 Year Increase</u>
	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	
U. S. A.	94,906	99,498	105,942	106,237	109,302	113,362	108,803	111,467	16,561
Foreign	<u>60,895</u>	<u>55,761</u>	<u>57,882</u>	<u>60,034</u>	<u>62,863</u>	<u>71,845</u>	<u>74,073</u>	<u>76,431</u>	<u>15,536</u>
Total Worldwide	155,801	155,259	163,824	166,271	172,165	185,207	182,876	187,898	32,097

Chart No. 3

Domestic and Foreign Production Employment
of Five U.S. Multinational Corporations
in the Tire Manufacturing Industry

Thousands of Workers



It should be noted that in connection with the foregoing data on employment and investment that in the period 1964-1971 foreign tire markets were growing more rapidly than the U. S. market because of faster growth of foreign automobile markets.

D. Relationship of Investment to Productivity and Employment

Critics of the U. S. multinational tire companies contend that these companies invest proportionately more in foreign facilities than U. S. facilities in order to make the foreign plants more efficient and thereby increase productivity. Such is not the case. Table "G" shows that the five major U. S. tire manufacturers have invested more capital per production employee in the U. S. than it has in overseas facilities with an average investment of 40% more in the U. S. The total 8-year investment per U. S. employee was \$23,744. The only year during which less capital was invested per U. S. employee was 1971, a result, as noted above, of strikes in the tire and automobile industries together with an overall downtrend in the American economy.

Table "G"

Dollar Value of New Manufacturing Investment Per Employee
(Rounded to Nearest US Dollar)

	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>8 Year Average</u>
U. S. A.	\$1,802	\$2,434	\$2,612	\$2,831	\$3,574	\$4,123	\$3,867	\$2,497	\$2,968
Foreign	<u>1,002</u>	<u>1,793</u>	<u>2,446</u>	<u>2,021</u>	<u>2,448</u>	<u>2,586</u>	<u>1,908</u>	<u>2,830</u>	<u>2,129</u>
Total	\$2,804	\$4,227	\$5,058	\$4,852	\$6,022	\$6,709	\$5,775	\$5,327	\$5,097

Total 8-Year Investment Per Employee

U. S. A.	\$23,744
Foreign	<u>17,032</u>
Total	\$40,776

Investment per American Worker Compared to
Investment per Foreign Worker = 40% more per
American Worker

One other statistic pertinent to Table "G" above should be noted. As shown in Table "H" below, U. S. tire company investment has generated over 1,000 additional jobs in U. S. plants than in foreign plants. The average investment required to create a single new job in the American tire industry averaged \$137,178.00 per annum over a 7-year period, compared with only \$57,769.00 in foreign countries. Given the 40% greater average investment required to create a job in the U. S. as compared to a foreign country, it is evident that U. S. tire manufacturers are firmly committed to maintaining a dominant domestic production base and investing in foreign countries only to serve those foreign markets where they believe they can be competitive.

Table "H"

Effect of New Investment on Size of Production Force
(Investments in US \$ - Millions)

U. S. A.

In Year Of:	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	Total <u>7-Year Period</u>
Investment Of:	\$171.0	\$244.5	\$276.7	\$300.8	\$390.7	\$467.4	\$420.7	\$2,271.8
Produced this number of new employees in subsequent year:	4592	6444	295	3065	4060	-4559	2664	16,561

FOREIGN

Investment Of:	\$ 61.0	\$100.0	\$141.6	\$121.3	\$141.3	\$185.8	\$141.3	\$ 892.3
Produced this number of new employees in subsequent year:	-5224	2121	2152	2829	8982	2228	2358	15,446

Investment Requirements Per New Employee

- U. S. A. - Manufacturing investment of \$2,271.8 million required to create 16,561 new employees.
Average cost per new employee - \$137,178.
- FOREIGN - Manufacturing investment of \$892.3 million required to create 15,446 new employees.
Average cost per new employee - \$57,769.

\$ differential in manufacturing investment required to produce one new USA employee - \$79,409.

Amount of increased manufacturing investment required to develop new USA position as compared to foreign = 2½ times greater.

III. CONDITIONS FOR EFFECTIVE U. S. COMPETITION

A. Technology Mobility

The accelerating rate of technological change which began during the 1950's and continues today has focused attention on the relationship between technology and employment and economic growth in the U. S. The role of the multinational corporation in transferring technology across national borders has come under particular scrutiny. It is contended by some that by transferring technology abroad multinational corporations are narrowing the technology gap between the U. S. and the rest of the world and, as a result, U. S. exports are reduced, imports encouraged, and jobs lost.

In the tire industry, however, the flow of technology across international borders has historically gone both ways, and U. S. domestic producers and domestic workers have benefitted accordingly. American tire and rubber manufacturers have been quick to adopt advanced foreign technology and further develop it in U. S. research centers and on U. S. production lines. Some leading examples are set forth below.

1) Styrene Butadiene Rubber (SBR)

The first attempt to produce synthetic rubber in a laboratory was made in 1892 by an Englishman, Sir William Tilden. He failed, however, and scientists in many countries worked to make rubber hydrocarbons. The Germans were most successful, but American industry continued the search for a practical substitute for natural rubber. In the early twenties, a U. S. company succeeded in making a form of the chemical butadiene and in later years the missing link to practical synthetic rubber, liquid chemical styrene, was discovered leading to the develop-

ment of SBR. SBR, with its imperfections, was used during World War II because of military necessity. However, at the end of the war, two things happened in only a year which greatly enhanced the qualities of SBR and altered the entire course of the rubber industry. One of these was the discovery in Germany of needed catalytic materials and the second was the introduction of the U. S. discovery of small particle furnace type carbon blacks used to give SBR greater wear resistance.

2) Steelcord Radial Tires

European tire companies pioneered and developed the all steelcord radial truck tire and the radial passenger tire incorporating steelcord belt. In both cases, these constructions are now being used by American manufacturers to produce tires that are longer-wearing, stronger, and more responsive to the driver.

3) Metal Studs in Winter Tires

The initial work on insertion of metal studs in winter tires was done in Sweden. Studded tires which provide greater traction, improved stopping ability, and overall better control, are now very widely used in the United States.

4) Polyurethane

The significant development work on these polymers was accomplished principally in Germany and England. Polyurethanes are widely manufactured in the U. S. and are useful in the form of coatings, adhesives, rubbers, casting compositions and foam. Rigid polyurethane foam is particularly useful in vehicle and building construction while flexible

polyurethane foam is used in furniture cushioning, automobile seats, safety padding and carpet underlay.

5) Polyethylene and Polypropylene

Polyethylene and polypropylene are two of the most widely used modern plastics materials. Polyethylene, originally developed in England, is used extensively for housewares, in agriculture and building construction, for containers and packaging fibers. Polypropylene, first developed and commercialized in Italy, is now used in molded parts for automobiles, battery cases, dispensing closures for pharmaceuticals, in appliances, fabrics, carpeting and film.

B. The Need for Tax Neutrality of Foreign Investment

American firms engaged in international competition cannot survive the contest abroad and will lose ground in the U. S. market if they bear substantial tax burdens which their foreign competitors do not. To avoid such burdens U. S. tax laws and U. S. tax treaties with other countries have been developed over the years to create conditions of "tax neutrality" for the earnings and profits of foreign subsidiaries of U. S. corporations. The U. S. foreign subsidiary, thereby, can stand on reasonably equal footing with foreign competitors in each country which also adheres to the concept of tax neutrality.

Critics of the multinational corporation would amend the U. S. tax laws to eliminate conditions of tax neutrality for U. S. foreign subsidiaries. They seek, thus, to lever these subsidiaries out of their foreign locations and return them to the U. S. where, presumably, additional domestic investment, production and employment would be substituted for foreign investment.

This line of attack badly misconceives why U. S. companies make foreign

investment, what the tax consequences of such investment are, and what distortions in tax neutrality will bring. The notion that foreign investment is motivated by tax loopholes and foreign tax shelters is as erroneous as the notion that U. S. firms locate overseas to take advantage of lower labor rates.

Sufficient detailed analysis of the adverse consequences of the tax provisions of legislation along the lines of the 1972 Foreign Trade and Investment Bill has been made by knowledgeable authorities¹ to establish that U. S. firms are not motivated by tax advantages -- under either U. S. or foreign law -- in making foreign investment; that U. S. tax revenues from foreign subsidiaries would be lost, in whole or in part, rather than re-derived from substitute domestic operations; and that repatriated foreign earnings pay their full share of the tax bill of U. S. multinational corporations on a tax neutral basis.

Thus, the proposed imposition of current tax on overseas earnings would impair corporate operations by compelling the payment of dividends, thereby depriving the subsidiary abroad of capital when it may need it most. U. S. based multinational tire companies would be placed at a serious disadvantage in relation to their foreign competitors who would not pay U. S. income taxes on top of foreign income tax.

Similarly, proposals to repeal the foreign tax credit, while presumably aimed at removing an existing tax incentive, would involve a return to double taxation. Not only would this be inequitable by placing U. S. subsidiaries at a disadvantage with respect to their foreign competitors, it would

¹ See, for example, New Proposals for Taxing Foreign Income, National Association of Manufacturers, December 1972.

constitute the abandonment of reciprocal tax agreements with other countries. To prohibit U. S. citizens and corporations by domestic law from benefitting from these provisions would constitute a unique example of a unilateral yielding of equitable U. S. tax treatment for individuals and firms while maintaining those advantages for foreign firms and individuals investing in the United States.

The proposal to deny the use of the accelerated depreciation method on property outside the U. S. is to deny American taxpayers owning property outside the U. S. the same degree of latitude in selecting depreciation methods that are available for property held within the U. S. There appears to be no reasonable basis for such discrimination, especially since it places U. S. corporations at a disadvantage with their foreign competitors.

Another proposal of the 1972 Foreign Trade and Investment Bill would require firms to report as income gain realized from the transfer of a patent, invention, model, or design, copyright, process, or similar property right. While U. S. corporations presently pay a tax on income actually realized in such transactions, the taxing of such transfers where no income is actually realized would constitute the taxing of an asset. Such equitable tax treatment would further jeopardize America's competitive position in the world market.

The data in Table "I" illustrates the additional U. S. tax that would have been paid for the years 1968 through 1971, (if the tax provisions of the 1972 Foreign Trade and Investment Bill had been in effect during those

years) by the five major American tire manufacturing companies.

Table "I"
Hypothetical Impact on the
American Tire Manufacturing Industry
(US \$ - Millions)

	<u>Total Earnings After Preferred Dividends</u>	<u>Total Additional Tax</u>	<u>Adjusted Earnings</u>
1968	415.6	• 55.0	360.6
1969	389.1	68.8	320.3
1970	296.7	68.5	228.2
1971	378.4	78.1	300.3
4-Yr. Total	1,479.8	270.4	1,209.4
4-Yr. Avg.	369.9	67.6	302.4

These statistics show that had the 1972 Foreign Trade and Investment Bill been in effect for the years 1968-1971 the total additional U. S. tax would have amounted to \$270.4 million or an average of \$67.6 million per year. The additional tax resulting from these proposed changes would cause a reduction of net income of 20% or more for the five U. S. based multinational corporations in the American tire industry covered by this study.

A 20% reduction in net income for these five U. S. corporations would have at least three serious effects:

- 1) a negative impact on the United States balance of payments;
- 2) the loss of capital for investment in domestic operations; and
- 3) a reduction in employment.

Based on the hypothetical loss of that portion of income during the period 1968-1971, and assuming \$137,128 as the average new investment needed

to create a domestic production position, then one could project the hypothetical loss of 2,000 new domestic production positions that would have been created for that 4-year period.

Furthermore, the potential reduction in present employment has been exemplified by a survey conducted by the Akron Chamber of Commerce. Based on a survey of 17 U. S. multinational corporations operating in the Akron, Ohio area, the Chamber report states that the 1972 Foreign Trade and Investment Bill, if enacted, would eventually force these firms to eliminate 6,500 area jobs or 10.6% of their combined workforce. (Another 6,500 in the non-manufacturing and services sector would eventually be lost). The four Akron-headquartered tire companies -- Firestone, General, Goodrich and Goodyear -- would account for approximately half the lost jobs.

C. Comparison of Current Effective Tax Rates of Countries With Substantial U. S. Investment

Finally, an international comparison of total tax burdens on foreign investment answers the question whether foreign direct investment provides U. S. multinational corporations with gaping tax loopholes. Such a comparison (Table "J") has been made by the National Foreign Trade Council¹ and refutes the notion that foreign investment is motivated by the desire to avoid high domestic taxes.

¹ Economic Implications of Proposed Changes in the Taxation of U. S. Investment Abroad, June, 1972

Table "J"
Current Effective Tax Rates On
Income Earned by Wholly- wned
Manufacturing Subsidiaries Operating In
Selected Countries With Substantial U. S. Investment

United States	50.9%
Canada	56.2
France	51.2
Germany	45.8
Italy	53.9
Japan	47.8
Mexico	48.5
Netherlands	48.6
United Kingdom	45.0

The NFTC comparison shows that, significantly, the heaviest tax burden of all - 56.2% vs. 50.9% in the United States - results from investments in Canada where the book value of U. S. manufacturing investments is more than twice as high as in the ranking foreign center for such investments. The average of total tax burdens on U. S.-owned foreign subsidiaries in the eight countries compared, weighted by the book value of United States manufacturing investments in 1970, is 51.1%, which, is slightly higher than the U. S. burden of 50.9% counting both Federal and average state income taxes as reduced by the Federal income tax deduction. Even where the tax is lower - as for example in Germany (45.8%), United Kingdom (45.0%), and Japan (47.8%) - the differences are too small to constitute significant motivation for foreign investment.

Furthermore, these small differences are offset by the general inclination of other countries to apply higher indirect taxes than prevail in the United

States. This is an element of taxation not reflected in Table "J".

Stated below (Table "K") are the percentages of tax revenues derived by the U. S. and foreign governments from indirect taxation which emphasize the dimensions of this burden.

Table "K"
Percentages of Tax Revenues Derived By
The U. S. and Foreign Governments From Indirect Taxation

United States	30.4%
Canada	48.4
France	42.9
Germany	39.4
Italy	41.3
Japan	39.6
Mexico	N/A
Netherlands	29.6
United Kingdom	47.2

Of the eight foreign countries already listed and of 43 countries ranked according to the percentage of tax revenues from indirect taxes, only the Netherlands has a lower percentage than the United States.

These facts and the earlier comparisons of income tax rates (Table "J") hardly support the claim that American investments abroad can be explained in terms of attractive foreign tax rates.

SUMMARY

As indicated in the Introduction, this statement prepared by the Rubber Manufacturers Association has focused on three principal areas:

- 1) International trade and investment flows in tire manufacturing;
- 2) the dimensions of U. S. tire company investment in foreign countries; and
- 3) the conditions and tax climate in the U. S. and abroad under which U. S. companies can most effectively compete.

An analysis of the foregoing data shows that:

- 1) Imports from foreign subsidiaries of U. S. tire manufacturing companies accounted only for 6/10ths of 1% of the U. S. replacement market.
- 2) Only 1.3% of sales of total production of all products by foreign plants owned by the five major U. S. tire and rubber companies is shipped into the United States.
- 3) The balance of payments of MNCs in the American tire manufacturing industry has consistently been favorable with an 8-year total favorable balance of \$2,590,500,000 for the years 1964 through 1971.
- 4) Over an 8-year period, domestic manufacturing investment in plants and equipment was \$2,550,100,000, which constitutes 70.0% of total manufacturing investment in the U. S. and abroad.

- 5) Domestic production employment of U. S. MNCs in the tire industry has continued to grow from 94,906 in 1964 to 111,467 in 1971.
- 6) The American tire industry has made a total 8-year investment of \$23,744 per American worker compared to \$17,032 per foreign worker, or 40% more per domestic worker.
- 7) To create 16,561 new jobs in the U. S. over a 7-year period, the American tire industry invested \$2,271,800,000 which is 2½ times the amount of similar foreign investment.
- 8) The transfer of technology across international borders is a two-way street. The flow of foreign technology in the tire manufacturing industry into the U. S. has served to generate new employment potential in America.
- 9) The tax provisions of the 1972 Foreign Trade and Investment Bill would have a severe negative impact on the American tire manufacturing industry in a number of ways, including additional taxes resulting in a reduction in net income of 20%, the equivalent to a loss of 2,000 new domestic production jobs over a 4-year period.

INTERNATIONAL TELEPHONE AND TELEGRAPH CORPORATION

320 PARK AVENUE

NEW YORK, N. Y. 10022

HAROLD S. GENEEN
CHAIRMAN AND PRESIDENT

January 5, 1973

The Honorable Abraham Ribicoff
227 New Senate Office Building
Washington, D. C.

Dear Senator:

This letter is in response to the published invitation by the Subcommittee on International Trade to all interested parties, to submit data which might be helpful to the Subcommittee in its study of the key issues raised by the activities of multinational corporations.

We have for some months been making an intensive study of International Telephone and Telegraph Corporation's performance as a multinational company in relation to the issues of employment, balance of payments, technology, etc. now being discussed. This study is not yet complete; however, we believe that certain conclusions which are emerging from data developed to date may be of interest to the Subcommittee, and it is with this thought in mind that these have been summarized in the enclosed annex. When our study has been completed, we fully expect to have available more complete factual data and our final conclusions in the hope that they may be helpful to committees of Congress, institutions, scholars and others in their review of the role of multinational corporations in the U.S. and world economies.

Let me say that I personally welcome all such reviews to the extent that they are carried out objectively and in an attempt to determine the facts essential to an enlightened determination of appropriate national policies. In this

The Honorable Abraham Ribicoff -2- January 5, 1973

connection, the Subcommittee is to be commended for the approach which it has taken, through its invitation for factual, well-documented submissions.

Sincerely yours,

A handwritten signature in black ink, appearing to read "H. Geneen", with a long horizontal flourish extending to the right.

Harold S. Geneen

/pap
encl.

ITT is perhaps unique among American-based multinational corporations in that it was created as an American-owned company with operations solely outside the continental United States. Starting as an owner of telephone operating companies in the Caribbean, it expanded mainly into manufacture of telecommunications equipment in Europe, then in Latin America and eventually in certain countries in the Pacific. Limited manufacturing operations in telecommunications and defense-related electronics were also established in the U.S. This evolution differs materially from the traditional pattern of foreign expansion by many American multinational companies, which, after first exporting products, eventually built or acquired plants abroad.

It was largely during the last decade that ITT, as a matter of deliberate policy, substantially broadened its domestic base and diversified its operations worldwide. ITT can perhaps best be described, therefore, as an American-owned company originally operating overseas which, over time, expanded its home base to become an important factor in the U.S. economy while continuing to grow abroad.

A measure of the company's growth can be gained from the following key figures: In 1960, ITT had total assets of \$924 million, sales and revenues of \$811 million and 132,000 employees. Net after tax profit was \$31 million. A decade later in 1970, the Corporation had assets of \$6.7 billion, sales and revenues of \$6.4 billion, insurance premiums earned and finance income of \$1.2 billion, and 392,000 employees. Net after tax profit was \$353 million.

ITT is today composed of more than 250 associated companies and divisions in 68 countries, employing over 400,000 persons, and operating in seven broad areas: telecommunication equipment and operations; industrial and consumer products; consumer services; business and financial services; food processing and services; natural resources; and defense electronics/space systems.

Our studies indicate that this dramatic expansion during the 1960's had a favorable impact on the American economy:

- It created new jobs in the United States.
- It was accompanied by a substantial inflow of research results and technology, bringing to our shores, for our use, the expertise and skill of foreign scientists.
- It helped the United States in its effort to maintain a relatively healthy balance of trade and payments.

Equally important, our substantial investment in foreign plant enabled the Corporation - and hence, the American people, to retain a presence in foreign markets of considerable value to the United States.

In short, the impact of ITT's operations on the United States economy has been favorable on all counts, whether it be domestic employment, the inflow of research and technology, or the trade balance and balance of payments.

These results corroborate the favorable findings of numerous other studies of U.S. multinational corporations. It is unfortunate that the strong empirical evidence giving broad support to the public interest benefits derived from multinational corporation operations is not as widely recognized as it should be. Indeed, the legislative and other policy proposals should expand, rather than diminish these benefits.

EMPLOYMENT

A November 1972 study by the U. S. Department of Commerce showed that the domestic employment of 298 U.S.-based multinational firms grew by 2.7 percent from 1966 to 1970, as against a 1.8 percent rate for total private employment. The 233 manufacturing MNC's in the sample average an annual 1966-1970 growth in domestic employment of 1.9 percent, as against the less than one percent growth in total U.S. manufacturing employment for the same period.

ITT achieved a compound annual growth rate in U.S. employment over the period 1960-1970 of 3.8 percent. Stated another way, its increase in U.S. employment (not including the effects of acquired companies) was in excess of 50 percent of the 1960 total.

In aggregate figures, there was a total of 132,000 employees in 1960 of which 18,000 or 14 percent were working in the United States and 114,000 or 86 percent working abroad. By 1970, the total work force had increased to 392,000, of which 147,000 or 38 percent was domestic employment and 245,000 or 62 percent, foreign.

There was a total employment increase of 260,000 or 200 percent. Of this, 129,000 represented domestic employment and 131,000 foreign employment. Quite simply, ITT's growth has not only maintained on the payroll acquired employees but has provided a substantial number of new jobs in the United States.

Notwithstanding ITT's impressive domestic growth record, some critics of the MNC might argue that the domestic expansion could have been still greater had the expansion of overseas production been carried out at home. In ITT's case, a preponderance of its foreign manufacture consists of telecommunications and electronic equipment which is made to local specifications under the control of foreign government agencies which insist for security and other policy reasons upon local manufacture and local planning, research and design. The balance consists of consumer and industrial products of a kind which ITT does not make in the U.S. or could not competitively export from the U.S. Failure to make these products abroad would simply mean to yield the market to foreign-based competitors.

Indeed, in the field of telecommunications equipment, representing about 52 percent of ITT's total foreign-based manufacturing sales, the evidence is clear that ITT's major foreign competitors such as Phillips of the Netherlands, Siemens of Germany, L. M. Ericsson of Sweden and Nippon Electric Company of Japan are both capable and eager to seize any foreign market where ITT's effort to maintain a strong local presence might flag. Had such market loss occurred in the past,

- 5 -

ITT's domestic growth and contribution to the U.S. economy through increased jobs, exports and returns from its foreign investment would have been curtailed instead of expanded.

TECHNOLOGY, R & D

The effect and extent of the international transfer of technology by American-based companies is, by its nature, more difficult to measure than the more readily quantifiable employment, trade and balance of payments effects. Our studies show, however, that technical advances developed in one country by ITT are rather widely used in other countries by ITT subsidiaries - and that this exchange of technical information is a two-way flow. ITT's Pentaconta Telephone Switching System, for example, which is now employed in over 80 countries, was developed in France; rural cross-bar switching systems, initially developed and manufactured in Sweden, are now also made in Spain, Belgium, Brazil and the U.S. and are currently in service in more than 15 countries; the Metaconta Telephone Switching System, an advanced electronic system, was a joint effort of multinational development involving several countries, and promises to play an important role in future production in numerous countries, including the U.S.

An analysis of applications throughout the ITT System for patents on new inventions reveals that in every year during the period 1960-1970 at least 80 percent were of foreign origin. There are many jobs in the U.S. which probably would not exist had ITT not followed a policy of free exchange amongst its subsidiaries of technical information, wherever developed.

It has sometimes been suggested that the U.S. loses competitive advantage by sharing its technological know-how with foreign countries. It is felt by some that were we to "keep our secrets", other countries would come to us for production rather than to undertake production themselves. However, the flow of basic scientific and technological data is now such that no advanced country can be denied the information.

Efforts to prohibit licensing and the transfer of technology would almost certainly have an adverse effect on the U.S. by forcing foreign competitors to duplicate research and development efforts and foreign nations to retaliate by restricting the flow of foreign-developed technology to the U.S. (It should be remembered that scientists of foreign origin made a major contribution to the development of nuclear and space technology in the U.S.). In addition, of course, this would represent a most inefficient use of the world's scientific and technological resources from which all would ultimately suffer.

TRADE AND INVESTMENT

The record of U.S.-based multinational corporations in general, and ITT in particular, is one of strengthening this nation's world-competitive position in the area of exports and balance of payments.

ITT's total inflows during 1968 to 1972 were over \$1 billion from all sources while its outflows - including all foreign cash acquisitions - were over \$500 million, thus generating a net positive contribution to the U.S. balance of payments in these five years alone of over \$500 million.

Regarding trade, although over 58 percent of ITT's 1971 domestic business is in service areas which are largely unexportable and much of its domestic manufacture is not readily exportable so that it is not as heavy an aggregate exporter as many other major U.S. companies, our records still show that in the most recent ten-year period ITT companies in the United States exported an average of \$88 million per year, while ITT foreign manufacturing units were shipping only an average of \$18 million per year into the U.S.: a favorable ratio of almost 5 to 1.

THE FUTURE

The U.S. ascendancy in the multinational field is the result of historical factors which are rapidly changing, to our comparative disadvantage. Among those factors are:

1. The headstart given by the condition of the U.S. economy and industry compared to Europe and Japan after World War II.
2. The superiority and volume of U.S. research and development, particularly in the computer and electronics fields.
3. The superiority of American management and marketing techniques.
4. The broad-based, continent-wide home market compared to the fractionalized European markets.
5. The comparatively smaller-sized, under-capitalized, fragmented nature of most European and Japanese competitors.

All of the above advantages are now history, or soon will be. The headstart of post-war U.S. industry has now been overcome and in some instances turned into a liability; e.g. Germany, Japan and others have less obsolete plant equipment because they started from scratch after World War II.

The EEC is now a larger market than the U.S., and European industry - like Japan's - is rapidly becoming rationalized, more efficient and international in outlook, and is receiving the active support toward these ends of national and Common Market authorities.

The future of the U.S. in world competition depends in major part on two factors: exports and return on overseas investment by U.S.-based companies. The problems of improved labor productivity, competitive prices, a truly free-trade environment without non-tariff trade barriers, currency relationships, etc., as they relate to exports, are well known and important. But equally important to the strength of the U.S. economy, if not more, is the return on direct investment which is now a major positive item in our balance of payments accounts, offsetting in large part a declining or negative merchandise trade balance.

In the coming years, the U.S. must anticipate the following:

1. As the nations of the EEC and other industrialized nations mature, our U.S. regulatory authorities will no longer be able without possibly grave economic repercussions to impose our regulatory philosophies on those countries by the extraterritorial application of our laws to their corporate entities. They will simply not accept enforcement of U.S. political policies such as those imposed under the Trading

with the Enemy and related Acts through economic pressures. They have acquiesced in the past, unwillingly, because they needed American economic assistance or access to the American market. In the future, they - like the Japanese - will be able to barter access to their market for access to ours. This will be a new ball game.

2. As Europe moves toward a truly free flow of capital among EEC members, there will be an increasing tendency to discriminate against U.S.-based multinational companies, as against European-based multinational companies. This, if coupled with a continued U.S. determination to apply its own regulatory philosophies worldwide to any foreign company controlled by a U.S.-based company - or even foreign-owned companies with substantial U.S. operations - will make Europe an increasingly more attractive home for multinational companies and an increasingly more difficult market in which to operate for U.S.-based companies.

3. The growing European market, coupled with a more acute European awareness of what is required for companies to function in the modern world must, in the long run, make the European company more effective and competitive. Indeed, any meaningful study of the impact of U.S.-based multinational corporations cannot ignore an analysis of European and Japanese-based MNC's and their role in world competition and commerce.

Looking ahead for 10 to 20 years, if present trends continue, the results seem inevitable: a diminution in the comparative strength

of U.S.-based multinational corporations and, therefore, of the U.S. economy as a factor in international commerce.

If the U.S. is to maintain its leading position in international commerce in the growing areas in which U.S.-based multinational companies compete, there must be:

a. A government-wide assessment of all the laws, regulations and treaties governing American corporations as they affect the international competitiveness of those companies, particularly in relation to the increasing competitiveness of foreign-based multinational corporations which are receiving the active support of their governments and the authorities of their regional trading blocs.

b. A recognition that competition is now international and that this poses new challenges to existing legal structures requiring new policies which will reduce, rather than expand, the restrictive measures and handicaps placed upon U.S.-based multinational companies. Governments of our foreign competitors are giving those competitors important assistance. This active support of foreign multinationals by their governments will ultimately impair our national competitive strength by leaving us with a smaller and smaller percentage of U.S.-based multinational companies, or of world markets, or both, unless the U.S. Government responds positively to this economic challenge.

In summary, the U.S. Government must do some realistic, long-term planning, focussing on what it can and should do in relation to U.S. business in a world which will soon be one big capital market and one big consumer market. If it does not, "U.S." business will increasingly become "European" business and "Japanese" business.

December 31, 1972

Submission of

INTERNATIONAL BUSINESS MACHINES CORPORATION

to

SENATOR ABRAHAM RIBICOFF
CHAIRMAN
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

January 18, 1973

When Senator Abraham Ribicoff asked for papers on U.S. foreign investment, he cited the vital need for further documentation on ten key issues which will probably be addressed by the Senate during the next several years. In the following pages, International Business Machines Corporation will attempt to provide as much relevant documentation as possible on eight of the issues; of particular importance to IBM are the interests of the Subcommittee on International Trade in overseas manufacturing, balance of payments contributions, and tax proposals.

In IBM's opinion, the legal aspects of international regulatory institutions (Issue VIII) can be better analyzed by government regulatory authorities. IBM also believes it would be inappropriate to discuss U.S. and foreign antitrust laws (Issue X) because of pertinent IBM suits in U.S. courts. Comments on taxation (Issues VII and IX) have been combined in the reply to Issue VII.

The company's commitment to foreign investment and trade goes back almost six decades. It was founded on the judgment of Mr. Thomas J. Watson, Sr. that, beyond returns on investment, foreign investment and trade play important roles in reducing worldwide tensions. The IBM concept, "World Peace Through World Trade," is -- in the company's opinion -- quite relevant.

IBM's overseas investments -- and those of the vast majority of other companies -- contribute measurably, first to the U.S.

economy and United States foreign trade policy, and second to the well being of the countries where IBM operates.

Outside the U.S., IBM has invested in 126 countries around the globe. It has 9 research and development laboratories in as many foreign countries and 22 manufacturing plants in 13 countries overseas. The company employs 262,000 workers in the United States and abroad. In addition to developing advanced technologies in both its domestic and foreign operations, IBM provides education in new technology and management techniques at 78 off-shore locations throughout the world.

IBM's subsidiary for business outside the United States, the IBM World Trade Corporation, employs over 115,000 people and reported a gross income of \$4.2 billion for 1972. Its net income of \$687 million amounted to almost 54% of IBM's worldwide net income of \$1.3 billion.

I. The Benefits of Overseas Investment versus the Costs

Both the Senate and the House of Representatives have developed volumes of testimony on foreign investment. In recent sessions, the Joint Economic Committee alone has compiled an excellent documentation on both sides of the foreign investment issue.

Summarization of such testimony is beyond the scope of this paper, but the record shows that:

1. The United States has been well served by the relatively free climate in which international investment and trade have been conducted since the end of World War II. The return on direct U.S. foreign investment alone reached \$9.5 billion in 1971 and is expected to increase to some \$20 billion by 1980.
2. Trade and overseas investment have helped the United States to achieve its post-war objectives of rebuilding the war-ravaged economies of Europe and Japan and in forging the Atlantic partnership; they have assisted the economies of developing countries as well as serving the interests of the United States.
3. Foreign trade and investment remain important avenues of rapprochement between nations, most recently between the U.S. and Russia and China. Both trade and investment have served as tools for lessening tensions and building a more secure world.

4. Foreign investment and trade activities could not be such powerful instruments for international accommodation if they were not beneficial for the economic well being of the peoples of all nations. Consumers pay a high price when a country places restrictions on the free flow of goods and technologies. For example, former Secretary of Commerce Peter G. Peterson estimated that import quotas set at the 1965-1969 average annual level would cost the American consumer over \$10 billion annually in higher prices.

In the fall of 1971, the AFL-CIO raised the issue of "costs." It contended that returns on U.S. foreign investment have been inadequate. But its major argument was that American jobs have been "exported" because of overseas investment.

Some industries have indeed been adversely affected by imports from abroad. But nine important studies have been completed since late 1971 which show beyond reasonable doubt that the overall benefits, when measured in terms of American jobs arising from U.S. overseas investment, far outweigh "costs":

- Studies by the U.S. Department of Commerce; the Tariff Commission study; the Emergency Committee for American

Trade report; the study of U.S. corporate foreign investment by Business International Inc.; Harvard University's Graduate School of Business study on foreign investment; the National Foreign Trade Council study; the U.S. Chamber of Commerce study on foreign business; and the National Association of Manufacturers study on foreign investment.

To cite one study result:

The survey of American multinational companies by the Department of Commerce shows that the domestic employment of 298 companies with about 5,200 foreign affiliates rose 2.7% annually from 1966 to 1970, while total private employment in the U.S. during the same period grew by 1.8% per year. Thus, multinational companies supplied far more than their proportional share of the growth in total employment in the U.S. Exports of the 298 companies rose from \$12.7 billion in 1966 to \$20 billion in 1970, a faster rate of growth than for the nation's total exports.

The charge by the AFL-CIO -- that multinational corporations "run away" to countries with low-wage rates in order to produce more cheaply for American markets -- requires particular attention. First of all, most American investment is not in low-wage countries.

Evidence to this effect is to be found in studies by the Department of Commerce, which report that more than two-thirds of U.S. foreign direct investment over the past decade has been in the relatively high wage rate areas of Europe and Canada, while only a tiny portion (2.7%) has been in countries with the lowest wage rates.

And the allegation that multinational corporations "run away" to produce more cheaply for the American market is refuted by the fact that most of the output (over 90 percent) of American factories abroad is sold abroad; it is not exported to the United States.

II. Possible Government Action to Minimize the "Costs" of Foreign Investment

A drawn-out recovery from the 1969-1970 recession has kept the U.S. unemployment rate at over 5%; many economists doubt whether it will decline much below that before the end of 1973. This is a problem which must be treated by domestic economic policies; it should not be attributed to, nor can it be resolved by, U.S. trade and investment policies.

But, quite apart from the problem of the overall level of employment, major changes are taking place within certain industries

which have special significance for employment in those industries. Some of these changes are foreign-trade related, but many are not.

The U.S. Labor Department's statistics show that imports have caused some job losses in the textile, shoe and other industries. On the other hand, slackening use of anthracite coal has hurt that once booming industry, and the origins are not trade-related. Similarly, changes in the U.S. computer industry, mainly new manufacturing technologies and business-related factors, have necessitated large-scale retraining of thousands of IBM's employees.

Thus, changes affecting U.S. industries are occurring all the time. Some of them are a consequence of shifts in the international competitiveness of the industries concerned, but many of them are related to other forces, such as changing technology and changing consumer tastes.

One possible solution to major shifts in employment caused by foreign trade is adjustment assistance. It was proposed by the president of the United Steelworkers as far back as 1954 as a way of helping workers hurt by imports, within the framework of the liberal trade program supported by the AFL-CIO. Senator John F. Kennedy and others offered legislation a few years later,

but not until the Trade Expansion Act of 1962 did adjustment assistance become law.

During the first years of the Act's existence, not a single petition for assistance was granted by the U.S. Tariff Commission because of the strict eligibility requirements. Since 1971, a few cases have been approved, but the total amount of assistance is still quite small.

In July, 1971, the Williams Commission Report on United States International Economic Policy in an Interdependent World stated that adjustment assistance was "the first way that the government can ease adaptation to competition from imports."

A number of bills have recently been submitted to Congress concerning adjustment assistance. Among these are Ribicoff (S.3739); Percy (S.3936); Boland (H.R. 15458); Aspin-Fraser (H.R. 14440); Seiberling (H.R. 16325).

It is hoped that Congress will further examine the area of adjustment assistance to find a meaningful way to assist workers who feel the effects of economic dislocation from foreign trade. Congress also should consider the broader issue of whether such

assistance should be limited to only this one of many sources of economic dislocation.

III. The Impact of Multinational Corporations on U.S. Labor in Manufacturing

IBM pursues a general policy of manufacturing abroad most of what it sells abroad. The strongest single reason for investing abroad is to serve markets which would otherwise be impossible to reach.

Economists have pointed out that many American firms, if they were unable to serve foreign markets from within, would find it unprofitable to compete from U.S. bases; therefore, they would lose those markets to their foreign competitors. As the recent study at the Harvard University Graduate School of Business put it: "If U.S. firms failed to invest abroad, they would retain less of the world market."

In IBM's major markets abroad, some degree of local manufacturing is an unwritten requirement for doing business. In many countries, including France, Germany and the United Kingdom, governments feel the need to keep local value added in some kind of equilibrium with sales volume. If major countries had to import

all IBM products now sold there, the drain on their payments and trade balances would be considerable: as much as 10 times higher than at present in some cases.

Corporations such as IBM frequently are required by other circumstances to produce abroad. If a country has a high tariff, the only economical way to gain access to its market often is by producing within the country concerned. This may be of increasing importance as the European Economic Community and other trading blocs in Latin America and Asia establish area-wide barriers.

These pressures to invest and produce abroad seem, on the whole, not to have been adverse for U.S. exports, for U.S. employment, or for U.S. domestic investments. It has already been noted that U.S. multinational firms have accounted for more than their proportional share of the total growth in U.S. exports and employment. In addition, as is shown in the recent Commerce Department study, multinational companies have increased their investment in plant and equipment in the U.S. at a higher rate than have industries in total. In manufacturing alone, during the period 1966 to 1970, U.S. plant and equipment expenditures grew at 3.0 percent per year, while the spending for plant and equipment in the U.S. by the multinational companies in the study grew at a rate of 3.8 percent per year.

The results of IBM's policy of manufacturing abroad have been very positive. IBM's operations abroad have generated a growing export business channeled through IBM's foreign subsidiaries. Since 1960, the amount of domestic production destined for export has risen from \$56 million to \$440 million in 1971. In terms of jobs, one out of every eight jobs in IBM's U.S. plants in 1971 was accounted for by shipments abroad -- shipments that would not have reached that level had IBM not also been producing abroad.

IV. The Impact of the Multinational Corporation on the Balance of Payments and Trade

IBM's balance of trade in manufactured goods -- exports minus imports -- has risen from \$52 million in 1960 to \$277 million in 1971.

IBM's net contribution to the U.S. balance of payments over the ten-year period 1962 to 1971 was \$3.7 billion. In 1971 alone, IBM contributed \$765 million to the U.S. balance of payments. Approximately half of this amount represented the return on IBM's overseas investments in the form of dividends and royalty payments; most of the remainder was accounted for by IBM's export trade from the U.S. Computers in certain size - categories are developed and manufactured in the U.S. and exported abroad, in keeping with

manufacturing efficiencies. Also, increased manufacturing activity overseas has led to increased demand for components and other products manufactured in the U.S.

While repatriated earnings of American multinationals contributed \$9.5 billion to the U.S. balance of payments receipts in 1971, the outflow of long-term capital in the same year was \$4.1 billion. Thus, the net effect was a positive contribution to the balance of payments of \$5.4 billion. Moreover, during the past decade, this net contribution has increased, more or less steadily, from year to year.

It would be impossible to say precisely how many American jobs this substantial amount of money has created or protected, but it is clear that at a time when the total U.S. balance of payments was in a serious deficit position, return on foreign investment kept it from growing critically worse. In the coming three-year period of Congressional debate suggested by Senator Ribicoff, these contributions should be weighed by Congress when it considers tax proposals which might curtail such investments.

V. The Impact of the Multinational Corporation on the International Monetary System

American manufacturing companies operating internationally have a strong interest in the efficient functioning of international currency and finance markets. Disruptions in the orderly functioning of those markets seriously complicate orderly planning and distort the results of overseas operations. The chaotic international exchange situation in recent years has created severe problems for multinational firms.

Nonetheless, during the most recent dollar crisis, comments were repeatedly made in some quarters to the effect that companies operating internationally engaged in currency "speculation".

We believe that these allegations have been greatly exaggerated and that they generally reflect a lack of understanding of the way in which multinational firms operate. We know that, in the case of IBM, the company does not accumulate excess cash abroad beyond normal requirements. The company maintains incorporated subsidiaries in major foreign countries, a legal structure which severely limits IBM's ability to freely move funds among countries in response to expectations about exchange rate and interest rate changes. In most countries, legal, tax and exchange regulations

severely reduce the practical scope of money flows. IBM's main method of protecting itself against anticipated fluctuations in currencies is in the timing of inter-company payments. Normally, these are settled on a 30-day basis, but can be speeded up or slowed down to the extent permitted by regulations in each country. The maximum amount involved in such changes in timing, however, is about \$50 million a month. These payments are not made in one currency and involve operations in many different countries.

The appropriate remedy to currency speculation is to correct the monetary environment which nurtures such activity. In this regard, the negotiations started last September at the IMF meeting to overhaul the international monetary system, and the forthcoming negotiations on trade, are constructive.

VI. The Impact of the Multinational Corporation on Technology and R&D

The economic progress made during the last 20 to 25 years would not have been possible without the relatively free transfer of technologies among Western nations. Businesses operating worldwide, including IBM, have acted as important conduits of this flow.

The record shows clearly that the U.S. has benefited every bit as much as other nations. Protectionist legislation now before the Congress would authorize the President to prohibit the licensing of U.S. patents and know-how for foreign manufacture. The sponsors of this legislation claim that choking off the flow of American ingenuity to foreign manufacturing operations would increase U.S. exports, protect U.S. jobs, and reestablish American dominance in several key industrial areas.

The fact is that such measures would have dangerous boomerang effects. They could stifle economic development everywhere, contribute to a broad slowdown of trade, and retard the advance in living standards here and abroad.

The two-way flow of invention and innovation played a major role in the accelerated post-war recovery rate of many nations; it contributed to dramatic advances in transportation and brought about a new era in communications, nuclear energy, data processing, and consumer products.

For the U.S. in particular, technology transfer has had two benefits:

First: The creation of new markets for technology-intensive U.S. products and techniques. These include heavy automotive equipment, atomic energy, data processing, chemicals, petroleum, and aircraft. Important elements in the planes sold by U.S. firms were the turbo-jet and pure-jet engines developed in large part under cross-licensing agreements with British companies.

Second: Foreign technology has led to the rapid expansion of many U.S. companies. These companies, with bases of research, development and production throughout the world, have direct access to overseas technology.

IBM, for example, has cross-licensing arrangements with dozens of European companies, including Philips in The Netherlands, ICL in the U.K., and Siemens in Germany. It has similar agreements with some 15 Japanese companies. IBM's magnetic tape manufacturing facility in Boulder, Colorado, was set up under a cross-licensing agreement with the Sony Corporation of Japan. It uses Sony patents and a great deal of the technical know-how of the Japanese company.

An important part of the development work on the IBM computer systems, IBM System/360 and IBM System/370, was done in the company's eight overseas development laboratories. IBM customers

throughout the world are the final beneficiaries of these joint efforts.

VII. The Impact of U.S. Tax Policy on Multinational Corporations

Some of the bills currently before Congress advocate changes in the way U.S. business operations abroad are presently being taxed.

Title I of the Foreign Trade and Investment Act of 1973 proposes to repeal the foreign tax credit and to impose taxes on "deferred" income. It aims at curbing U.S. foreign investment in order to generate more domestic investments and jobs. The enactment of such legislation would have the opposite effect, reducing IBM's and many other companies' U.S. employment.

A recent study by the National Foreign Trade Council showed that, on the whole, foreign investment is not motivated by the desire to avoid high American taxes. While the current effective tax rate on income earned by manufacturing companies operating in the United States was shown by the study to be 50.9% (including Federal and state income tax), the average tax burden for American companies overseas, in eight major nations studied, was 51.1%

The study also showed that the heaviest tax burden of all -- 56.2% -- was in Canada, a country where the book value of U.S. manufacturing investment is more than twice as high as the next ranking country.

To avoid double taxation, U.S. firms are allowed a credit against U.S. income tax for foreign income taxes paid. Practically every developed country allows a similar tax credit to avoid double taxation. Those that don't, such as France and Italy, simply do not tax foreign earnings at all. In fact, the rules of most other nations are more liberal than those of the U.S. American firms would be placed at a severe competitive disadvantage abroad if the law were to be changed so that they could no longer take payments of foreign income taxes as a credit against the income tax due the U.S. Government.

Should the foreign tax credit be replaced by a tax deduction, as some have urged, in the same way that state income taxes in the United States are treated? If it were, according to the National Foreign Trade Council Study, the tax burden on foreign earnings would be raised from "the present range of 45.0%-56.2% to a range of 71.4%-77.2%." At these levels, American business overseas would be generally no longer competitive and would eventually lose its foreign markets.

Also, under the U.S. income tax law, earnings of foreign subsidiaries of U.S. parent companies are not subject to tax until they are repatriated to the United States. For the United States to change this provision and directly tax the U.S. parent company on undistributed earnings of foreign subsidiaries would mean that the U.S. would, in effect, be using an extra-territorial tax, although virtually all other countries look upon these subsidiaries as outside U.S. tax jurisdiction.

Moreover, a tax on earnings not repatriated would be a tax on income not received by the American parent company, and indeed, on earnings that may never be received, because of fluctuating exchange rates and other exposures (e.g., exchange controls).

In addition, the bulk of the income of foreign subsidiaries is repatriated. The Commerce Department study already cited showed that the companies surveyed repatriated 86.6 percent of their foreign affiliates' income after taxes in 1966 and 81.0 percent in 1970. Thus, a change in the deferral provision would be largely academic.

IBM's contribution to U.S. and foreign tax revenues over the last five years amounted to \$4.65 billion; over the last ten years to \$6.89 billion. This represented taxation at the rate of

approximately 50% of earnings. In the case of IBM, the repeal of the foreign tax credit would mean a new combined foreign and domestic tax rate of about 73% of overseas earnings. Whatever the full magnitude of the effects of such taxation might be, the following conclusions can be drawn:

- IBM would be forced to curtail its investments abroad.
- Eventually, IBM's contribution to the U.S. balance of payments in the form of return on investment would decrease.
- In the longer run, the company's exports -- closely related to the business volume of overseas subsidiaries -- would also be reduced.
- The new tax burden would cut into the company's profit margin, with detrimental effects on IBM's stock, R&D effort, and overall operations.
- IBM's current employment level in the U.S. would be jeopardized -- particularly in the manufacturing area.

Foreign tax credit is an integral part of the network of international treaties which the U.S. Government has made with some 22 countries over the past 25 years -- tax treaties negotiated for the express purpose of avoiding double taxation where both countries claim the right to tax the same income.

Abandoning the principle of tax neutrality and its application in the form of foreign tax credit would disrupt the worldwide system and philosophy of international trade and investment by changing one of its fundamental rules.

Conclusions

The early post-war environment in which the present international trade and payments system was created has changed dramatically. There has emerged a more complex power structure -- one in which Western Europe and Japan play an increasingly prominent role. In recent years, both have entered into complex and tough negotiations with the United States on matters involving trade, tax agreements and monetary reform; both are encouraging investments in U.S. plants and technologies.

In the U.S., there are strong voices calling for highly protectionist legislation, a form of economic medicine which has a dismal record of effectiveness. What the U.S. requires is orderly economic expansion throughout the world and an efficient international monetary system.

If we are to have such an orderly economic expansion and the benefits it will bring, U.S. multinational corporations must not be hemmed in by laws, regulations and tax penalties that will make it impossible for them to function effectively.

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December 22, 1972

Subcommittee on International Trade
Committee on Finance
2227 New Senate Office Building
Washington, DC 20510

Gentlemen:

The following information concerning our international operations is submitted in response to the invitation contained in the June 1972 press release of Senator Ribicoff.

Varian is a science-based company with annual sales of about \$200 million. Most of our products are based on relatively sophisticated uses of electron physics, especially those branches involving the generation and amplification of radio frequency power, and electronic techniques for the analysis of chemical and biological compounds.

The following list provides more detailed data on typical products and their uses:

Product

Power and special purpose
electron tubes and semi-
conductor devices

Spectrometers, gas and
liquid chromatographs,
spectrophotometers

Ultra high vacuum and high
vacuum pumps and equipment;
material deposition equip-
ment

Linear Accelerators

Applications

Radio, television and radar
transmitters, automation controls,
medical x-ray image intensifiers

Chemical and biological analysis
for scientific, medical and in-
dustrial research and pollution
control

Research, development and processing
of semiconductor and similar devices,
materials research, space research

Cancer radiation therapy

These types of products are used primarily in the developed countries, but have some markets in other areas. We have developed our export business over the last fifteen years, and have added some offshore manufacturing more recently. Before responding to the subcommittee questions we would like to describe our international operations in more detail, and indicate their impact on U.S. employment and balance of payments.

Thirty percent of our 1971 sales of \$187 million were to overseas customers. About 75% of the products sold overseas were exported from the U.S., and the remaining 25% were manufactured abroad. Imports into the U.S. from our overseas plants totalled less than 3% of total company sales. We exported nearly \$10 worth of products for every \$1 worth of imports and our net company favorable balance of trade was over \$37 million.

Our overseas operations consist of a large number of offices engaged in sales and service, and a few specialized manufacturing plants and joint ventures. All international projects have but a single purpose - to offer our overseas customers good products and services at fair prices, which in turn will generate profits for us.

We do those things which are necessary to be competitive in foreign markets. Our first preference is to serve them from the U.S. When this is not possible we arrange to do some or all of the work overseas.

Our overseas manufacturing operations fall into several categories:

- (a) The two largest, one in W. Germany and one in Australia, are instrument companies which we purchased, primarily with funds borrowed overseas. Both have technologies

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and products developed in those countries and not possessed by the U.S. parent company. Both serve worldwide markets and make modest exports to the U.S. Both have added to our U.S. employment, and by their presence in foreign countries have aided the export of our products to W. Germany and Australia.

- (b) Several years ago we established a small plant in Canada in order to meet Canadian interests in a local source of microwave components. It exports a substantial part of its output in two product lines to the U.S. In both cases, the products are based on foreign technology which was not available in the parent company.
- (c) Two smaller operations in the U.K. and Italy are essentially assembly plants. They enable us to compete from local bases, but a substantial portion of the materials and components which go into their products is exported from the U.S. Little of their output is returned to the U.S. Their net impact is to add to U.S. employment.
- (d) We have two small product lines which are manufactured overseas and reimported into the U.S. In each case, this is our response to severe price competition in the U.S. by foreign manufacturers. We simply could not be competitive if these products were made in the U.S. Each of these operations uses materials and components from the U.S. and contribute to U.S. employment.

In summary, our international operations involve relatively small exports of capital and technology from the U.S., yet they add significantly to our U.S. employment. They generate substantial product exports and negligible imports and have a very favorable impact on the U.S. balance of trade.

Since our operations do not expose us to the full range of topics covered by the ten questions posed by the Subcommittee, we will confine our responses to those in which we have relatively direct experience.

I Do "costs" outweigh "benefits"?

Our experience indicates that the contrary is the case, and that the benefits far outweigh the costs. As outlined above, our international operations provide substantial benefits to our shareholders, our employees, our suppliers and the U.S. Balance of Payments. An added benefit is the contribution of our products to the well-being of the citizens of overseas countries in three importance areas - chemical and biological research, cancer therapy and radio communications.

The "costs" are minimal and consist only of the deferral of the payment of some U.S. corporate income taxes through the operation of our Export Trade and Domestic International Sales Corporations.

II What actions are open to governments to maximize benefits and minimize costs?

The breadth of this question exceeds our capability to formulate a detailed response, but we have some general comments.

Governments collectively can and do have major influences on practically every aspect of international economics. These range from mandatory controls to systems of incentives and disincentives to motivate actions that are considered desirable.

We believe that the principles underlying our domestic free market economy are equally applicable to the world economy; hence a free world market should be our goal. Obviously, there are a myriad of obstacles, political as well as economic, to the achievement of such an objective. These should not deter our efforts to press constantly toward the elimination of barriers to free markets and to do our utmost to encourage similar actions by other nations. Early enactment by the U.S. of sound Trade Adjustment Assistance legislation is an essential first step.

III Employment? and

IV Balance of Payments?

These were covered in the comments on our international operations above.

V Monetary matters?

Our experience does not provide the basis for a response.

VI Technology?

We have had experience with the U.S. government munitions controls over the export of military technology to support NATO. This program

is effective in controlling the transfer of strategic technology. However, the procedures for obtaining clearance for licenses for such exports are extremely slow and cumbersome, and we are hard-pressed to meet the legitimate needs of our foreign licensees.

We view any attempt by our government to restrict the international movement of commercial technology as highly undesirable from every point of view. Three main factors stand out - (1) International scientific exchanges have a distinguished history of benefits to all mankind; these policies should not be lightly reversed. (2) Any technology control mechanism is certain to be an administrative nightmare. (3) Even if control were desirable, with today's rapid communication systems and the mobility of people, it might not be possible to control commercial technology without a mechanism comparable to the Berlin Wall. The commercial impact of controls over the export of technology could be extremely adverse to the U.S. Our overseas competitors would then benefit from their technology plus leaks from ours, and would undoubtedly succeed in persuading their governments to close their markets to our exports.

VII Profits and Taxes?

Because of the developmental status of our overseas manufacturing operation, our experience with tax credits for foreign income tax payments is limited. We do, however, strongly support the principle of such tax credits. Lacking them, the overseas operations of U.S. companies

would be at such a disadvantage vis-a-vis foreign-owned companies (which benefit from such credits) that it is questionable that they could survive. We believe that any hoped-for increases in U.S. tax revenues from the removal of tax credits would be illusory; for defunct operations are poor taxpayers.

We have had considerable experience with tax deferrals under an Export Trade Corporation, and believe this is generally applicable to Domestic International Trade Corporations.

We have found that the development of export sales requires major commitments of both personnel and financial resources. It also entails substantial risks and requires persistence to overcome the innumerable administrative obstacles. Even when good volume has been achieved, marketing and service costs are higher than for domestic sales, and profits tend to be lower.

Competition from foreign sources, either in the country served or from third countries, is also a serious problem for U.S. exporters. These competitors have developed their own strong technology and are assisted by their governments in a number of ways, both direct and indirect. The techniques vary widely, but underlying them all are two basic objectives:

- (1) Sufficient protection of home markets and assistance to home industry to insure the success of domestic industry.
- (2) Support of exporters as an instrument of national policy.

As long as these nationalistic policies exist, U.S. exporters operate at a serious disadvantage. Domestic International Sales Corporations represent a modest effort by the U.S. government to correct this situation. We would prefer that the imbalance between nations be rectified by the elimination of the protective barriers and assistance programs of foreign governments, and trust that our negotiators will seek this solution in GATT and elsewhere. In the meantime the DISC provisions should be continued, and serious consideration given to additional techniques to make U.S. exporters more competitive.

VIII Legal Aspects?

Our experience does not provide the basis for a response.

IX Tax Laws?

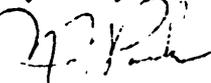
See VII above for general comments.

X Antitrust?

Our experience does not provide the basis for a response.

We are pleased to note the Subcommittee's interest in exploring all aspects of U.S. international economic policy and hope that these comments may be of value in helping illuminate the situation in a high technology segment of industry.

Very truly yours,


Norman F. Parker
President

THE CASE FOR THE MULTI-NATIONAL MINING ENTERPRISE

Statement

by

Kennecott Copper Corporation

in response to the inquiry

of the

Subcommittee on International Trade

of the

Senate Finance Committee

December 29, 1972

The Committee has asked for factual information bearing on the benefits and costs of the multi-national corporation, defined as one which, from a strong base at home, seeks profitable investment opportunities overseas.

For Kennecott Copper, as for most mining companies, such investment comes naturally because fuels and metals are where they are found; Nature is no respecter of national boundaries.

Kennecott owes its development to three separate and high-risk mining ventures -- one in Alaska, one in Utah, and one in the high Chilean Andes -- which never could have been undertaken and financed without freedom to trade and to invest on a world scale.

Since our formation in 1915, experience has confirmed our belief that such multi-nationalism is good, not just for our shareholders but also for the American consumer and worker, and is to the benefit of host countries. The confiscation of our Chilean properties in 1971 has not changed our basic approach to the development of national and international resources.

From this perspective, and given this background, we view with misgivings recent efforts to curtail U.S. foreign investment. We take particular exception to proposals, such as the Burke-Hartke bill in the last session of Congress, which would penalize foreign investment by sweeping changes in Federal tax laws and would give the government all but unlimited discretionary authority to impose import quotas on trade and to "regulate" capital movements in and out of this country.

The net effect of such proposals would be to isolate the United States from the world competitive market and reverse policies which, since World War II, have expanded U.S. trade four-fold and have led to a dramatic rise in U.S. investment abroad in mining and in manufacturing. This expansion of trade and investment has been in the U.S. national interest.

The Case for Foreign Investment

In the case of the mining and extractive industries in particular, a narrow spirit of isolationism seems signally inappropriate in view of the relative scarcity of most mineral resources, their geographic distribution, and the fact that world demand for them is drastically increasing.

With only about 6% of the world's population, the United States today consumes about one-third of the world's energy output. The Secretary of the Interior is predicting that

U.S. demand for energy fuels and metals may increase by at least two-and-a-half times by the turn of the century, and similar calculations by the Bureau of Mines indicate that world demand may triple. It is unnecessary to take these projections literally to believe that, over the long term, U.S. and world needs for minerals will be pressing against the limits of supply.

In these circumstances, the government should obviously favor policies that will stimulate both domestic production as contemplated by the Mining and Minerals Policy Act of 1970, and U.S. private extractive investment abroad, rather than put roadblocks, such as the tax provisions of the Burke-Hartke bill and similar proposals, in the way of foreign investment.

Foreign investment increases the total world supply of the mineral in question, thus tending to maintain prices at reasonable levels to the consumer. It gives the United States an assured flow of critical materials in time of war or crisis which might not be the case if development were left to others.

Finally, if U.S. mining companies do not venture abroad, others will. In this event, we forfeit control over mining ventures outside the United States, depriving ourselves of the return flow of profits and dividends from foreign investment.

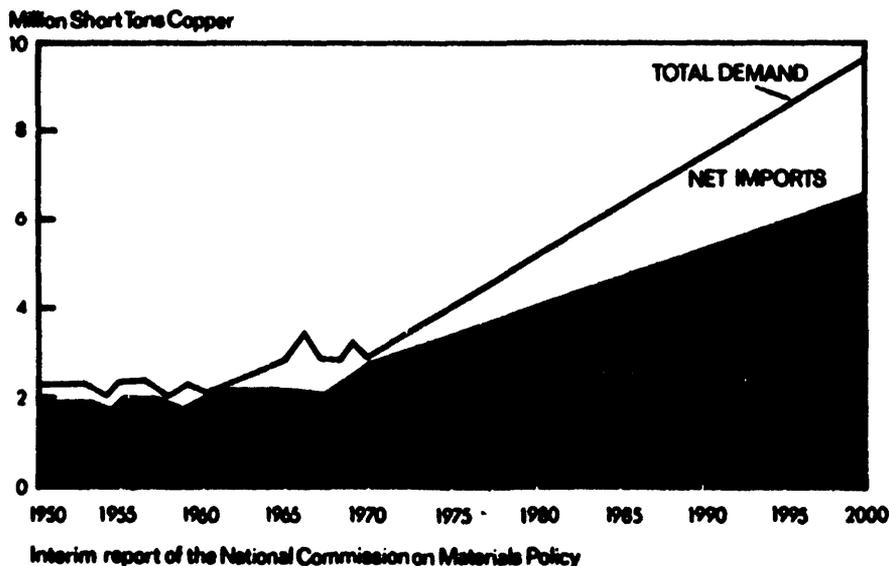
The Consumer Interest

This general argument for foreign investment is fortified when we take a closer look at the position in which the United States finds itself with respect to both fuels and metals. In coal, private enterprise has opened up domestic reserves that should serve us into the indefinite future. But in the case of that second great energy fuel, petroleum, we stand in radically different posture and are already a net importer. The world would surely be a poorer place, and prices of petroleum products would surely be higher, if American and other Western oil companies had not helped to develop the resources of South America and the Middle East. In doing so they have adopted policies which, on the one hand, seek to satisfy the aspirations of host countries for a voice in the development of their own resources, and, on the other hand, assure a continuous flow of oil to the expanding markets of Europe and the United States.

With respect to metals, the case for foreign investment is equally clear. Until World War II, the United States was an exporter of many of these critical resources. Since World War II we have become a net importer on a rising scale. Such imports derive from rising domestic demand for metals that are either not available in this country at all, or available in quantities and at prices that make self-sufficiency impossible. They include high grade chrome, cobalt; nickel, mercury, zinc, plus bauxite for our aluminum industry. In these instances, the United States obviously gains by participating in the development of foreign resources.

In the case of copper, the United States is more bountifully supplied due in no small measure to early pioneers, who proved the feasibility of mining relatively low grade ores by open pit methods. There are limits, however, to which domestic ore bodies can be developed without running into rising costs and prices.

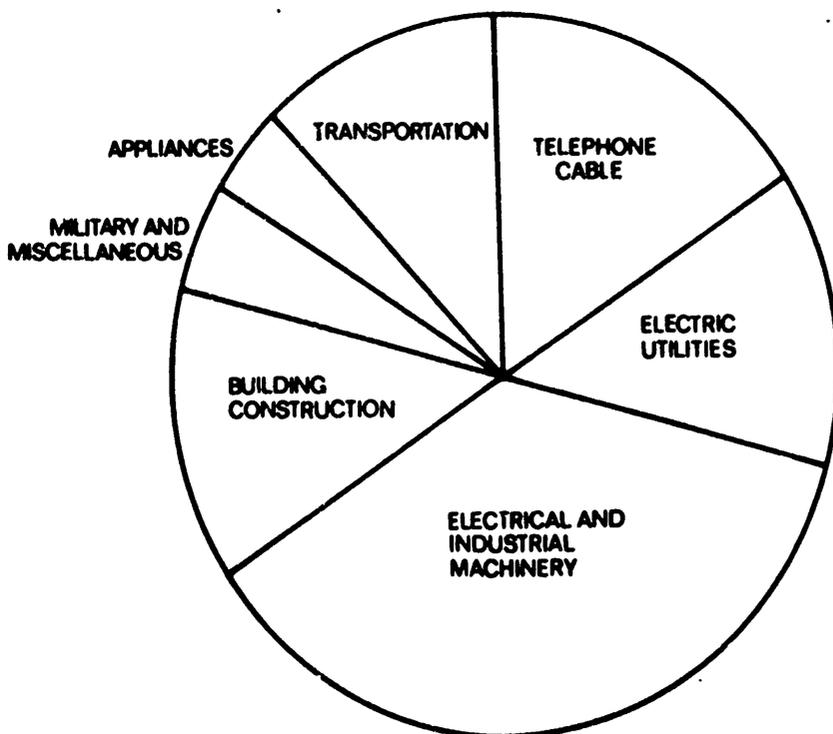
U.S. Copper Supply and Demand



Since copper, like most metals, sells on a world market, a rise in its price in the United States will encourage imports unless they are inhibited by some form of tariff and/or quota system. While specific protection for some metals cannot be excluded as a military and defense measure, it is not the high road to progress, especially in view of probable retaliation by other countries.

Artificially high prices can have far-reaching effects on both consumption and, indirectly, on employment. Copper touches the consumer pocketbook at many points -- in the price paid for an automobile, for a house, for electricity and for telephone service to mention but a few.

End Uses for Copper in the United States



High prices for these products and services may well lead to lower demand and hence to lower employment in the industries affected. The basic interest of the consumer in competitive prices is closely related to the interest of workers and the expansion of employment in the economy as a whole. Both will be served as the United States pursues a policy of fostering domestic production while allowing mining companies to expand world output through profitable investments overseas.

The Employment Effect

The Burke-Hartke proposals ignore the interest of the American consumer entirely and misread the effect of foreign investment by multi-national corporations on employment. It is argued that when a corporation invests abroad it "exports" jobs from the United States to foreign lands at the expense of jobs at home.

The argument conveniently ignores the real causes of employment and unemployment. Unemployment results when prices of commodities are artificially boosted through restrictive practises, when wages are pressed above competitive levels, often by union action, and by the operation of

minimum wage laws which penalize the poorest workers in our economy. More generally, employment opportunities are affected by general business conditions where government fiscal and credit policies play a major role. It is significant that when the U.S. economy was booming, during most of the Sixties, there was little criticism of foreign investment, which was also running at high levels. It was only during and after the short-lived recession of 1969-70 that organized labor mounted its attack against the multi-national corporation.

This attack largely centers on alleged import and export effects of foreign investment that will not stand up on analysis. It assumes that when American companies invest abroad they produce goods that immediately flow back into the United States to reduce employment here. This is not born out by our own experience or by research studies carried on by the Department of Commerce and private agencies. Copper from our Chilean mines did not enter the U.S. market; it flowed out to Europe and other markets. In the case of manufacturing companies, investment abroad has sometimes been attended by import of products in the United States resulting from that investment, but such sales are far smaller than commonly supposed. If Canadian transportation

equipment is excluded, imports from U.S. foreign manufacturing subsidiaries in 1968 ran to only about 8% of total imports. Moreover, it should be stressed that goods purchased from U.S. foreign affiliates would probably have been imported into the United States in any case as the result of competitive conditions. Large imports of textiles and steel into this country do not come from foreign U.S. affiliates. They come from Japanese and German firms which can undersell U.S. products.

The argument that U.S. foreign investment undermines and diminishes our export trade, thus costing jobs here, is also simplistic. As Professor Vernon of Harvard and others have shown, the traditional pattern for U.S. corporate growth is first to develop a large market in the United States, then to exploit export opportunities abroad through techniques learned here. *It is only when these export markets are threatened by foreign producers that companies invest abroad as a defensive measure. In doing so, they frequently preserve markets that otherwise would have been lost entirely, and in the*

process increase exports of intermediate products or components to their foreign subsidiaries.

The second and more obvious kind of export pull of foreign investment derives from the fact that foreign affiliates frequently buy capital goods in the United States when they are putting up their new facilities abroad. Trade tends to follow the flag. This is born out by overall statistics which take account of both kinds of export pull mentioned above. It is estimated that, in 1966, the export sales of companies having direct investments abroad accounted for nearly 70% of the total U.S. exports of merchandise, to the great benefit of domestic employment. A recent survey by the Chamber of Commerce of 121 multi-national corporations (including firms in the extractive industries) indicated a 31% gain in domestic employment in the decade of 1960-70, which is significantly higher than the national average.

A Question of Balance

The case for foreign investment is further strengthened when one counts its effects on the U.S. balance of payments, a problem of increasing concern over recent years. Indeed, it was in the wake of persistent deficits that the government, in 1969, imposed controls over capital outflow and even sought to penalize normal exploration expenditures by counting them as capital outlays. If this approach were correct, one would have expected that the control program would have shown larger results than have been apparent to date. What are the facts? *In 1968, before the program was instituted, the payments deficit was less than \$5 billion. In 1971, after three years of control on capital outflow, the official deficit soared to over \$22 billion.*

Involved here were, no doubt, huge outflows of short-term capital as the result of lack of confidence in the American dollar. But so far as long term direct investment is concerned, the facts are opposite of what critics allege. Such investment has furnished the strongest element in this country's foreign accounts, whether we look

at the performance of individual industries, or at the awesome statistics as recorded for the entire economy by the Department of Commerce. In the decade of 1961-70, net capital outflows of the mining and smelting industry ran to about \$2 billion. But receipts from abroad, including dividends, interest and branch profits, ran to \$4.8 billion. Net contribution of the mining and smelting industry to the balance of payments was therefore close to \$3 billion.

This contribution is the more impressive when we consider where mining investment is made. The chief threat to the dollar of recent years has come from Western Europe. But little mining investment is made in Europe for the good reason that Nature has deposited useful minerals elsewhere, in Canada and in the less developed nations of South America, Africa and Australia.

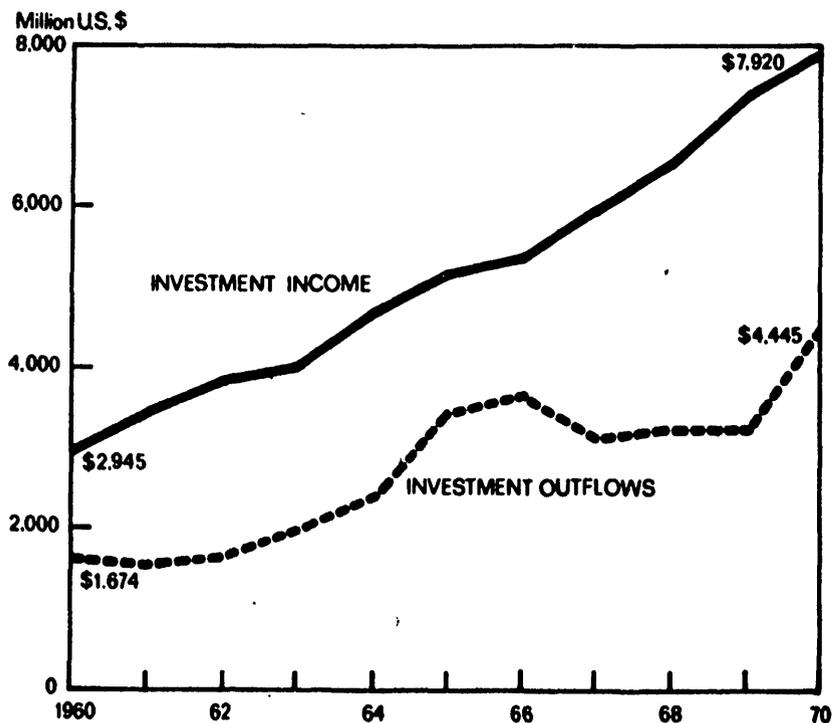
World Sources of Copper



From the beginning, the capital control program has exempted Canadian investment on the grounds that the Canadian economy is so intertwined with that of the United States that it should enjoy special status. Investment in the less developed countries has received favorable treatment, partly for political reasons and partly because they pose little threat to the dollar's integrity.

In the case of total U.S. foreign investment, including manufacturing, the position is somewhat different: capital outflows have gone to Europe. Yet if we separate the Department of Commerce accounts, we find that, on net balance, long term foreign investment has been a positive, rather than a negative, factor in this country's position. In 1971, for instance, total income from such investments ran to \$9.4 billion, against outlays of \$4.7 billion. In the decade of 1960-70, earnings exceeded outflow by over \$25 billion.

U.S. Direct Investment Abroad - Income & Outflows



In view of these figures, direct investment has obviously been made a scapegoat for the real ills affecting our balance of payments position. The principal deficit factor over the years has been large government spending abroad for military purposes. A second factor has been loss of our export surplus as the result of rising costs at home and inflationary spending. Curbing the deficit requires attacking these problems rather than shooting down foreign investment, where dollars spent today earn dividends tomorrow to benefit the United States.

The Gain to Host Countries

The real problem affecting foreign investment is not how it can be curbed but how it can be stimulated to the advantage of both the United States and host countries. Viewing the figures, which show that today U.S. return on foreign investment is now larger than outlays, host countries are apt to conclude that U.S. enterprises are exacting profits to the detriment of their economies. This view, encouraged by

rabid nationalists, overlooks the long years when mining ventures in particular may show no return and when large investments are required to develop the resources.

Kennecott's early investment in Chile is a case in point. A subsidiary of Kennecott provided the investment and know-how that, over a 55-year period, created one of the world's great underground mining ventures. In the process it was necessary to construct roads and railroads, housing, medical and other community facilities that contributed to the building of a whole "infra-structure" for the Chilean economy.

In 1967, the Chilean government acquired a 51% interest in the property, Kennecott retaining a 49% interest. Under the new arrangement a further expansion program was undertaken designed to boost the mine's production from 180,000 tons of copper per year to 280,000 tons. This creative arrangement was overturned in 1971 after Dr. Salvador Allende was elected President of Chile.

The property was expropriated without compensation on the grounds that Kennecott had derived "excess profits" from 1966 to 1970. Sufficient to say here that this claim of "excess profits" exceeded Kennecott's total earnings from Chile during the period. *The larger point is that profits, no matter how calculated, represent a relatively small fraction of the total income which foreign investment generates for the host country. In the case of Chile, easily 75% of that income flowed directly back into the Chilean economy in the form of taxes and wages for some 7,000 employees and the purchase of indigenous materials and domestically manufactured goods.*

Confiscation in Chile (and Cuba) followed the rise to power of Communist-led political forces. Elsewhere in the world the underdeveloped nations, while desiring a voice in the development of their resources, have been showing a more realistic attitude towards the need for foreign capital.

Kennecott is exploring in New Guinea and Australia for copper and other minerals. Aluminum producers have made satisfactory partnerships for the mining of bauxite in the Caribbean, South America and Africa. Steel companies have increased their iron ore reserves in Venezuela and Canada. The pace of foreign investment in mining, which rose six-fold between 1950 and 1970, and of U.S. access to foreign natural resources, is not apt to slacken, provided that the United States itself adopts policies which favor such investment and does not put roadblocks in the way of the free flow of capital.

The Power of Tax

In creating a favorable climate for foreign investment, the United States should clearly uphold principles of international law as regards to contract and property rights. It should lift restraints on long-term capital outflows which were never justified as a means of righting the U.S. balance of payments. More importantly, it should maintain equitable tax laws in the case of foreign investment, rather than penalizing such investment as contemplated by the Burke-Hartke proposals.

Under traditional procedures followed in almost all advanced countries, taxes levied on foreign investment by host countries are counted as an income tax credit by the Internal Revenue Bureau, and dividends and interest from abroad are taxed only when remitted. The new proposals would change this in two significant ways: the credit for foreign taxes would be eliminated entirely, and such taxes could be counted only as "deductions" from gross income received by the parent company. In addition, U.S. income taxes would be levied on profits of affiliates when earned rather than when remitted to this country.

It is argued that such "reform" is essential to close gaping "loopholes" in the tax system under which multinational corporations have acquired privileges at the expense of the ordinary citizen. We find this whole line of argument disingenuous in the extreme, and that the proposed remedies amount to a system of double taxation contrary to all sound tax principles. Under prevailing rates of foreign taxation, American foreign subsidiaries now pay at least 50 cents on every dollar earned and in many cases more than that. Under the new proposals, the remaining 50 cents, even after deductions, would be subject

when earned to nearly the full brunt of the U.S. corporation tax of 48%. The result, on calculations made by the National Foreign Trade Council and other organizations, would be that effective rates on foreign earnings would be raised to between 71% and 77%. *This is not to equalize taxation on foreign investment but to penalize it. It would not bring in additional revenues to the Treasury, for were such rates ever imposed U.S. foreign investment would simply dry up -- at a loss to the United States but to the great gain of foreign competitors.*

Competition and Anti-Trust

Such foreign competition is already intense and leads to a final question which lies well within the scope of the Committee's inquiry. It should be recognized that foreign corporations, including particularly those in the extractive industries, work within a framework of law very different from that in the United States. In general, foreign governments have favored, or at least been relaxed about, vertical integration and diversification within their basic industries. British

companies such as Roan Selection Trust, South African ventures such as Anglo-American, and Japanese giants such as Nippon Steel are in general free of anti-trust prosecution in the countries of their origin, and indeed foreign governments have often favored the formation of consortia in which governments participate. In the United States we have drawn a far stricter line between the public and private sectors of the economy, and in the private sector have insisted on strict rules to maintain competition.

This traditional philosophy may have served us well in the past, but -- as in the case of the energy industry -- it can be carried to destructive extremes. In the Sixties, for instance, Kennecott diversified into coal with the purchase of the Peabody Coal Company, a large producer of bituminous coal in the United States and of metallurgical coal in Australia. The acquisition not only strengthened our domestic base but opened up new vistas for investment overseas. In 1971 we were ordered to divest ourselves of this acquisition by the Federal Trade Commission.

This decision strains the whole philosophy of anti-trust to the breaking point and constricts, rather than expands, meaningful competition even within the United States. It overlooks the fact that large capital expenditures must be made if we

are to meet the nation's energy requirements. It also overlooks the fact that fruitful diversification at home provides the base corporations need for undertaking the risks of investment overseas. *In this context we believe that there is need for a searching reappraisal of how our anti-monopoly laws should be applied under modern competitive conditions.*

Facing the Realities

Such reappraisal is only part of a larger task. The basic issue is whether U.S. policy will adapt itself to realities or forego the risks and benefits which accrue from internationalism. If America is to be insulated from the outside world, then it might be appropriate to push anti-trust policy to the extreme while damming up both trade and investment. But is this insulated America consistent with the kind of world we really live in, or really want?

The truth is that the international market is today a reality, and this market has benefited the consumer and the worker. The flow of capital across national boundaries is the natural

accompaniment of free trade, although its benefits are less obvious to the public. Dollars invested in Canadian titanium or nickel are not buried in the ground. *They help develop scarce resources to the benefit of host countries no less than to the benefit of the U.S. economy. The multi-national corporation has grown in response to real needs, and, in the case of raw materials, plays an essential role in providing the fuels and metals on which an industrial civilization depends.*

KENNECOTT COPPER CORPORATION

December 29, 1972

CLARK EQUIPMENT COMPANY

Corporate Offices

324 East Dewey Avenue
Buchanan, Michigan 49107
Telephone: (616) 697-8000**STATEMENT TO THE SUBCOMMITTEE ON INTERNATIONAL TRADE OF THE
COMMITTEE OF FINANCE**

Clark Equipment Company, a Delaware corporation, is headquartered in Buchanan, Michigan, and has wholly owned manufacturing subsidiaries in Argentina, Australia, Belgium, Brazil, Canada, France, Germany, and the United Kingdom. In addition, 36 licensees and affiliates located in 21 different countries produce Clark equipment which is sold through authorized distributors in 156 countries. The Clark group manufactures materials handling equipment and systems, such as forklift trucks, straddle carriers, towing tractors and automated warehouse systems; construction machinery products such as tractor shovels, dozers, scrapers, compactors, hydraulic cranes, and graders; refrigeration and food service equipment; automotive parts and components; and truck trailers and containers.

The growth of Clark Equipment Company since its founding in 1903 has been steadily upward. More sales, more plants, more jobs have characterized the company's growth over the years. As Clark grew, the international business of the company grew as well. As a matter of fact, without international, the growth would have been substantially less than it is today.

This growth was possible only through the establishment of foreign subsidiary companies. There is no other way to effectively compete, survive, and grow in the overseas marketplaces.

Many countries have erected business barriers -- whether they be import duties, restrictive quotas on product, special taxes, or other limitations that make it almost impossible to do business in a country unless a company has a factory there. These subsidiary companies adhere fully to the laws and regulations of the country in which they are located.

Clark's entry into world trade began after World War II, exporting U.S. built replacement parts and machines following introduction of material handling equipment -- primarily lift trucks -- abroad by the American Armed Forces. By the mid-1950's use of this type of equipment had become accepted practice overseas and demand for newer and higher capacity machines has continued to this day.

In 1950 our export sales, which was our total overseas business at the time, amounted to \$5 million. Export sales from the U.S. plants in 1971 were \$85 million. Total consolidated sales of the parent and its offshore subsidiaries in 1971 were \$741.5 million. Consolidated overseas sales of the subsidiaries accounted for 29 per cent of this total, or \$218 million. For 1972 we expect consolidated overseas sales of \$267 million, or approximately 30 per cent of estimated total sales of \$900.0 million.

Clark Equipment Company contends that it has -- within its own sphere of influence -- benefited U.S. labor, the U.S. position in international trade, the U.S. balance of payments, our employees, our customers, our stockholders, and the growth and success of our company.

We further contend, on the basis of our broad and long term involvement in domestic and in overseas trade, that the basic provisions of the proposed Burke-Hartke legislation would severely restrict our ability to continue to provide the benefits noted above, and would, in our judgment, tend to worsen the very domestic problems it is purported to diminish. We feel that in addition to limiting the competitive thrust of companies such as ours, it would

also practically nullify the opportunities of companies with the potential to enter foreign markets, and virtually eliminate the possibility of industries at present badly weakened by imports to again regain a strong position in domestic markets.

Contrary to the attitudes of foreign governments -- and most notably the Japanese government -- it appears that the U.S. government has apparently failed to realize the importance of foreign trade to the realization of domestic goals, and has done little to initiate or implement programs that would assist current and potential exporters to not only sustain, but to improve their ability to compete effectively in the world market that exists today.

Companies which have created this nation's huge export trade have done so in the face of discriminatory foreign trade regulations and practices, and largely on their own. They have also been forced to contend with U.S. laws and regulations that have lessened what competitive advantages they once enjoyed in overseas markets.

It should be realized too, that in spite of an adverse balance of import as compared to export trade in recent years, many large companies engaged in export trade are still experiencing favorable trends in their own businesses. Some, obviously, are not, and good sense would appear to dictate that all not be bound as one by broad laws or regulations. Strong companies which have shown an ability to compete effectively on their own should not be hampered by government interference in their operations beyond that with which they must already contend.

It is Clark's position that the problems of the weaker companies and industries should be examined, not necessarily in terms of how the government might intervene directly, but how such companies and industries might improve their positions themselves through the

modification or elimination of domestic laws and regulations that may have contributed to their problems in the first place. Such changes, coincidentally, should also immediately improve the competitive positions of the stronger companies so that U.S. business as a whole and, of course, the state of the U.S. economy, would benefit.

Available data produced and verified by any number of governmental agencies and private groups shows clearly that domestic economic prosperity has been greatest and balance of trade and payment figures have been most favorable during periods when growth in productivity has been greater than increases in wages and prices. The converse is also true, and the same principles apply to all industrial nations. This can be seen in effect now as recent increases in domestic productivity are enhancing our worldwide competitive position while wage and price increases in Japan and some European countries are weakening their positions. In view of this change, the government should, we feel, consider measures to enhance this trend rather than considering restrictive measures such as the proposed Burke-Hartke legislation -- either in whole or part -- which would lessen the ability of companies doing overseas business to take advantage of the situation.

Available data also indicates that U.S. labor would decidedly not benefit from a reduction in or restriction of the overseas operations of U.S. companies operating abroad. To be specific, since 14 per cent of Clark's domestic volume of \$582 million in 1971 constituted export sales, we deduce that one in nine of our U.S. employees (approximately 11 per cent of our work force) was engaged in production for foreign consumption, work that obviously wouldn't be there if we weren't operating overseas. Further, if Clark had grown at the national industrial employment average since 1964, we would now have only about 8,000 employees rather than the 13,000 men and women working at those plants

which have been in the Clark family since that time. Actually, considering acquisitions since 1964, our total U.S. employment today is 18,055.

It is, of course, almost impossible to pinpoint exactly how many jobs were created or continued because of our foreign business, but it should be noted that a large percentage of our exports are Clark components that are used in our equipment manufactured and sold abroad. We also stress that we import less than one per cent of the amount of goods we export, and in no case do we import anything that we build in the U.S. Approximately 9/10ths of the just mentioned one per cent are Clark imports from our subsidiary companies in Canada, and in every instance consist of products not manufactured in this country.

Because of varying national requirements, a global organization such as Clark must -- in order to be allowed to sell in certain countries -- manufacture up to 90 per cent of the end product content in the particular country. In addition, economic conditions in other countries are such that we obviously could not manufacture in the U.S. and export a complete lift truck, for example, as local competition would price us out of the market.

Please do not construe from this last statement that we are implying that we have erected foreign plants to take advantage of lower prevailing wage rates. The truth of the matter is that lower wages or so-called "cheap labor" has never been more than a minor factor in coming to a decision to build a plant in a particular location. Though labor costs are lower in some countries, other factors such as high material costs, productivity and transportation charges often push the basic price of making a Clark product in those countries higher than the cost of producing that same product here.

As to the contribution of our overseas operations to the U.S. balance of payments, funds flowing from these operations totaled \$629 million in the 10 year period 1962/71

while funds flowing from the U.S. totaled \$122 million, a net inflow of \$507 million. Almost \$250 million of this total inflow was recorded during the last three years. Not only have these funds helped the overall U.S. trade balance, but they have helped support our domestic growth, contributed to our new product development programs, and created additional jobs in our domestic plants as well as overseas.

Obviously, our investments abroad have been profitable for us and of benefit to the U.S. balance of payments. Although the sums invested outside the U.S. have been substantial by our standards, they have amounted to only one-third of the amount invested in the United States. Specifically, in the years 1962 to 1971 Clark has invested some \$68 million overseas, or an average of just over \$6 million per year. Domestic investment during the same years totaled \$208 million, or an average of better than \$20 million per year.

The company does not borrow or move funds overseas except for the purpose of supporting its business. Financing of overseas business is done through wholly-owned finance companies such as those we have established in England, France, Germany, and Canada. Invoices for goods shipped are denominated in the currency of the country of manufacture, and all borrowings for financing purposes are in the same currency. This approach provides a cash flow to the manufacturing plants and eliminates worry over dollar devaluations that would stem from billing in U.S. dollars.

Financing intended for capital improvements in foreign plants is raised through local foreign currency borrowings or through a separate local finance arm of the company organized for this purpose. Borrowings in the latter case are concentrated in the Eurodollar market and are reloaned to the plants in their various countries. Such borrowings reduce the speculative supply of Eurodollars, are put into productive plants which generate earnings

which flow to the parent, and in both instances, are positive influences on this country's balance of payments.

As mentioned earlier, many countries have regulations restricting exports to a country unless a company wishing to do so maintains manufacturing facilities in that country. Hence, establishment of a plant in a given country allows a domestic manufacturer to export there such things as components, spare parts, and products from its overall line not made in that country. To the extent that the domestic manufacturer may invest in countries with such regulations, it is being allowed to develop export business to its own and the country's benefit. To the extent a company is prohibited from doing so, it is our firm belief that it is being denied the ability to take advantage of a broadly advantageous opportunity.

Although we at Clark have had some success in taking advantage of the investment opportunities in our trading areas without requiring special exemptions under present U.S. foreign direct investment regulations, we remain convinced that these should be brought to an end simply because the impediment they constitute to overseas investment will eventually become a long-term detriment to U.S. strength in the world.

In regard to research and development, Clark's involvement has been very broad. From our experience we have found that the U.S. has no corner on the intelligence market and there is no shortage of product development in our various industries in the overseas areas. Not only have new products been developed abroad, but improvements have been made to U.S. designed products. All of this knowledge and the rights to use it have been made available free of charge to the U.S. parent company.

For example, our MICHIGAN 45 tractor shovel was developed by our Japanese licensee, Toyo Umpanki Company Limited. This was a model which we were not able to economically

develop in the U.S. and which we believe will now be highly successful both here and abroad. We are not importing components to manufacture this shovel here in the States but rather are using U.S. produced components for production of the model here and in Japan.

Another example has been with a new electric fork lift truck where our European subsidiary engineers were able to recommend improvements which have been incorporated into the U.S. design. Research and development at Clark has been a two way street between the company in the U.S. and its subsidiaries and licensees abroad.

The Burke-Hartke type of legislation proposes to tax the earnings of foreign subsidiaries. The foreign government will have already taxed the same earnings. In 1971 Clark's average income tax rate on foreign earnings was 51%. If the U.S. again taxes all of the earnings and eliminates the present foreign tax credit, the result will be the destruction of the foreign subsidiaries, and as a result, in 1971 Clark would have paid a combined foreign and U.S. tax rate of over 100% on foreign earnings.

The termination of our foreign subsidiaries would have several results, all of which are deleterious to the U.S. national interest. As mentioned before, Clark presently exports a large amount of components manufactured in the U.S.; the components are assembled into finished products overseas. Because of tariffs and other restrictions, Clark cannot export finished products to those countries; thus, the destruction of the foreign assembly operation will reduce U.S. exports. Further, since the termination of the foreign operations would eliminate any foreign earnings that the U.S. might tax, there will be a decrease in U.S. tax revenue. In addition, it would be expected that there would be losses on the liquidation of the foreign subsidiaries which would result in additional deductions for U.S. income tax purposes.

In the case of Clark, the result of the legislation would be to eliminate our foreign subsidiaries and confine our operations entirely to the U.S. In reality it is a misnomer to think of the Burke-Hartke bill as a means of increasing tax revenue. Its result is not an increase in tax revenue but rather an elimination of all foreign operations.

Rather than adopt legislation such as the Burke-Hartke bill that would hit us hard in our jobs and our ability to expand domestically, as well as creating an inevitable trade war with nations throughout the world, we should concentrate on boosting efficiency and productivity in the United States and Congress should pass tax legislation that will enable industry to invest in advanced methods and technology at an increasing rate.

Clark Equipment Company
Buchanan, Michigan 49107
December 28, 1972

Paper Submitted To

**Subcommittee on International Trade
Committee on Finance**

U.S. Senate

Honorable Senator Abraham Ribicoff, Chairman

**Subject: Factual Data and Comments
Involving Key Issues Raised by
Activities of Multinational Corporations**

**Submitted by: Champion Spark Plug Company
900 Upton Avenue
Toledo, Ohio 43607**

Date: December 29, 1972

INTRODUCTION

Champion Spark Plug Company welcomes the opportunity to present factual material supporting our position that our world-wide business activity is in the best interest of all Champion employees and U.S. citizens. Over the years, Champion has built a reputation as a good corporate citizen providing a high standard of living for employees and a good return on investment for shareholders. From a modest beginning in the early 1900's, the Company has grown into the world's number one producer of spark plugs, increasing sales and earnings year after year.

Accordingly, as sales and earnings have grown, so has Champion world-wide employment, which reached 11,000 employees in 1971. Approximately 3,000 of these employees work in Champion's far-flung foreign subsidiaries where their efforts contribute not only to their own well being, but to the profitability and viability of the Company as a whole. Champion is committed to the belief that free trade and investment among all countries is the fastest route to a high standard of living for all people.

Therefore, it is distressing to hear criticism depicting the world-wide activity of the United States companies as narrow and self-centered and not in the best interest of American citizens and workers. We feel this criticism is unfair and unjustified and welcome the opportunity to present the facts that are being overlooked as they apply to the world-wide operations of U.S. companies in general and Champion Spark Plug Company in particular.

In the past, as will be explained in greater detail later, Champion has indeed invested in foreign plants and equipment, not, however, to exploit lower-priced foreign labor, but rather to remain as a part of world-wide business--business that provides profits that mean jobs for many people both here and abroad.

Also, we believe our overseas business activity contributes to the long-term economic growth of the United States. The taxes we pay on both domestic and foreign source income, the sales we make both here and abroad, the jobs we provide for both U.S. and foreign citizens, all of these factors make for a stronger nation and contribute to our position of leadership the world over.

The following pages support our position that the advantages of foreign operations outweigh the disadvantages. We point with pride to our contribution to the U.S. balance of payments--some \$31,000,000 in 1971 alone. The domestic jobs that Champion provides are scattered through many states, and we emphasize many of these jobs developed because Champion, in the past, invested in foreign countries building markets rather than pulling out and allowing competitors to take over these spark plug markets. At times, while the short run effect may have appeared not to be in the best interest of U.S. workers, the actual result has been that domestic employment involved in supplying foreign markets has continued to grow, and Champion's solidarity and profitability are good indications of future growth.

Champion Spark Plug Company's Balance of Trade and Payments

Champion Spark Plug Company contributed favorably to the U.S. balance of payments in 1971 by \$31,400,000. Inflows consisting of gross dividends, royalties, commissions, interest, and export sales totaled \$38,000,000, while outflows of direct investments (cash and capitalized intercompany accounts) and foreign imports, none of which were spark plugs or other finished products for resale, were only \$6,600,000.

<u>Inflows Gross</u>		<u>Outflows Gross</u>	
Non-sales Income from			
Foreign Affiliates	\$ 7,550,000	Direct Investments	\$1,700,000
Export Sales	<u>30,450,000</u>	Imports	<u>4,900,000</u>
Total	\$38,000,000	Total	\$6,600,000

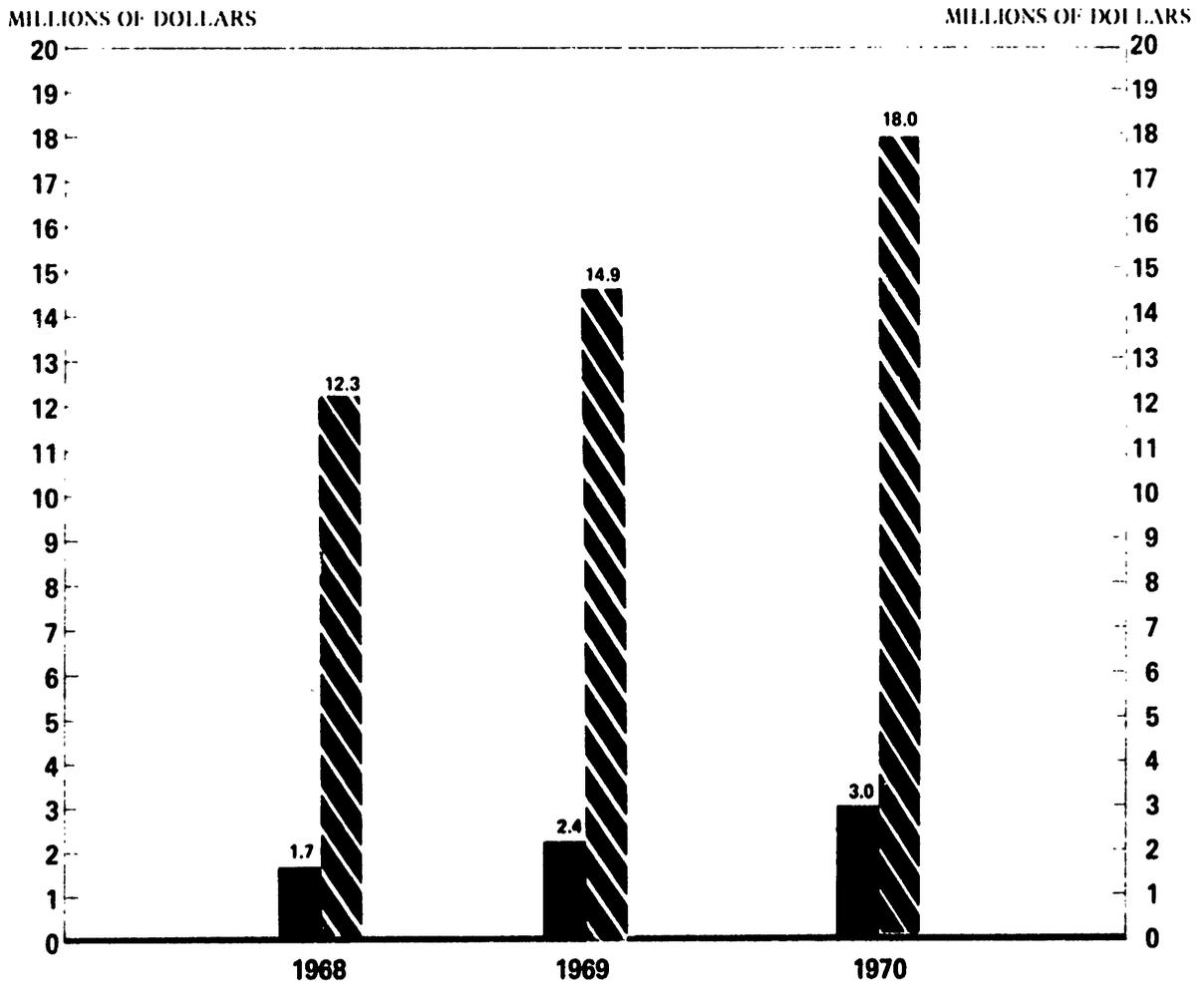
Not only in 1971, but in prior years as well, Champion's foreign investments have had a significant, favorable effect on the U.S. balance of payments. As the attached graph illustrates, income from our foreign affiliates annually exceeds our foreign investment by a 6 to 1 ratio. Investments made in foreign countries over the last 50 years have enabled Champion to retain access to threatened markets that, if closed, could not be reached from U.S. outlets; by remaining in these markets, Champion has been able to send dollars flowing back to the United States in ever-increasing numbers.

The results we show here refute recent statements made by some individuals that U.S. balance of payment difficulties are traceable to U.S. industries' investment in foreign plants and equipment. This argument simply is not true. U.S. business and industry in general and Champion Spark Plug Company in particular, have contributed favorably toward the balance of payments by pursuing foreign markets through investment. Without a doubt, present balance of payments deficits would be even larger were it not for the favorable contribution provided by companies such as Champion.

CHAMPION SPARK PLUG COMPANYFOREIGN DIRECT INVESTMENT COMPARED TO
INCOME FROM FOREIGN SUBSIDIARIES

Direct Investment 

Income from Foreign Subsidiaries 



NOTE: The above chart includes only income from foreign subsidiaries. It does not include income from export sales to other than subsidiaries.

The Effects on U.S. Labor of Investment by
U.S. Companies in Foreign Manufacturing Industries

Recently, an attack has been launched on U.S. corporate investment outside the U.S., claiming world-wide activity has led to loss of jobs and increased domestic unemployment. This argument is not consistent with the facts, especially with regard to the Champion Spark Plug Company. It is our experience that Champion's world-wide business activity has boosted exports, thereby providing employment for hundreds of persons in several states. Champion's domestic employment has grown from 4,400 employees in 1960 to 7,600 in 1970. Many of these additional domestic jobs can be traced to U.S.-produced spark plugs and spark plug components sold in foreign markets.

At the root of the argument that U.S. companies' foreign investment contributes to domestic unemployment is the mistaken belief firms invest in plants and equipment overseas to exploit lower-cost foreign labor. Further, it is argued foreign-produced goods are then exported into the United States to compete with domestic products with higher-priced U.S. labor. This argument has no basis in fact with Champion. Looking at our history, there are only two subsidiaries outside the U.S. which have been established without the threat of loss of an existing market. These subsidiaries are located in Canada and England, and were established in 1917 and 1937, respectively. All other plants have been established to maintain existing markets where imports of spark plugs from the U.S. would not be permitted due to their competition with domestically-produced spark plugs.

In our 1962 Annual Report, we stated: "In the years after World War II, currency problems, nationalistic attitudes, import duties and import licensing barriers, and competitive conditions gave rise to the need for local manufacturing in Australia, Brazil, Ireland, Mexico, and the Republic of South Africa."

Since that time, for one or more of the above reasons, it has become necessary to build manufacturing plants in Venezuela, New Zealand, and Belgium in order to retain and grow in the markets in those countries.

The major factors influencing the establishment of spark plug manufacturing plants outside the U.S. are shown below:

1953 - South Pacific Country

The tariff barriers on spark plugs made in the United States became prohibitive. We exported this country's needs from Canada until restrictions against the United States' content of the spark plugs produced in Canada made it prohibitive to continue this operation. After being unable to sell any spark plugs in this market area for two years, we established local manufacturing in order to re-enter the market.

1958 - Central American Country

This plant was built because the border was closed to spark plugs imported from Canada and the United States. This was a growing major export market, and we could not afford to be foreclosed from it.

1958 - South American Country

In 1969, after operating in this country for eleven years, we were forced to close our spark plug plant due to the high duties and taxes on spark plug components and other materials imported from the United States and due to price controls and currency devaluation. The additional cost made it impossible to compete with firms using local materials that would not meet our quality standards. Import licensing of spark plugs along with high duty rates makes it impossible to export from the United States to this country; hence, we have lost this market completely.

1962 - South African Country

In February, 1962, we were informed that an additional duty had been imposed on spark plugs imported into this country from the United Kingdom. In the second half of 1962, it became evident that this duty was unavoidable on spark plugs imported from the United States. This was the major factor in the establishment of a plant at this location.

The additional duty was the difference between the export and domestic prices and, in some cases, the effect of this duty increased the landed cost of a spark plug in this country by approximately 40%. Said duty was in addition to a basic duty for all spark plugs irrespective of country of origin.

1963 - South American Country

In June, 1962, we were notified that spark plug importation into this country was to be cut off in order to protect local industry. Effective January 1, 1963, no spark plugs could be imported unless the local manufacturer was not capable of meeting demand. The local manufacturer informed the Government that they could supply approximately 95% - 100% of all spark plugs required, so the further import of spark plugs was effectively prohibited. As we enjoyed a large part of this market, we found it necessary to establish a manufacturing operation. The plant commenced operations in May of 1963.

1964 - European Country

Since spark plugs manufactured and sold within the EEC received preferential duty treatment, our spark plugs were priced at a great disadvantage because of the duty differential. It was, therefore, necessary for economic reasons to establish a manufacturing facility within the EEC. We chose our current location because the business environment was good and its Government was encouraging industry in undeveloped areas.

1966 - South Pacific Country

This government, like many others, protects local industries; therefore, once a plant to manufacture spark plugs was established, it would be extremely difficult for other manufacturers to regularly import spark plugs into this country. We had competed successfully herein for a number of years and we were well regarded. Consequently, we filed an application to establish a plant, and in the last quarter of 1962, we received approval.

The foregoing country-by-country analysis makes it clear that Champion's policy of investment in foreign-based plants and equipment is designed to maintain a market share in the face of total exclusion rather than to utilize foreign labor.

There is much evidence to support our position that Champion's foreign investment has increased, rather than decreased, domestic employment. For example, Champion's exports into foreign-based assembly plants contributes greatly to employment in the United States.

As the following table depicts, several hundred jobs in the United States are the direct result of Champion sales to Foreign Affiliates.

U.S. Jobs Attributable to Foreign Sales
Champion Spark Plug Company

	<u>1960</u>	<u>1965</u>	<u>1970</u>
A. Total U.S. Employees	4,285	3,876	5,065
B. Export Shipments as a % of Total Production	16.3%	17.2%	21.1%
C. Jobs Attributable to Export Sales (A times B)	698	667	1,069

The export of parts and fully-assembled spark plugs provides jobs for Champion employees in Toledo, Ohio; Hellertown, Pennsylvania; Burlington, Iowa; Cambridge, Ohio; and Detroit, Michigan--cities where Champion spark plug and insulator plants are located. The export of spark

plug parts is made only to Champion-owned foreign-based subsidiaries. In the case of fully-assembled spark plugs, some of the export sales of U.S.-produced plugs are to the same subsidiaries, while others are to independent foreign distributors. Rather than eliminate domestic jobs, Champion foreign investment has insured access to the ever-increasing overseas markets, which in turn has created more jobs in the United States. It is abundantly clear that without plants in foreign countries, Champion could not hope to compete with locally-made spark plugs because governmental action would either exclude Champion directly or, through tariffs, price us from the market.

Summarizing, in the case of Champion Spark Plug Company, the argument that foreign investment has a detrimental effect on U.S. employment simply is not valid. As pointed out, Champion exports both to foreign-based subsidiaries, and independent foreign distributors would have been lost if investments in foreign plants and equipment had not been made. This would have meant loss of jobs, not only for Champion employees, but of other U.S. workers whose jobs depend on the sale of raw materials and equipment which Champion purchases for foreign subsidiaries. Therefore, these U.S. jobs are tied to exports which would not be made were it not for Champion's foreign investment.

As a result, by remaining as a viable part of the world economy, Champion's U.S.-produced exports grow and provide jobs not only for Champion employees in Ohio, Iowa, Michigan, and Pennsylvania, but for suppliers' employees throughout the U.S. Over the long term, we believe free trade and investment among all countries is the best route toward a higher standard of living for all people.

The Profits of U.S. Firms with Operations Abroad
And the Federal Taxes Paid by Such Corporations in the U.S. and Abroad

As an introduction to the tax section of this position paper, we want to consider briefly the argument that present methods of taxing foreign income are an unwarranted incentive for industry to invest abroad. Actually, U.S. tax policy can best be described as tax neutrality since present procedure removes both tax incentives and disincentives for direct investment. Many industrialized countries provide tax incentives by exempting, at least in part, foreign source income from domestic taxation. This, of course, is in contrast to U.S. practice of imposing income tax equally on all income--domestic and foreign.

However, U.S. tax policy has no disincentive for direct investment either. By deferring income tax on foreign affiliate income until repatriation and by granting tax credits for foreign taxes paid to host countries, U.S. tax policy avoids double taxation which could severely handicap, and probably destroy, the ability of U.S. companies to compete in international markets.

As pointed out earlier, Champion makes a significant contribution to the U.S. balance of payments. Additionally, it should be noted that even with the foreign tax credit, Champion paid in 1971 \$1,422,764 to the U.S. Treasury in taxes on foreign source income alone. This is in addition to the approximately \$24 million of tax on domestic income which includes profits on export sales of component parts and finished spark plugs to our foreign affiliates.

Another argument espoused generally by the dissidents, is that U.S. corporations manipulate pricing to take advantage of tax and tariff loopholes. Champion's policy, in setting prices to foreign subsidiaries, is not on the basis that "low tax" countries receive a price break to increase their profits at the expense of "high tax" countries. Instead,

Champion's prices to its foreign subsidiaries are essentially the same to each country, with minor fluctuations due to volume. There is no relationship whatever between foreign income tax rates and prices--the basic criterion is volume.

In summarizing this section of Champion's view on profits and taxes, we would like to comment briefly on the proposed Federal Trade and Investment Act of 1972, better known as "Burke-Hartke". The full impact, both economically and operationally, of this type of legislation is impossible to predict with accuracy at this time, since enactment would alter many aspects of our operations; namely, importing and exporting of materials, taxes on income, research and development considerations, and the economy of continued foreign operations. However, enactment by the Congress of the proposed law, in whole or in part, would have a serious effect on Champion Spark Plug Company.

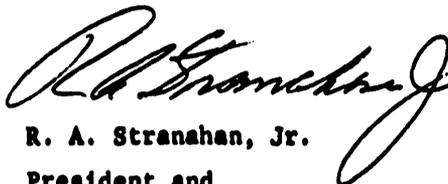
Summary

We believe that the factual information presented above and the statistical data included herein make it clear that Champion (and we believe most other U.S. firms with world-wide investments) are loyal and responsible U.S. corporate citizens. Nearly all of Champion's overseas expansion has been necessary to save a foreign market area for at least some U.S. component parts. It has not been, nor do we expect it to become, Champion's policy to import production from Champion's foreign manufacturing plants to supply U.S. markets. We urge you to give serious consideration to these facts when analyzing legislation that would adversely affect the efforts of Champion and other U.S. companies with operations outside the U.S. to continue to grow and provide employment for many U.S. citizens.

If there is any additional information we can provide that you believe would be helpful, please let us know.

Respectfully submitted,

CHAMPION SPARK PLUG COMPANY



R. A. Stranahan, Jr.

President and
Chairman of the Board

31 December 1972

STATEMENT TO
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

from
TEXTRON INC.

Textron is a multi-market company, roughly one-eighth of whose sales are in foreign markets. In 1971, it had exports of \$113 million and imports of \$31 million, yielding a net favorable trade balance of \$82 million.

Although Textron's total international sales of \$203 million in 1971 (\$113 million of exports and \$90 million by overseas affiliates) are relatively small as compared to many other companies, it is concerned about some of the misunderstandings which surround the activities of multinational corporations. Textron therefore submits this statement with the hope that it will contribute to a better understanding of those activities.

The purpose of this statement is to show that Textron's overseas operations enhance, not diminish, domestic employment. Textron must rely on overseas affiliates to compete effectively in foreign markets; in so doing, its total exports increase and so does its domestic employment. Not being in these markets has a negative effect on domestic employment. Specifically:

1. Textron cannot compete effectively in certain foreign markets by relying solely on exports of items produced entirely in the United States.

Using its Bostitch and Sheaffer operations in England, Germany, and Australia as examples, it can be demonstrated that domestic production and exportation of finished products is substantially more costly than assembly or manufacture overseas, and is therefore not economically feasible. With Bostitch, the domestic production and exportation of staples to England and Germany would result in a 44% and 37% increase in costs, respectively, as compared to local manufacture in those countries. On another line of staples, the increased costs would be 65% and 34%, respectively. Such operations would produce significant losses, and would have to be abandoned. With Sheaffer, the cost differential is not as great, but nevertheless substantial. Its Model 727 pen would be 30% and 24% more expensive to assemble domestically and export to England and Australia, respectively, than if assembled and sold locally there; and the comparable figures on its Model 440 pencil would be 27% and 42%. Moreover, in each case both Bostitch and Sheaffer would be at a significant disadvantage in selling other more sophisticated products, such as staplers, that are made in the United States and shipped to these markets.

These increased costs are due principally to shipping charges and import duties, which are particularly high on finished products, and to

higher domestic labor rates (in relation to productivity), material costs, etc. Thus, on the Bostitch staples on which the costs would be 37% higher if produced in the United States and exported to Germany, 20% represents shipping charges and import duties, and the balance of 17% stems from higher administrative costs, domestic labor rates, material costs, and overhead.

Bostitch and Sheaffer represent only two of the ten Textron Divisions which account for 80% of Textron's total exports in 1971, but the same conclusion applies to the company as a whole: Textron cannot effectively compete in certain world markets at these higher costs. Without manufacture or assembly (and in some cases both) overseas, these markets would be preempted by others operating locally here. For Textron, they simply would not exist.

2. Being in these markets increases Textron's exports to its overseas affiliates and to its non-affiliated customers; and increasing exports means more jobs in the United States. Not being in these markets has the opposite effect: fewer domestic jobs.

Exhibit 1 indicates the sales and domestic employment of the ten principal Textron Divisions involved in export, broken down into categories of domestic sales, exports to overseas affiliates, and exports to non-affiliated customers. This exhibit shows the total domestic employment of those Divisions, and, by extrapolation, the allocation of that employment to the same categories of domestic sales, exports to

overseas affiliates, and exports to non-affiliated customers. Although domestic employment attributable to domestic sales fell 1,624, or 7%, between 1966 and 1971, a coincidental increase of 1,670, or 154%, attributable to exports during that period, permitted Textron to maintain total domestic employment in those Divisions at a slightly increased level of 24,232.

The figures shown in Exhibit 1, of course, are limited to Textron jobs; but over and above these, its international operations help support thousands of other Americans employed by suppliers of the goods and services it uses. For example, taking an average national ratio of about 70 employees per million dollars of manufacturing sales, some 6,370 American jobs could have been attributed to Textron's 1971 exports. However, its operations are probably more capital-intensive than the national average, so the figure might be somewhat lower. Nevertheless, Textron's total contribution to American employment would substantially exceed the 2,751 company employees shown for the ten Divisions in Exhibit 1.

As indicated in Exhibit 2, Textron's total international sales, including those of its overseas affiliates, increased from \$62 million in 1966 to \$203 million in 1971, at an annual compounded rate of 26%. During this same period, total exports increased from \$38 million to \$113 million, at an annual compounded rate of 25%. Much of this growth in exports, and the resulting growth in domestic jobs attributable thereto, is directly related to its overseas investments on two counts.

First. Textron exports parts directly to its overseas affiliates for assembly and sale there, with the result that these exports increased from \$4 million to \$16 million - a compounded annual rate of 32% - during this period. Second, there is an export "pull" effect from the very existence of its overseas affiliates and its presence in the markets where such affiliates operate, which creates a demand for other usually more sophisticated products manufactured and assembled in the United States rather than overseas. In other words, Textron's sales to non-affiliated foreign customers also benefit from its active presence in the markets concerned. This is due to Textron's efforts to fill or round out product lines, and to the fact that there are marketing organizations within various overseas markets which sell all products that are in demand.

Exhibit 3, involving the Bostitch Division, illustrates these results. This exhibit not only shows a sharp rise in exports, but also confirms that this rise is concentrated in those markets where its overseas affiliates are operating. Although an exact causal connection cannot be demonstrated, the fact that 90% of Bostitch's total exports in 1971 were in those markets, and only 10% in markets where its affiliates were not operating, suggests the difficulties of market penetration in the absence of overseas investment. Textron has observed similar patterns of positive correlation between foreign investment and exports from the United States in other Divisions: total exports of a product tend to move up and down as sales by overseas affiliates increase or decrease.

Thus, the existence of overseas affiliates results in exports, not only to them, but to non-affiliated customers as well, and in domestic jobs. Conversely, the elimination of those affiliates would result in the elimination of exports to them and to a decline in exports to non-affiliated customers. There is thus a compounded net effect on domestic employment at Textron, and elsewhere in the U. S. economy.

In summary, whenever economically feasible, it is better to create and maintain foreign markets through exports from the United States. This makes sense, since the risks of foreign investment - currency fluctuation, exchange controls, blocked currencies, import quotas, nationalization, etc. - are virtually eliminated. In many areas of the world, however, exports alone are not economically feasible due to shipping charges, import duties, higher domestic labor and material costs, etc. These are costs that are not borne by the overseas manufacturer.

Consequently, if Textron were to rely solely on exports, many of these foreign markets would be lost to the local competition. This reduces or eliminates total exports, with a corresponding reduction or elimination of domestic employment. Textron seeks to increase, not reduce, jobs in this country; and is convinced that an expansion of its foreign markets through foreign investment is one of the best ways to achieve that result.

EXHIBIT 1

SALES AND DOMESTIC EMPLOYMENT OF 10 PRINCIPAL TEXTRON
DIVISIONS INVOLVED IN EXPORT, 1966-1971

	<u>Sales (\$Millions)</u>					<u>Domestic Employment</u>				
	<u>Total Domestic</u>	<u>Exports</u>			<u>Total Sales Domestic Operations</u>	<u>Total Domestic</u>	<u>Attributable To Domestic Sales</u>	<u>Attributable to Exports</u>		
		<u>Overseas Affiliates</u>	<u>To Non-affiliated Customers</u>	<u>To Total Exports</u>				<u>To Overseas Affiliates</u>	<u>To Non-affiliated Customers</u>	<u>Total Exports</u>
1966	619	3	24	27	646	24,186	23,105	156	925	1,081
1971	688	11	80	91	779	24,232	21,481	328	2,423	2,751
Increase 1966-1971	69	8	56	64	133	46	(1,624)	172	1,498	1,670
% Increase 1966-1971	11%	267%	233%	237%	21%	-0-	(7%)	110%	162%	154%
Annual Growth Compounded	2%	30%	27%	28%	4%	-0-	(1%)	16%	21%	21%

- Notes: 1. This exhibit represents 10 divisions having export sales which accounted for approximately 80% of Textron's total exports in 1971.
2. The employment figures in the column headed "Total Domestic" are actual divisional totals. The other employment figures are extrapolations based on the ratios of divisional export sales (both to overseas affiliates and non-affiliated customers) to total divisional sales.

TOTAL TEXTRON INTERNATIONAL SALES

1966-1971
(\$MILLIONS)

	<u>U. S. Exports</u>			<u>Sales By Overseas Affiliates</u>	<u>Elimination Of Intercompany Sales</u>	<u>Total International Sales (Net)</u>
	<u>To Overseas Affiliates</u>	<u>To Non-affiliated Customers</u>	<u>Total Exports</u>			
1966	\$ 4	\$34	\$ 38	\$ 28	\$ 4	\$ 62
1971	\$16 *	\$97	\$113	\$104	\$14	\$203
% Increase (1966-1971)	304%	185%	198%	271%	-	227%
Annual Growth Compounded	32%	23%	25%	30%	-	26%

* Of this \$16 million, \$2 million was to affiliates in which Textron had only a partial ownership, and whose sales were not included in Textron sales.

EXHIBIT 3

BOSTITCH DIVISION
(\$ THOUSANDS)

INTERNATIONAL SALES, 1966-1971

	<u>U. S. Exports</u>			<u>Sales By Overseas Affiliates</u>
	<u>To Overseas Affiliates</u>	<u>To Non-affiliated Customers</u>	<u>Total Exports</u>	
1966	\$1,260	\$1,525	\$2,785	\$ 6,855
1971	\$3,604	\$2,960	\$6,564	\$16,578
% Increase 1966-1971	186%	94%	136%	142%
Annual Growth Compounded	23%	14%	19%	19%
* * * * *	* * * * *	* * * * *	* * * * *	* * * * *

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1971 EXPORT SALES FROM U. S. BY MAJOR PRODUCT GROUPS

	<u>Product A</u>				<u>Product B</u>				<u>Other Products</u>		<u>Total</u>	
	<u>Complete Unit</u>	<u>Accessories</u>										
Exports to markets where overseas affiliates are operating	\$2,080	92%	\$376	57%	\$853	85%	\$297	92%	\$2,306	99%	\$5,912	90%
Exports to markets where overseas affiliates are not operating	169	8%	289	43%	149	15%	25	8%	20	1%	652	10%
Total exports to all markets	\$2,249	100%	\$665	100%	\$1,002	100%	\$322	100%	\$2,326	100%	\$6,564	100%

**THE MULTINATIONAL OPERATIONS OF
OWENS-ILLINOIS, INC.**

**A Response to the Ribicoff Senate Subcommittee
on International Trade's Investigation of
American Multinational Companies**

INTRODUCTION

Who is Owens-Illinois?

Owens-Illinois is a manufacturer and marketer of packaging materials in glass, plastic and paper, Kimble brand laboratory ware, Libbey^R glassware (tableware), Lily-Tulip convenience products (paper and plastic products), television bulbs, and aerospace testing equipment. For a complete list of all O-I products, see pages 36 and 37 in the attached Annual Report. Predecessor companies date back to the early 19th century, while our contemporary history dates from 1929 with the merger of the Illinois Glass Company and the Owens Bottle Company.

Owens-Illinois is a multinational organization. Over 80,000 individuals are employed by O-I and its affiliated companies. Consolidated sales last year (1971) were in excess of \$1 1/2 billion with consolidated earnings of \$59 million. Owens-Illinois and its affiliates operate over 150 facilities across the United States and around the world, with world-wide headquarters located in Toledo, Ohio.

Owens-Illinois International

The bulk of Owens-Illinois' international operations are directed by the Company's International Division. Foreign operations of Owens-Illinois are located in the following countries:

Australia	Brazil	Colombia
Belgium	Canada	France

Germany	Japan	Spain
Greece	Mexico	Switzerland
Indonesia	Panama	United Kingdom
Italy	South Africa	Venezuela

For a list of locations within these countries see pages 36 and 37 in the attached Annual Report.

In the current debate over the place of the American multinational corporation in the American and global economy, Owens-Illinois does not agree with the blanket indictment that American multinationals are exporting jobs or unfavorably affecting the U.S. balance of payments.

Owens-Illinois can't speak for all American multinationals, but we can speak for ourselves, and this report is designed to do just that.

I. OWENS-ILLINOIS AND JOBS

Owens-Illinois does not export jobs. When O-I makes an investment in a foreign manufacturing operation it is because production in the United States would have been unrealistic. Low cost labor has never been a determining factor in any decision we have made to invest overseas. Transportation costs, tariff restrictions, product and service requirements of overseas customers, and availability of raw materials, however, have been very real factors. Jobs created by O-I in foreign operations are jobs that would not have existed domestically. Owens-Illinois would not incur the costs and risks of a foreign investment to service a foreign market if such servicing could be executed effectively and economically by exports from the United States.

1. The following are four representative examples of Owens-Illinois foreign operations illustrating the reasons for our participation:

a. Brazil (Cisper-glass containers) Market

couldn't be economically or strategically supplied by U.S. exports due to freight costs, high duties, local competition. Certain local facilities needed better technology and management. Our investment in these facilities was the only way to enter the market.

b. Colombia (Peldar-glass containers, flat glass)

Previously a major export market for us closed by high duties, lack of dollar exchange, and development of local production. We regained our competitive position in this market only by direct investment.

c. Germany (Gerresheim-glass containers, plastic containers)

Not possible to service this market through U.S. exports due to high freight costs, local competitive production. Adequate local facilities were available, but needed effective management. We supplied this as the only option available to us if we were to establish a competitive position.

d. Venezuela (Maviplanca-window glass) The major local supplier of flat glass went bankrupt. U.S.

exports could not compete with European exports, particularly those from Belgium. The Venezuelan Official Development Corporation was actively seeking to reestablish its local operation to discourage European imports and provide new jobs. O-I investment established a profitable local operation to supply the local market which could not be serviced from the U.S.

These examples are representative of other O-I overseas operations.

The reasons for our investment in any O-I foreign operation not covered here are available on request.

2. Jobs created by O-I in foreign countries as a result of these operations are jobs that would not have existed domestically. As noted above, the markets our foreign operations serve could not be serviced by U.S. exports; if we curtailed or discontinued our international operations, there would not only be no increase in our domestic employment - there would be a decrease.

3. Our subsidiaries and affiliates outside the U. S. continue to require services and equipment from the U.S., thereby creating jobs in the U.S., not eliminating them.

U. S. source services and equipment provided to our foreign subsidiaries and affiliates include but are not, by any means, limited to:

- Technical Assistance
- Paper Stock
- Forming Machines
- Inspection Equipment
- Refractories
- Soda Ash
- Manufacturing Supplies

Services and equipment provided by O-I bring in approximately \$10 million in revenues per year. In addition, an estimated \$10 to 20 million worth of services, equipment and supplies is provided to our foreign affiliates by other U.S. suppliers.

4. Our total international business provides employment for more than 1,500 O-I domestic employees, plus a very substantial number of employees of U.S. supplier companies. During the last ten years, O-I domestic employment due to international business has approximately doubled. Wages and salaries earned by these people now total approximately \$14.9 million. If restrictive legislation forced the reduction or curtailment of O-I international operations, a substantial number of these jobs, and the buying power their salaries represent, would be eliminated.

II. OWENS-ILLINOIS AND THE BALANCE OF TRADE

Owens-Illinois is a plus contributor to the U.S. balance of trade, not a negative one. The dollars resulting from our sales of products, equipment and services to customers, affiliates and licensees outside the U.S. have far exceeded those dollars we pay out for investments in foreign countries or for purchases outside the U.S. In 1971, for instance, the O-I International Division was responsible for a net favorable balance of trade of \$24,046,000.*

*For a detailed breakdown of this figure, as well as a listing of O-I Balance of Payments for the years 1966-70, see Appendix Table I.

III. OWENS-ILLINOIS AND THE IMPORT OF FOREIGN GOODS AS
COMPETITION FOR AMERICAN GOODS.

Total sales of consolidated O-I foreign affiliates were \$229 million in 1970. Of that total, less than one-half of one per cent were sales made to U. S. markets. If sales of non-consolidated affiliates are included, the fractional percentage coming into the U. S. would be even smaller.

IV. OWENS-ILLINOIS AND TECHNOLOGY

Owens-Illinois' technical assistance, licensing and/or royalty agreements in foreign countries do not constitute unreasonable dissemination of American technology, loss of potential U. S. jobs, or bias against the export of American-made products.

Most of the basic technology is already available from foreign sources. The O-I contribution is primarily in the refinement and application of operating, marketing and management techniques. O-I Technical Assistance benefits the local economy, and actually helps increase the potential for U. S. exports.

1. Owens-Illinois maintains technical assistance, licensing or royalty agreements with manufacturers in foreign countries as the only method by which we can compete successfully in foreign markets. Generally, exports in any volume to those countries involved are not feasible for the following reasons:

1. Transportation costs
2. Market adequately served by local manufacturers
3. Other foreign price competition
4. Import duties or tax penalties
5. Dollar exchange problems
6. Restrictive import quotas or prohibitions
7. Product and service requirements

2. Technical assistance, licensing or royalty agreements do not preclude American-made exports. If exports are being made to the country involved, they continue, except where the conditions noted above prevail. In our experience, such agreements usually result in an increase, not a decrease of exports, due to requirements for substantial amounts of machinery and equipment required or recommended by Owens-Illinois.

3. As of 1972, Owens-Illinois maintains over 25 technical assistance agreements, covering activities in the following countries:

Australia	Japan
Belgium	Malaya
Brazil	Mexico
Canada	New Guinea
Colombia	New Zealand
France	Portugal
Germany	Singapore
Greece	South Africa
Holland	Spain
Indonesia	Thailand
Iran	United Kingdom
Italy	Venezuela

In 1971, these agreements returned in excess of \$20 million to the United States, including purchases from U. S. suppliers other than O-I.

4. As a result of these agreements, some 200 foreign visitors travelled to the United States -- principally Toledo, Ohio -- in 1971. It is estimated that they represent a total of 3,097 man days in the United States and spent somewhere between \$100,000 and \$150,000.

5. Owens-Illinois believes that technical assistance, licensing or royalty agreements with foreign countries result in the following advantages:

To the United States:

1. Substantial and increasing dollar inflow.
2. Increased exports of machinery, equipment, supplies.
3. Improved, more effective international communication, understanding and identity
4. Increased funds to facilitate further U. S. expansion.
5. Through accelerating the development and growth of local economies, makes them bigger and better markets for U. S. exports.

To other countries:

1. Speeds development and progress through utilization of U. S. technology, including marketing and management techniques. Permits leapfrogging and more rapid economic stability.
2. Permits more effective concentration and utilization of available local skills, knowledge and competence.

V. OWENS-ILLINOIS AND THE FOREIGN TAX QUESTION

Owens-Illinois does not escape taxes through its multinational operations. Our foreign affiliates pay taxes every year on earned income to the host country governments -- city, state and local -- at the same rates as host country nationals. And we pay U. S. taxes on profits which come to the United States less credit for any taxes already paid to foreign governments.

1. Owens-Illinois paid taxes* on foreign source income remitted to the U. S. as follows:

	<u>U. S. Taxes</u>	<u>Foreign Taxes</u>	<u>Total</u>
1971	\$ 2,480,621	\$ 5,378,374	\$ 7,858,995
1967-1971	12,243,190	16,698,947	28,942,137
1962-1971	13,928,752	22,373,321	36,302,073

*For a list of the corporate tax rates affecting principal O-I affiliates in foreign countries, see Appendix Table II.

2. Repeal of the foreign tax credit would seriously jeopardize our international operations due to the drain on funds.

Without a foreign tax credit, O-I would be forced to pay a double tax. The profits are profits made in the affiliates' host foreign country or other foreign country. They are not U. S.-source profits and the foreign company earning them receives no benefits from any U. S. government services. They are not legally or in fact part of O-I, Inc., (U.S.) funds until paid to O-I, Inc., as dividends.

Consequently, there is no basis, in equity or logic for such profits to be subjected to U. S. tax before those profits come to the United States as dividends.

If the foreign tax credit were repealed, the adverse effect to Owens-Illinois would not be limited to our international operations, but would reflect negatively on corporate economic vitality in general, including the value of our stock, salaries, employee benefits, the creation of new jobs, and our ability to maintain an active schedule of domestic replacement and expansion.

VI. OWENS-ILLINOIS AND A REALISTIC INTERNATIONAL ECONOMIC PROTECTION PROGRAM.

Legislation like Burke-Hartke is not the answer.

- too restrictive
- not equitable
- uses a shotgun approach
- discourages international trade
- isolationist and reactionary

We need legislation against the indiscriminate dumping of foreign products on a massive level into the U. S.

We need government-industry programs to deal effectively with job dislocation, unemployment, and productivity.

We need reciprocal trade agreements with other nations. What's fair for them is fair for us. Our exports should receive the same opportunities in foreign markets as foreign goods received in the U.S.

A P P E N D I X

b

TABLE I

BALANCE OF PAYMENTS
((\$000))

<u>Favorable Factors</u>	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>	<u>1966</u>
Export Sales	\$ 27,675	\$ 26,981	\$ 29,446	\$ 27,486	\$ 23,959	\$19,708
Dividends, Royalty & TA, Interest	12,580	10,354	11,227	8,658	6,991	4,239
Foreign Source Borrowing	4,010	3,000			13,345	2,015
Other Funds Inflows	<u>1,523</u>	<u>1,384</u>	<u>6,336</u>	<u>520</u>	<u>600</u>	
 Total Favorable	 \$ 45,788	 \$ 41,719	 \$ 47,009	 \$ 36,664	 \$ 44,895	 \$25,962
 <u>Negative Factors</u>						
Dividends to Overseas Shareholders	189	314	312	198		
Interest on Foreign Source Borrowing	1,405	1,699	1,751	565		
Overseas Investments	10,011	12,305	4,923	4,854	21,291	9,929
Imports - Production Items	2,137	1,537	1,344	675	3,097	1,659
Foreign Source Borrowing - Repayments	<u>8,000</u>	<u>1,050</u>	<u>250</u>		<u>840</u>	<u>3,078</u>
 Total Negative	 \$ 21,742	 \$ 16,905	 \$ 8,580	 \$ 6,292	 \$ 25,228	 \$14,666
 Net Favorable Balance	 <u>\$ 24,046</u>	 <u>\$ 24,814</u>	 <u>\$ 38,429</u>	 <u>\$ 30,372</u>	 <u>\$ 19,667</u>	 <u>\$11,296</u>

TABLE II

The following are the corporate tax rates affecting principal O-I affiliates in foreign countries:

Brazil	30% plus other taxes on earnings
Colombia	40% plus other taxes on earnings
Venezuela	Progressive to 50%
United Kingdom	50% in 1973
Belgium	40%
Germany	52.5% plus local income taxes
Italy	48%

THE MULTINATIONAL CORPORATION
Statement of
XEROX CORPORATION
Before the
SUBCOMMITTEE ON INTERNATIONAL TRADE
COMMITTEE ON FINANCE
UNITED STATES SENATE

Introduction

This statement is in response to Chairman Ribicoff's June 1, 1972 invitation to interested parties to submit factual, documented papers covering certain issues relating to the activities of multinational corporations. Xerox Corporation is deeply committed to multinational operation and therefore welcomes this opportunity to submit its views to the Subcommittee.

While multinational private enterprise is by no means a recent phenomenon, Chairman Ribicoff has correctly noted that, "In spite of all the rhetoric on the alleged benefits and costs of multinational corporations, there is still an abundance of ignorance surrounding their operations and effects." We believe much of this ignorance to be the result of simplistic attempts to generalize a subject that is both complex and diverse.

The Subcommittee's study will provide a much-needed opportunity for eliminating broad-brush misconceptions and for developing an understanding of the reasons for and the wide range of differing styles of corporate multinational operation. In this respect, the study will hopefully fulfill the current critical

need to distinguish between rhetoric and reality as the Congress and the nation approach a moment of crucial choice in determining America's role in the future economy of the world.

The Subcommittee's study comes at a time when it is recognized that the very structure of the international economic system is no longer adequate to serve the needs or the capabilities of the world's economy. The present structure, largely a product of the Bretton Woods agreements at the conclusion of World War II, has proven unable to adjust to the radical change in circumstances created by resurgent national economies and the consequent realignment of world trading patterns.

As a result, monetary crises have become a common and expected occurrence. We have witnessed the development of severe imbalances of trade and payments between nations. We have also seen that inequitable currency alignments and trading arrangements can cause workers and industries of individual nations to be unable to compete with those of other nations.

For many years following World War II, the private sector of the U.S. economy was in a position of such dominance relative to the rest of the world that the inelastic character of the international system did not present a problem. As a result, the United States was able unilaterally to maintain a favorable balance of trade and payments position even though, as a nation, we were involved in a historically unprecedented program of furnishing capital and technological assistance to rebuild the war-ravaged economies of both our allies and former enemies.

This massive infusion of capital and technology created a highly modernized and efficient productive force. The resurgence of these rebuilt economies into world markets has gradually constrained the ability of American industry to operate unilaterally within a rigid international economic system. As a result, the U.S. balance of trade and payments position in recent years has deteriorated into one of very significant deficit. This decline has been accompanied by a rise in U.S. unemployment not all of which is necessarily attributable to the concurrent slowdown in the domestic economy.

The deterioration of our balance of trade and payments position and domestic unemployment have given rise to various protectionistic proposals, the most publicized of which is the so-called Burke-Hartke Bill. A common theme of these proposals is that since the multinational corporation has become a key instrumentality of international commerce, it must be at the root of our balance of trade and unemployment problems. Thus, a very simple solution to this problem is to restrict, punish or even prohibit altogether, the multinational operations of private enterprise.

This simplistic approach is reflective of a basic misunderstanding of the nature of multinational corporations. If followed, it would deprive the United States of its single most effective tool for competing in world markets. It would represent a return to concepts of economic isolationism even more archaic and unworkable than Bretton Woods and it could, as before,

lead us into both a domestic and a worldwide depression.

Thus, the purpose of the Subcommittee's study— to develop a better understanding of the multinational corporation— is aimed at a critical need. Xerox Corporation makes this submission with the hope that it will assist the Subcommittee in fulfilling that purpose.

Preliminary Observations

Xerox Corporation is firmly established in the multinational mode of operation with approximately 47% of our net corporate income being derived from non-U.S. sources in 1972. Our commercial operations involve 102 countries, of which 78 are in the Eastern Hemisphere and 23 in Latin America and Canada. In addition to our manufacturing plants in the United States, we have industrial facilities in Great Britain, Holland, Japan, Canada, Mexico and Brazil.

Our Eastern Hemisphere operations are carried on through Rank Xerox Limited, a partnership with The Rank Organisation of London. Similarly, our Latin American operations are, with but minor exceptions, carried on through partnerships with nationals in each of the countries. Wholly-owned subsidiaries are utilized in Canada and several of the smaller Latin American countries.

Before addressing the specific items on which the Subcommittee has requested information, we believe certain preliminary observations are necessary to place our response in proper perspective.

The problems of unemployment and balance of payments

deficits are both real and serious and cannot be shrugged off merely because the advocates of a particular course of action have misidentified their root cause.

Conversely, however, proposals which might provide short term solutions to these problems but which, in the longer term, would destroy our nation's ability to compete internationally, remove the incentive to be efficient domestically and, at the same time, raise the cost of and lower the standard of living, are equally unacceptable.

Our common goals therefore must be to establish mechanisms which will avoid these pitfalls and insure an environment that can:

1. Give American labor and industry a fair chance to compete for a proportional share of an expanding trade among nations;
2. Assist us to attain national objectives of continued economic growth, full employment and price stability;
3. Establish a self-compensating system of international trade to avoid the periodic crisis syndrome caused by the rigidity of the present system; and
4. Provide a framework for meaningful and timely adjustment assistance to employees, companies and communities impacted by changes of world trade patterns.

Benefits and Costs of the Multinational Corporation

Proponents of protectionist proposals level three basic charges against the U.S. multinational corporation as follows:

1. That their principal rationale for operating abroad is to take advantage of cheap foreign labor to produce labor intensive merchandise which is then sold in the United States market at a competitive advantage over domestically produced merchandise.
2. That their foreign plants not only generate increased imports into the United States but also serve foreign markets thereby reducing exports and domestic employment.
3. That their foreign investments, in addition to causing an "export of jobs" and contributing significantly to the deterioration in our balance of trade, make possible the modernization of foreign industrial plants in preference to domestic plants.

We believe the assumptions and presumptions which underlie these charges have been shown to be both false and invalid by the surveys submitted to the Subcommittee by the U.S. Chamber of Commerce, the National Association of Manufacturers and the Emergency Committee for American Trade.

While Xerox supports the general conclusions of these broad based industry-conducted surveys, our purpose here is to respond to the Chairman's specific request in the context of our own experience. In doing so, however, we recognize that the aforementioned studies (as well as our own) are, by and large, retrospective and implicitly extrapolative. While what is past may well be prologue, we believe there is also a critical need for

study of the prospective potential impact of the multinational corporation and one which, moreover, represents the best thinking of recognized independent authorities as to what that impact will be. To this end, Xerox is actively cooperating in a comprehensive study on the future of the U.S.-based multinational corporation being conducted by the Wharton School of Business under the direction of Dr. Howard Perlmutter, an internationally recognized authority in the field. This study, designed to anticipate the radically different environments which will result from the ongoing restructuring of world trade and competition, will seek to identify the national and international problems which these different environments will create, and to identify the role which the multinational corporation can play in either avoiding or helping to solve these problems. It is anticipated that the study will be completed in early 1973 at which time its results will be made available to the Congress.

The Xerox Experience

The Xerox experience is unique in that it is reflective of a large, high technology multinational private enterprise which came into being during the very period in which direct foreign investments by U.S.-based corporations were rapidly expanding.

Contrary to the charges of the proponents of protectionism, the Xerox experience demonstrates that the growth of its multinational operations did not contribute to the deterioration of the United States' balance of payments position or to the rise

in domestic unemployment. To the contrary, it demonstrates that but for the operations of American multinational corporations these problems could have been much more severe.

Xerox' foreign operations have made a positive contribution of \$370.5 million to the U.S. balance of payments for the five year period 1967-71.^{1/} Our 1971 contribution alone amounted to \$109.4 million.

As disclosed by Exhibit 1, export sales to our foreign affiliates constituted the major single portion of Xerox' positive balance of payments contribution with export revenues during the 1967-71 period totaling \$223.0 million or 48% of the total inflow. Dividends from foreign affiliates amounted to \$134.4 million for the period, or 29% of the total while the remaining \$111.3 million (23%) comprised income from interest, royalties and fees.

Xerox' outflows during 1967-71, consisting of capital transfers and imports, totaled \$98.2 million, or less than 21% of the total inflows described above. Imports represented but 2% of this outflow. Hence, Xerox' net trade balance for the five year period (excluding fees, interest and royalties) totaled a favorable \$259.2 million.

The compound growth in our international activities has been dramatic. For example, net income from international operations has grown from 18% of consolidated corporate income in 1967 to 43% in 1971 with 47% indicated for 1972. This is reflective

^{1/} Exhibit 1 attached. This and other exhibits have been reproduced from the original by the Xerox color copier.

of a compound growth rate in international earnings of 36%. This performance has enabled Xerox to finance a major portion of its overseas activities from overseas income. As a result, only 14% of our current total permanent overseas investment represents capital transferred from this country. At the same time, we have repatriated over one-half of our earnings from our international affiliates ^{2/} and have paid U.S. income taxes on these repatriated earnings.

Xerox overseas investment has not been at the expense of domestic investment. Thus, for example, domestic manufacturing space comprised two-thirds of the Xerox worldwide total in both 1967 and 1972 even though, during that period, domestic and foreign space experienced a compound growth rate of approximately 11% per year.

It is equally clear that Xerox' multinational operations have not resulted in a loss of employment opportunities within the United States. Indeed, just the opposite has occurred. For each of the approximately 13,000 jobs created abroad during 1967-71, one has also been created at home.^{3/} Thus, although our foreign employment has risen substantially, our domestic employment has also expanded to furnish the technological, manufacturing and managerial efforts required to serve expanded foreign markets and domestic operations. What we have experienced is, in effect, an accelerating growth spiral, that is, foreign investment raises foreign demand which raises exports which increases both domestic

^{2/} Exhibit 2 attached.

^{3/} Exhibit 3 attached.

jobs and foreign earnings which raises foreign investments, etc.

As is implicit from the foregoing, Xerox' multinational operations have not been stimulated by a desire to avoid domestic labor costs. Rather, they have been necessitated by the need to better service rapidly expanding foreign markets without impairing our ability to provide maximum service to our economy and our domestic business. In this regard, it is important to recognize that the major portion of our revenues is obtained from leasing rather than selling our equipment. Thus, the quality and continuity of the service furnished to the market is a critical ingredient of our business. This need, in addition to the need to overcome tariff and trade barriers imposed by host nations and the need to be able to compete on an equal footing within foreign markets, have required that Xerox operate on a multinational basis. To do otherwise would be to forfeit the earning opportunities and the export-related, increased domestic employment opportunities which multinational operation has afforded us.

With the foregoing as background, we turn now to the specific questions raised by the Subcommittee.

1. Do the problems—or "costs" generated by the spread of multinational corporations outweigh the advantages or "benefits"?

The Xerox experience demonstrates that our multinational operations have provided "benefits" which far outweigh any alleged "costs." Thus, our shareholders through increased earnings, our employees

through increased job opportunities, and the U.S. economy through a strong favorable balance of payments contribution, all have received benefits which would otherwise not have been available. Our experience demonstrates how multinational private enterprise represents a powerful tool of American international trade and why such operations should be encouraged rather than inhibited or prohibited.

2. What kinds of action are open to national governments, including the United States, acting separately or together, to maximize the benefits of multinational corporations and minimize the costs as they affect the goals of achieving full employment and balance of payments adjustment?

There are numerous steps which national governments could take which would enable multinational corporations to become an even more efficient and valuable economic instrument. Among these are the establishment of mechanisms for resolving investment conflicts between foreign-based companies and host country governments and the narrowing of national differences in such matters as antitrust, transfer pricing, profit repatriation, accounting principles, securities regulation and taxation. First and foremost, however, is the need for a worldwide rejection of concepts of national economic isolationism based

upon artificial trade restrictions such as quotas, embargoes, tariffs and non-tariff barriers and, in their place, the establishment of a more equitable structure for international trade, including monetary reform, which will give to labor and industry of each nation a fair chance to compete for a proportionate share of an expanding trade among all nations.

3. The effects of multinational corporations on U.S. labor in manufacturing industries.

As discussed earlier, the effect of Xerox' multinational operations upon its domestic employees has been one of increased employment opportunities. Moreover, we believe it reasonable to project that, over the longer term, the increased research and development efforts made possible by the profits from our foreign operations will result in even greater and higher level opportunities for our domestic employees.

4. The multinational firm and the balance of trade and payments.

Xerox' multinational operations have, as discussed earlier, made a very strong and positive contribution to the U.S. balance of trade and payments. It is, moreover, a contribution which is on a sharply ascending scale.

5. The changes in and challenges to the international monetary system, and the role of multinational corporations in generating them.

Even the critics of multinational corporations acknowledge their ability to mobilize the resources necessary to engage in worldwide operations in the most efficient manner possible. This ability is often thwarted, however, by impediments to the international movement of funds due to imperfections in the international monetary system. These impediments, largely caused by arbitrary exchange rates, not only introduce artificial considerations into the conduct of multinational operations to their long-term detriment, but also restrict the self-adjustment of imbalanced trade patterns to the detriment of national and international economies. For this reason, multinational corporations recognize, perhaps more clearly than many, the need for a revised international monetary system as a vital part of the equally necessary total reform of the current structure of international trade.

6. Technology, R&D, and the multinational firm.

Xerox' experience is consistent with what we believe the Subcommittee will find to be the prevalent rule, namely, that multinational corporations generally are greatly dependent upon high technology

and therefore require massive research and development efforts in order to maintain their ability to compete. Thus, during the last five years, Xerox has allocated \$396 million to research and development of which over 96% has been spent in the United States. Providing jobs for some 4,000 employees, Xerox' R&D effort of this magnitude has been made possible largely through profits realized from overseas investments. Its direct result, however, has been and will be to create new and higher level job opportunities for our domestic employees.

In these days of sharp technological competition, new technology has an increasingly short life span. By making this technology available to our overseas affiliates, both through export of equipment and transfer of know-how, Xerox has been able to extend that life span beyond its domestic period. By extending our products' life, overseas operations generate even more income which makes possible further R&D efforts to keep up the technological progress necessary to remain competitive.

In transferring its technology abroad, Xerox has channeled it almost exclusively through its own affiliates. However, it is becoming more and more obvious that the flow of technology is increasingly

a two-way street with the flow from abroad essential to the ability of U.S. industry to remain competitive. In our own areas of particular interest, one need only consider the foreign origin of such developments as organic photoconductors, liquid developers for color electrophotography, the diffusion transfer photographic process, phase microscopes and large screen television display to recognize this fact. Yet this flow would surely be cut off were the United States to adopt the restrictions upon the transfer of technology abroad which are proposed by the advocates of protectionism.

7. The profits of multinational firms in the United States and abroad, and the Federal taxes paid by such corporations in the United States and abroad.

During the period 1967-71, Xerox received foreign source income from its multinational operations (including exports from the United States) totaling \$418.3 million. A total of \$163.7 million in foreign taxes plus \$46.2 million in U.S. taxes, an effective tax rate of 50.2%, was paid on this foreign source income.

Included in Xerox' foreign income of \$418.3 million were dividends of \$138 million paid by its foreign affiliates. The foreign earnings represented by

these dividends had borne foreign income taxes of \$125 million before distribution. The payment and repatriation of these dividends resulted in an additional \$7.0 million in foreign withholding and U.S. income taxes for a total effective tax burden of \$132.0 million, also a rate of 50.2%, with respect to these dividends.

This experience exposes the fallacy of the protectionists' assertion that a major purpose of multinational operation is the avoidance of the burden of U.S. tax rates. In point of fact, effective tax rates in most developed nations in which U.S. multinational operations are conducted are substantially equivalent to U.S. rates and when added to the U.S. income tax upon repatriated earnings, certainly do not result in preferential tax treatment for the earnings of U.S.-based multinational corporations.

8. Legal aspects of multinational corporations, including international regulatory institutions, their jurisdictions, treaties and agreements.

Xerox' international operations are conducted through affiliates which are subject to the domestic laws of the individual host nations. This experience causes Xerox to particularly appreciate the need for the establishment of international mechanisms for resolving investment disputes with host nations and the

need for narrowing national differences in matters such as antitrust, transfer pricing, property rights, accounting practices, profit repatriation, securities regulations and taxation.

9. U.S. and foreign tax laws regarding multinational corporations.

Protectionists assert that a principal reason for multinational operation is the avoidance of taxes. Indeed, the tax provisions of the Burke-Hartke Bill are premised upon this assertion. This premise is simply not true.

In order to avoid the double taxation of income earned abroad by resident corporations, most industrial nations have adopted one of two systems. One is to exempt foreign income from home country taxes while the other is to allow a credit for foreign taxes paid. The United States has adopted the latter system as have Canada, Germany, Japan, Mexico and the United Kingdom. The credit is limited to the U.S. income tax liability associated with the foreign source income thereby insuring that the total tax burden will be the higher of either the U.S. or foreign tax on the income.

As discussed under Item 7 above, this system has, in Xerox' case, resulted in a total tax burden on its

overseas earnings of 50.2% which is substantially equivalent to the U.S. tax rate upon purely domestic operations.

This fair and equitable result, however, would be completely destroyed by the tax proposals contained in Burke-Hartke. Those proposals, by deleting the foreign tax credit and permitting only their deduction from gross income, would result in an effective tax burden upon foreign earnings of approximately 75% or 50% more than the burden upon domestic operations. This result would not only make it virtually impossible for U.S.-based corporations to compete in foreign markets, it would make it economically unattractive for them to even attempt to do so.

The Burke-Hartke tax proposals would also eliminate the present system of deferral of U.S. tax on unrepatriated earnings. By so doing, it would eliminate these earnings as a source for foreign investment with the direct result that such investments would have to be funded either by foreign capital or by an outflow of capital from the United States which would further impact our balance of payments position.

In short, it is obvious that the present foreign tax credit and system of deferral of U.S. tax on unrepatriated earnings is essential for the continuance of our international operations and their resulting benefits to our domestic employees and the U.S. economy.

10. U.S. and foreign antitrust laws.

Perhaps nowhere is the need for narrowing differences in national concepts of business regulation more apparent than in the field of antitrust. The uncertainties with respect to the applicability of U.S. laws on the operations of foreign multinationals doing business in the United States and with respect to the extraterritorial application to U.S. companies' foreign operations severely handicap the ability of U.S. multinationals to compete in world markets.

Summary

From the foregoing, we believe it to be established by experience that high technology multinational private enterprise such as Xerox is a highly effective economic instrument. It is an instrument which has enabled the United States, even in the face of basic structural deficiencies in the international trade system, to exploit technological advantage on a worldwide basis and to compete internationally under circumstances which result in increased and better employment opportunities for American labor and enable it to enjoy a constantly rising standard of living. At the same time we are providing essential services to the host countries, and advancing their economy, standard of living and human welfare through our technology.

This fact must not be permitted to become obscured by the specific problems of certain industries. Some industries have witnessed a decline in earning and employment opportunities

as the result of inequities in the present system of international trade and will be able to compete effectively once those inequities are removed. Other industries, however, burdened by obsolete technology, obsolete labor standards or obsolete management, and therefore unable to compete effectively, still will not be able to provide acceptable earning levels and employment opportunities. We believe it would be a grave error to attempt to preserve such industries through direct or indirect subsidies such as quotas, embargoes or protective tariffs. Direct subsidies would represent a continuing waste of public money which could better be used to meet other pressing public needs. Indirect subsidies ultimately would represent a tax upon the consumer and inevitably invite retaliation by other nations. In short, "Let's not plug the rear end of the field."

While we do not believe in subsidizing marginal industry which is unable to compete effectively; even within an equitable structure of international trade, we do believe in subsidizing employees who are impacted by this inability to compete. Prompt and meaningful adjustment assistance must be provided to such employees to enable them to begin new careers in more competitive industries.

In this respect, S.3936, a bill introduced in the 92nd Congress by Senators Percy and Taft, represents a possible approach which we believe should receive prompt and thorough consideration by the new Congress. In addition, we believe consideration should be given to the establishment of mechanisms similar

to those utilized by the National Alliance of Businessmen for the employment of so-called "unemployables" to encourage employers to undertake programs designed to assist dislocated employees in establishing new careers. Our own experience, going back to the 1930's when we worked together with the Amalgamated Clothing Workers of America to retrain displaced clothing workers for new careers in the photographic field, enables us to say that such programs are both workable and rewarding. Finally, we believe that the laws governing the vesting and funding of private pension plans should be amended so as to insure the transferability of benefits for dislocated employees and to assist those whose age makes impractical the undertaking of a new career to retain a degree of self-sufficiency.

Conclusion

We commend the Subcommittee for initiating this study. The study represents, we believe, a vitally needed step toward removing the "abundance of ignorance" concerning multinational private enterprise, its operations and its impact upon domestic and international economies to which Chairman Ribicoff has referred.

We believe the study will demonstrate that it is impossible to stereotype corporations which operate multinationally or to generalize on their character, style and history. Collectively, however, they have demonstrated constructive strengths which have rendered extraordinary services in terms of domestic employment, export expansion, foreign exchange earnings, technology creation

and exploitation, and the economic habilitation of underdeveloped countries.

It seems to us, however, that instead of asking what the multinational corporation has been, what it is, or even what it will be under current circumstances, we should be asking what do we want the multinational corporation to be?

Before this question can be answered, it is first necessary that we establish a consistent, goals-oriented national policy with respect to international trade and investment which is on an equal footing with our international political policy and which is not subject to being undercut by short-term domestic considerations.

Once such a foreign economic policy is established, we will want to harness our greatest national strength to attain the objectives of this policy.

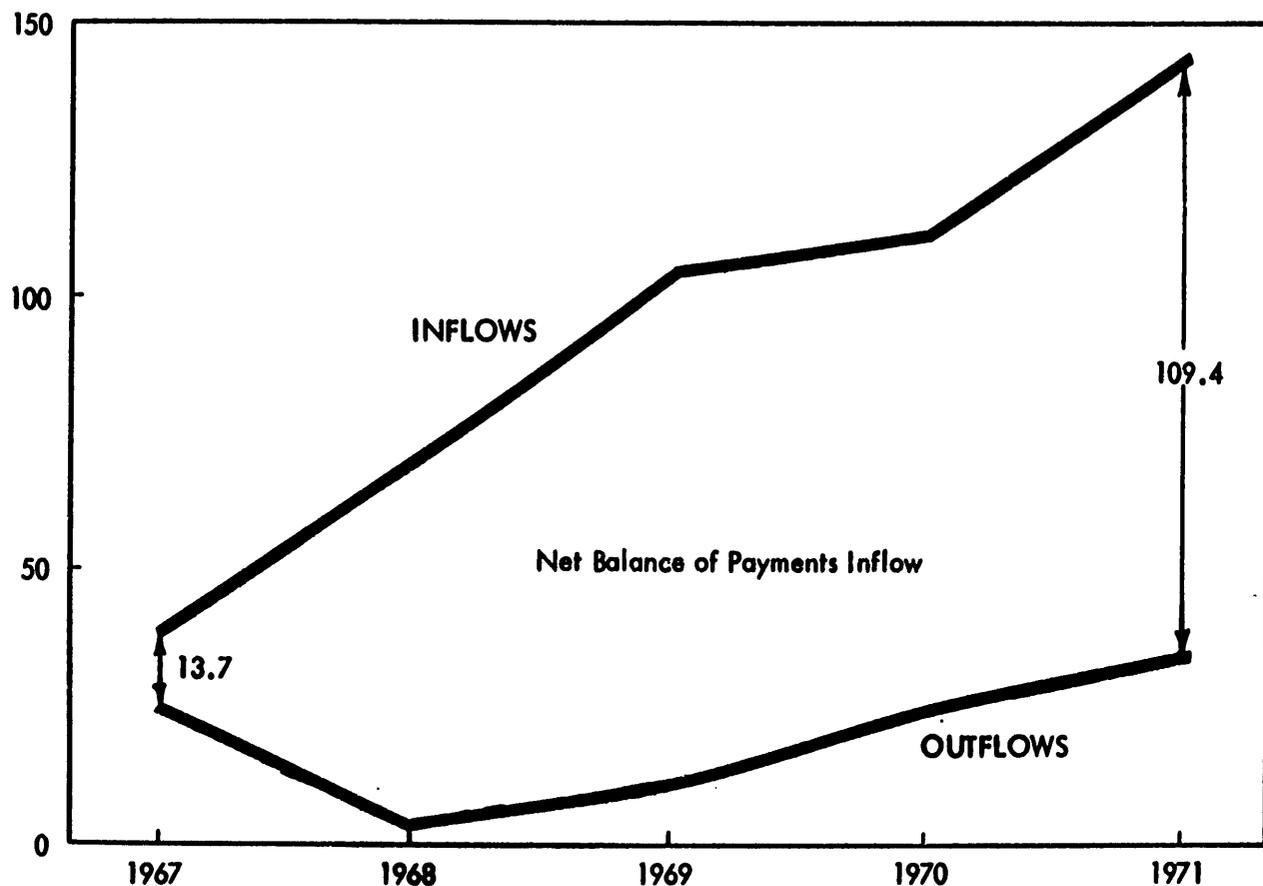
For this purpose, American multinational corporations are a national resource unequalled in the world. Yet there are voices calling for them to be manacled, strangled, confined, and even drawn and quartered. To do so clearly would not serve the national interest.

American corporations have given the United States its economic supremacy and have enabled it to render to the world services beyond the capability of any other nation. Rather than inhibit this precious capability, we should seek to devise ways to use this invaluable asset in behalf of those national policies which would strengthen world economies through a free and fair

flow of goods and capital between all nations. Such an accomplishment would mark a major step in the evolution of the corporation and its role in society.

**XEROX CORPORATION
BALANCE OF PAYMENTS DATA
1967 - 1971**

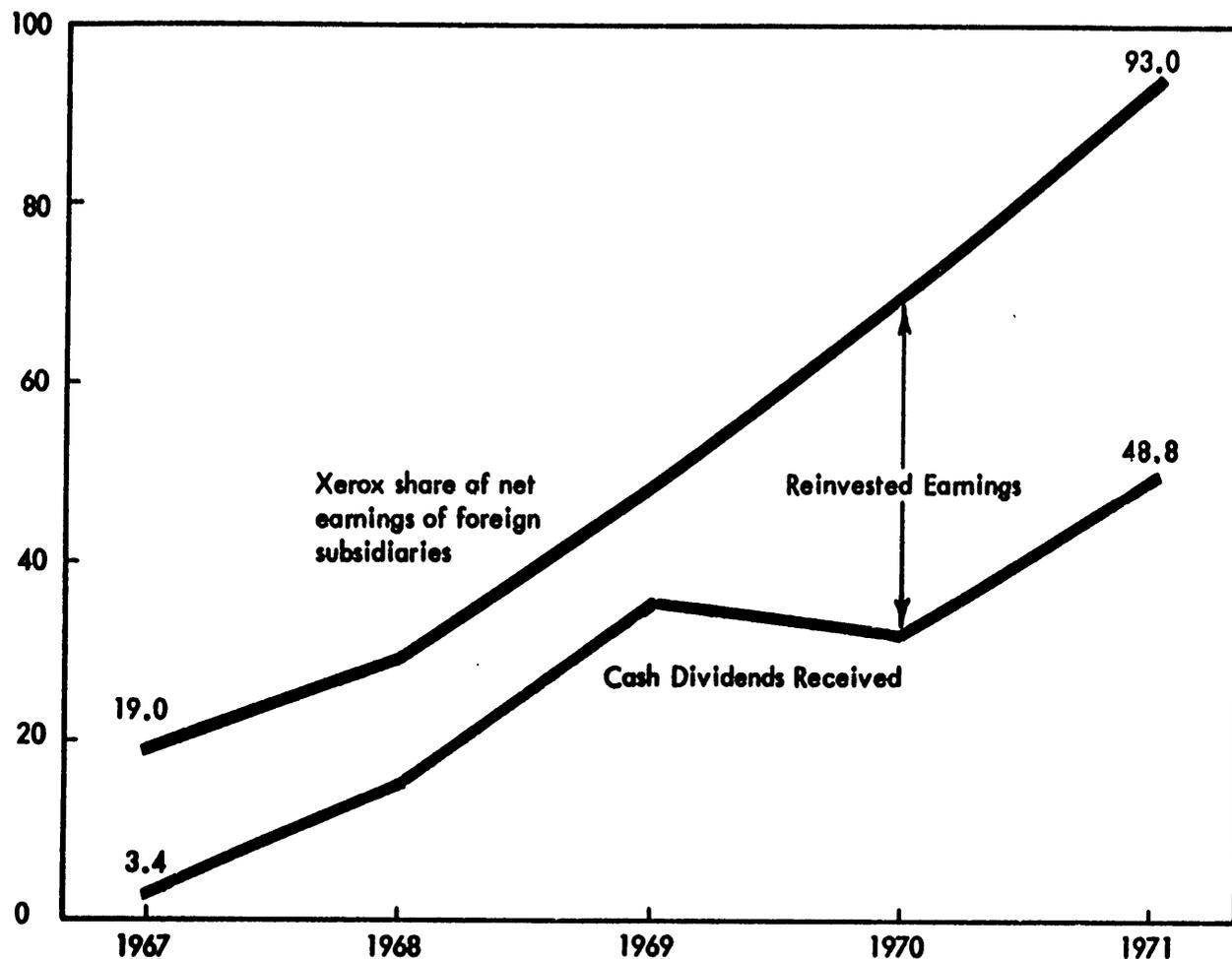
\$ Millions

**\$ MILLIONS**

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>TOTAL</u>
INFLOWS						
Dividends	3.4	14.9	34.7	32.7	48.7	134.4
Interest	1.3	1.8	1.7	1.6	1.5	7.9
Royalties, Fees, etc.	20.9	20.1	21.6	21.9	18.9	103.4
Exports	<u>13.5</u>	<u>33.2</u>	<u>46.5</u>	<u>55.0</u>	<u>74.8</u>	<u>223.0</u>
Total Inflows	<u>39.1</u>	<u>70.0</u>	<u>104.5</u>	<u>111.2</u>	<u>143.9</u>	<u>468.7</u>
OUTFLOWS						
Capital Transfers	24.4	2.4	10.4	24.7	34.3	96.2
Imports	<u>1.0</u>	<u>.5</u>	<u>.1</u>	<u>.2</u>	<u>.2</u>	<u>2.0</u>
Total Outflows	<u>25.4</u>	<u>2.9</u>	<u>10.5</u>	<u>24.9</u>	<u>34.5</u>	<u>98.2</u>
Net Balance of Payments Inflow	13.7	67.1	94.0	86.3	109.4	370.5

**XEROX CORPORATION
FOREIGN EARNINGS REPATRIATED
1967 - 1971**

\$ MILLIONS



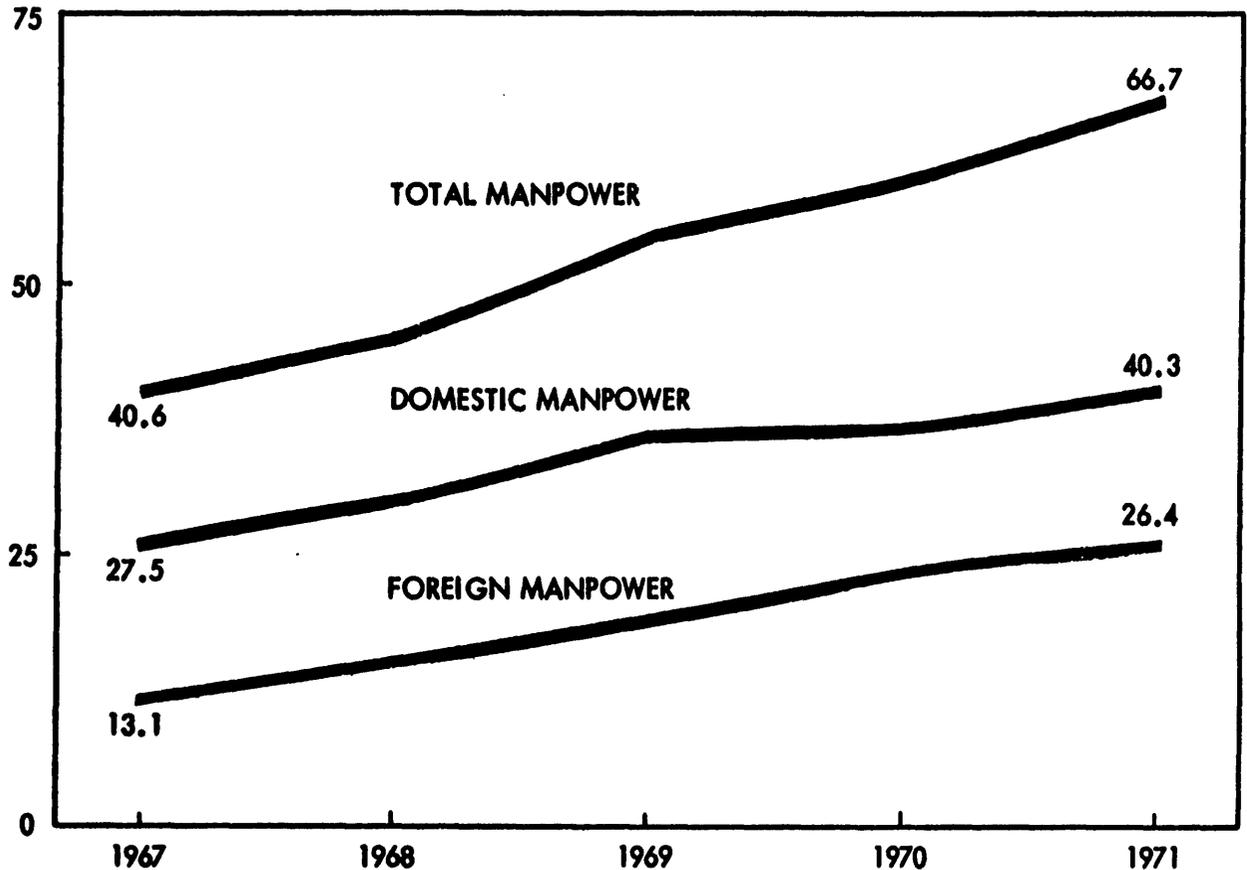
\$ MILLIONS

AMOUNT

	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>TOTAL</u>
Xerox share of net earnings of foreign subsidiaries	19.0	29.2	47.8	70.8	93.0	259.8
Cash dividends received	3.4	14.9	34.7	32.7	48.8	134.5
% Earnings repatriated	18%	51%	73%	46%	52%	52%

**XEROX CORPORATION
MULTINATIONAL MANPOWER STATISTICS
1967 - 1971**

\$ THOUSANDS



\$ THOUSANDS

NUMBER

	1967		1968		1969		1970		1971	
Domestic	27.5	68%	29.7	66%	36.2	66%	37.2	63%	40.3	61%
Foreign	13.1	32%	15.4	34%	18.7	34%	22.7	37%	26.4	39%
Total	40.6	100%	45.1	100%	54.9	100%	59.9	100%	66.7	100%

EATON AND THE GLOBAL ECONOMYA World Company Examines International
Trade and Investment

INTRODUCTION

No company which considers itself a world enterprise can ignore allegations that multinational industry is exporting jobs and production from America while harming the U.S. balance of payments and trade.

Eaton Corporation, which takes pride in its global achievements, has therefore necessarily taken a long, hard look at itself statistically, philosophically and socially in an effort to answer such allegations. In so doing, Eaton recognized that while some "critics" might be questioned as to motivation, the sudden onslaught of international economic problems confronting the United States has in fact caught the American public by surprise. This in turn opened the door to plethoric legislative proposals aimed more at the symptomatic effects of these problems than their causes. A leading example, which symbolizes the motivational aspect as well as the "tour de force" response, is The Foreign Trade and Investment Act of 1972. In its major component parts, many of which are likely to be reintroduced in the 93rd Congress in one form or another, this bill would:

1. impose additional taxes to hamper U.S. investment abroad;

2. establish mandatory quotas on imports, with certain exceptions, as U.S. production fluctuates;
3. enact statutory controls to prohibit both foreign investment and licensing of U.S. patents abroad.

Eaton Corporation has recently completed an intensive audit of its activities for the twelve year period commencing 1960. The allegations leveled at MNC's, if true with regard to Eaton, would likely be true with regard to American multi-national manufacturing companies generally.

The audit results are detailed in the attached appendix and are highlighted in the following sections. In addition, this report comments on the more serious basic problem of U.S. trade and capital balances. It may well be, as all the facts pertaining to world trade are developed, that the U.S. must "export" some jobs in order to protect and enrich many more. It is hard to measure the true cost of preserving low-productivity labor and non-competitive sectors within the U.S. economy. Protectionism clearly hurts the consumer--especially the lower income groups--and does not benefit those outside the collective bargaining structure. Therefore, it may be that such costs would be visited mostly on the poor, the black and the disadvantaged. Trade unions which adhere to traditionalist policies of self-enrichment at the expense of the consumer and of America's international competitiveness cannot enter the public debate with clean hands. Neither they nor the approach espoused by certain academic intelligentsia contributes to an understanding of America's real economic dilemma.

This report is specific about Eaton's position in world trade. It encourages further examination of the issues in the spirit of fair debate and on the basis of facts. It draws by reference upon the similar reports of other industries listed in the bibliography, as well as the academic studies also listed therein. If, as Eaton suspects, there are no honest facts to support labor's sweeping allegation of wholesale job exportation and other harmful effects, it is incumbent on labor to adopt an honest position on the real economic dilemmas and to work with--rather than against--management in the quest for solutions to America's problems in an increasingly competitive world.

If the United States carries neo-mercantilism to the point of becoming "ethnic" in its response to the aspirations of human life in other parts of the world, its citizens will have denied the foundations of their own existence. At such a point in history, the rule of maximum gain will have replaced the rule of mutual sacrifice in the conduct of life.

EATON'S BALANCE OF TRADE IN JOBS, CAPITAL AND GOODS: 1960-1971

In 1960, Eaton's worldwide net sales totaled \$391 million. Of this, \$21.5 million or 5.5% represented export sales from the U.S. 1/ Applying a normally accepted rule of thumb, Eaton was thus maintaining about 1,505 domestic jobs through export sales at that point. 2/ In the following year, Eaton undertook an expansion of its world trade and investment programs by creating an international division operating autonomously with respect to U.S. divisions.

By 1966 net worldwide sales were up 124% to \$878 million, of which \$42 million or 4.8% represented export sales from the U.S. At that time, in spite of a significant upswing in direct foreign investments of some \$30 million, Eaton was maintaining reasonable job parity as between domestic and foreign locations commensurate with its overall growth. In fact, the percentage of U.S. jobs supported by Eaton's export sales rose from 6.0% to 6.5% in relation to total U.S. sales during that period. 3/ This parity was maintained in large part because the employees

1/ See schedule H of appendix.

2/ Data are not available on which to calculate the actual job content of Eaton's exports. Applying the ratio of exports to total sales to employees gives an approximation for Eaton's own contribution but does not account for the employment of suppliers and subcontractors. We have therefore used a standard (1970) figure of 70 jobs for \$1 million of export sales which has been employed in various government and academic studies. The results are consistent with the figure derived from export to sales ratios if the latter are increased to allow for suppliers' employment.

3/ See schedule B of appendix.

acquired in foreign countries were in jobs already in existence and because these investments were for the protection of U.S. exports facing import substitution programs by foreign governments. There was little or no transfer of jobs from the U.S. to overseas locations.

In 1967, Eaton adopted the worldwide "product group" as the basis of its corporate organization structure. This meant that similar products would be managed by one executive team regardless of where in the world they are produced or sold. As a result of this change and the heavy emphasis on consolidation and coordination which followed, by 1971 Eaton's percentage of U.S. export sales to net worldwide sales advanced to 7.2% or \$74 million on a volume of \$1,035 million, up 18% from 1966. The percentage increase in export sales in this period was thus three times the increase in overall business volume. The figures discussed above can be compared graphically in the appendix 1/ and in the following Table (I):

Table I 2/

<u>Year</u>	<u>1960</u>	<u>1966</u>	<u>1971</u>
Direct Foreign Investment (\$ million)	0	30	88
Net Sales Worldwide (\$ million)	391	878	1,035
Export Sales from the U.S. (\$ million)	21.5	42	74
Export Sales as % of Total Sales	5.5%	4.8%	7.2%
American jobs supported by exports (at 70 per \$1 million)	1505	2940	5,180

1/ Schedules N and O of appendix

2/ Schedules H, A, B of appendix

In all, Eaton's total business advanced by 165% in the twelve year audit period, while its export sales from the U.S. advanced a whopping 244%.

Eaton's employment figures for the audit period are summarized as at year end in the appendix. 1/ Although both U.S. and non-U.S. employment figures are distorted by fluctuations in business cycles and the effect of acquisitions, existing jobs acquired at home or abroad do not, of course, reflect potential exports of employment unless production itself is transferred. Eaton's employment has grown in a roughly comparable pattern both domestically and overseas. Although the ratio of non-U.S. to total employment has risen from 18% in the 1960-1961 period (before the expansion of direct foreign investments) to 29% in the 1965-1966 period due to major acquisitions abroad, it also continued to average only 32% in the 1971-1972 period, although from 1967 to 1972 Eaton's foreign investments almost tripled.

When the U.S. recessionary cycle in 1970-1971 lowered Eaton's U.S. employment, non-U.S. employment was reduced as well. Were U.S. jobs being "exported", an increase should have appeared.

Moreover, the jobs created and maintained by Eaton at home--in part through overseas activities--have tended to be

1/ Schedule M of appendix

compensated as shown by the following Table (II) which summarizes rates of change for the 1967-1971 period during which Eaton began to manage its operations on a global basis: 1/

Table II
Compensation Increases 1967-1971

	<u>Basic Wages</u>	<u>Fringe Benefits</u>	<u>Total Comp.</u>
U.S.	41%	63%	44%
non-U.S.	37%	40%	34%

These figures also offer a stern reminder of the grave productivity crisis which now confronts the manufacturing sectors of the U.S. economy. Compared with 1967, it now takes nearly twice as much investment in plant and equipment 2/ and 44% more in wages and fringe benefits for Eaton to maintain its U.S. employment.

The percentage of Eaton's export sales to affiliated companies has also remained consistently high--about 39%-- (compared with 25-30% estimates for U.S. industry as a whole) while its percentage of imports from such companies has remained consistently low--about 5%. 3/ This clearly points out that for Eaton there has been a direct positive interrelationship between its foreign investment program, totaling \$88 million by 1971, and its export sales performance. This, Eaton

1/ Schedule L of appendix

2/ Schedule E of appendix

3/ Schedule C of appendix

believes, is caused by the demand of other countries for a substantial degree of local content in marketable products to support both their employment and balance of payments policies. When these requirements are met, it becomes possible to substantially expand product lines through importation, whereas refusal to invest in plant and equipment for local production often results in closed borders or loss of a market to foreign competitors. It is interesting to reflect on the fact that over 50% of the 600,000 plus automobiles manufactured in Brazil in the current year were made by Volkswagen, a 100% owned foreign investment. A plant established by Eaton in Mexico which is 60% owned by Mexicans to produce medium-sized truck axles has enabled Eaton to substantially increase its exports of heavy duty axles and axle parts from the U.S. to that country. This "pull effect", which direct investment in local manufacturing exerts on U.S. exports, has been documented by other companies and industries in many of the reports cited in the bibliography.

In the past 5 years, the net favorable balance of exports over imports for each U.S. Eaton employee has climbed from an average of \$1,376 to \$2,308. 1/ During this period Eaton's investment per U.S. employee in net plant and equipment has climbed from a net average of \$4,462, to a 1971 high of \$8,545. 2/

1/ See schedule D of appendix

2/ See schedule E of appendix

Thus Eaton is committed to increasing outlays of U.S. capital in order to preserve the productivity of its U.S. jobs--and thus protect the favorable trend of its export markets.

Eaton has, moreover, made a significant positive contribution to the U.S. balance of payments, in which recent deficits have been a major cause of the international monetary crisis. 1/ Since 1960, Eaton has spent or invested \$130 million in overseas business operations, from which it has recovered \$544 million in trade dollars, dividends, royalties and other payments. On a flow of funds basis Eaton's outflow has thus been \$130 million since 1960 compared with an inflow of \$544 million, resulting in a net favorable contribution to the U.S. balance of payments during the twelve year audit span of \$414 million. These funds have, of course, played an important role in supplying capital and equipment to support the competitiveness of U.S. jobs.

Eaton's overseas operations import \$17 million in goods each year from U.S. vendors other than Eaton. In other words, in addition to Eaton's own 1971 exports of \$74 million (of which \$17 million are to its own affiliates and might not exist without them), Eaton's overseas affiliates were responsible for another \$17 million in U.S. exports from other companies. On the import side, of Eaton's total \$11.6 million in imports to the U.S. in 1971, only \$646,000 were from its own affiliates abroad. 2/ These figures hardly lend support to the allegation

1/ See schedule H of appendix

2/ See schedule H of appendix

that multinationals go abroad to produce more cheaply for the U.S. market. On the contrary, Eaton's overall trade balance is positive by over \$60 million a year, with exports leading imports in a ratio of 6.5 to 1.

TO TRADE OR NOT TO TRADE

Eaton Corporation acknowledges that in today's world there is no such thing as "free" trade. Since World War II, differing patterns and rates of internal economic development, elimination of historic colonialism and the emerging shift from military to economic factors in world power structure have gradually overburdened international trade relations. Some of the contributing factors have been: inflation, reinvestment in high capacity and sometimes state-subsidized facilities in Germany and Japan, and the undue prolonging of U.S. economic generosity, laudable and necessary as it was during the post war years. Out of this process have emerged the "proactive" multinational corporations, supposedly able to leap trade barriers at a single bound, but in fact sustaining America's competitiveness in the face of many obstacles by sheer adaptability.

Eaton's overseas investment policy is simple: when it becomes impossible in the context of other countries' policies to supply and maintain markets from U.S. plants, it is time to look overseas for an answer to any one or all of these needs:

- . to avoid foreign trade barriers such as quotas, import duties or purely discretionary administrative restrictions;
- . to provide production facilities and product needs to meet special customer requirements;
- . to remain competitive in markets where customer and supplier proximity is critical;
- . to respond to local content requirements where a choice must be made between investment or loss of market;
- . to increase sales of U.S.-built products and to supply genuine replacement parts.

The multinationals are being "blamed" for making these necessary adjustments to an international economic system which had already developed structural faults. On the American side, the system is passively expansionist, with minimum governmental involvement and a relatively open market. Other governments are active, self-assertive and dedicated to the practice of varying arts of protectionism while maintaining a close involvement in business, especially export promotion.

Eaton understands that more can and must be done to negotiate greater reciprocity in trading relations--the lack of which is a major stress on the system. But it cannot agree that the solution requires abandonment of the traditional

responsibility assigned to the private sector, substituting either government regulation or the more symbiotic relationship which is suggested by the phrase "Japan Incorporated". The irony of attitudes underlying "Hartke-Burke" is that they would further abdicate powers of Congress vis-a-vis the executive branch by creating unworkable and perhaps dangerous concentrations of ability to license and regulate major aspects of trade, investment and licensing.

The sine qua non of world trade is that the United States must survive and prosper in a dynamic, changing international system. The EEC is an emerging competitor, but not yet a matured entity; regional Latin American economies are still declarations of intent, but with threatening overtones; Japan is not only a fact, but already a dominant presence throughout most of the world's developing markets. Right now, and with an explosive economic future, western trade with Russia, Eastern Europe and China is getting off the ground. The world will not sit still; and America must either live in it or withdraw from it, a decision which could have disastrous political, economic--and even military--consequences. "Hartke-Burke" exemplifies an approach which Eaton believes is a negative step in this direction, premised on the belief that Congress can pass a law saying, in effect, "Stop the world, we want to get off!"

The quota provisions alone would open American exports to retaliation measured in the billions of dollars. Among serious consequences for many world companies, Eaton for one would lose the ability to trade off high technology finished goods for bulk, low technology components like castings. 1/

The licensing and investment controls, even if workable, could be applied so as to strangle those sectors of the U.S. economy which are most competitive internationally, and lose future balance of payments earnings--and exports--as well as jobs. The Japanese economy has demonstrated well the ability of modern communications systems to ignite "follower" technology into "leader" technology.

The tax provisions, which would have the same effect, are illustrative: The U.S. presently taxes foreign source income on the same basis applied to all taxable income--in relation to income actually received or earned, rather than anticipated. Hartke-Burke proposals are intended to encourage prompter repatriation of earnings, greater investment in the U.S. and equalization of foreign and domestic taxes. They would in fact, however, subject U.S. firms to double taxation which all major countries, including the U.S., avoid in their domestic tax systems and avoid internationally either through an elaborate series of treaties or by not taxing foreign source income at all. The practical effect would therefore be to impose new taxes on

1/ IEPA statistics compiled in its Balance of Payments book shows that U.S. industries exports in high technology finished products has remained consistently favorable and would be the primary victim in a retaliatory trade war.

American foreign income. This would certainly diminish foreign investment, lose markets to foreign competitors, and harm the U.S. balance of payments, to which the multinational corporation is the biggest contributor. In Eaton's case, the effect would also be to reallocate the reinvestment of earnings to minimum growth potential areas, since these new taxes, combined with "push out" taxes in primary competitor countries like Germany, would require an impossible profit performance in those parts of the world where the keenest technological, financial and promotional competition exist.

FOUR POINTS TO PROGRESS

How can the United States cope with growing problems of world trade and their effect on the national economy--and on national pride--without abdicating its leadership in world development?

Eaton realizes that U.S. industry must do much more than oppose illogical and counter-productive trade legislation. Eaton believes that lengthy strides towards a prosperous and peaceful world economy can be initiated through cooperative

actions taken in the United States by government, management and labor.

Eaton urges:

1. A trade-centered foreign policy administered on a consistent basis by one department of government rather than piecemeal by all departments. The policy should encompass antitrust, tax, environmental and other vital concerns to the orderly development of world trade. Trade must be elevated to the top tier of foreign policy for the United States, and economic factors must be placed on the same agenda as key diplomatic decisions.
2. A new entente among government, business, labor and the public that would end the all-too-often adversary proceedings that stifle progress, for in reality, the goal of all of these viewpoints is the same ... a better quality of life for all of the people of the United States. We need only look across either ocean to see how government, business and labor can build a strong economy by travelling on parallel tracks towards a common policy destination. The new entente should be structured within one or more forums and should not be allowed to occur piecemeal behind closed doors.
3. A thorough and continuing re-evaluation of U.S. Trade Legislation which recognizes the forces of change shaping the patterns of world civilization. The high-powered jet of world business cannot be flown under regulations promulgated for the Model T; but the job of updating should be a continuous and thoughtful one led by a Congress willing to resist the imposition of parochial viewpoints. Where changes are necessary to correct specific imbalances, recognition should be given to the allocation of all costs involved, and where necessary the public should be encouraged to contribute a fair share towards the adjustment.
4. An intensive and aggressive public communications effort on the part of business to stimulate interest and improve understanding. Much of the restrictive trade legislation being proposed is the direct result

of public ignorance of the role of business in our national life. Legislators respond to public opinion and public attitudes. By working to shape opinions with factual and meaningful information about the vital inner workings of world business itself, the gap that threatens to destroy public confidence in the free enterprise system can be closed.

Positive steps to expand upon and implement these four points for progress must be made. Eaton, today, is providing facts and thoughts to help bring them about and stands ready to meet and discuss every aspect of world trade with legislators, labor leaders and business leaders throughout the world.

SCHEDULE AEXPORT SALES - U.S. DIVISIONS

(Thousands of Dollars)

<u>Year</u>	<u>Trade</u>	<u>Inter Co</u>	<u>Total</u>	<u>Yale & Towne</u>	<u>Restated Total</u>
1960	8,434	1,390	9,824	11,734	21,558
1961	5,177	1,428	6,605	11,045	17,650
1962	9,271	3,113	12,384	9,364	21,748
1963	7,420	3,985	11,405	10,052	21,457
1964	15,110	6,641	21,751	10,506	32,257
1965	28,335	12,529	40,864		
1966	26,221	15,812	42,033		
1967	24,457	12,829	37,286		
1968	29,978	18,024	48,002		
1969	35,853	28,850	64,703		
1970	43,800	30,730	74,530		
1971	<u>57,052</u>	<u>16,710</u>	<u>73,762</u>	_____	_____
Total	<u>291,108</u>	<u>152,041</u>	<u>443,149</u>	<u>52,701</u>	<u>495,850</u>

SCHEDULE BEXPORT SALES - U. S. DIVISIONSPercent of Export Sales to Total U. S. Sales

<u>Year</u>	<u>Trade</u>	<u>Inter Co.</u>	<u>Total</u>	<u>Yale & Towne Total</u>	<u>Restated Total</u>
1960	3.7%	7.1%	4.0%	10.8%	6.0%
1961	2.5	7.7	2.9	11.4	5.4
1962	3.6	15.7	4.5	8.8	5.6
1963	2.5	16.7	3.6	8.4	4.9
1964	3.6	19.2	4.8	8.4	5.6
1965	5.5	30.8	7.4		
1966	4.4	33.3	6.5		
1967	4.5	30.8	6.4		
1968	4.8	35.8	7.2		
1969	4.9	39.8	8.0		
1970	6.2	53.5	9.7		
1971	7.3	32.9	8.9		

SCHEDULE CIMPORTS BY U. S. DIVISIONS

(Thousands of Dollars)

<u>Year</u>	<u>Trade</u>	<u>Inter Co</u>	<u>Total</u>
1960	74	-	74
1961	115	-	115
1962	253	-	253
1963	627	-	627
1964	1,763	-	1,763
1965	2,123	4	2,127
1966	2,232	20	2,252
1967	3,516	19	3,535
1968	5,028	12	5,040
1969	6,226	427	6,653
1970	7,114	598	7,712
1971	<u>10,964</u>	<u>646</u>	<u>11,610</u>
Total	<u>40,035</u>	<u>1,726</u>	<u>41,761</u>

SCHEDULE DEXPORTS - IMPORTS PER U.S. EMPLOYEE

(In Dollars)

<u>Years</u>	<u>Export Average</u>	<u>Import Average</u>	<u>Net Favorable Dollars Export per Employee</u>
1960	1,045	8	1,037
1961	585	10	575
1962	1,077	22	1,055
1963	978	29	949
1964	1,440	79	1,361
1965	1,611	84	1,527
1966	1,544	83	1,461
1967	1,520	144	1,376
1968	1,789	188	1,601
1969	2,106	217	1,889
1970	2,793	289	2,504
1971	2,739	431	2,308

SCHEDULE EINVESTMENT PER U. S. EMPLOYEE
IN PLANT AND EQUIPMENT (NET)

<u>Year</u>	<u>In Dollars</u>
1960	6,489
1961	5,046
1962	5,301
1963	3,684
1964	3,791
1965	3,560
1966	3,764
1967	4,462
1968	4,636
1969	5,459
1970	7,523
1971	8,545

EXPORT SALES
U.S. DIVISIONS

GEOGRAPHICALLY

SCHEDULE

(Thousands of Dollars)

<u>Trade</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Total</u>
Canada	5,973	3,240	6,000	5,376	6,611	10,300	9,448	9,100	12,292	15,921	19,350	30,827	134,438
Europe	2,415	1,907	2,595	1,128	5,186	6,298	3,703	3,392	3,558	2,863	3,346	3,414	39,805
United Kingdom	17	5	313	208	495	1,336	1,728	347	276	408	843	2,250	8,226
South America		1		11	708	1,805	2,345	2,004	2,997	3,398	2,704	3,377	19,350
Central America	5	2	6		131	1,454	2,207	2,313	1,658	3,387	3,479	2,315	16,957
Mexico	23	20	284	365	1,452	2,629	3,447	3,267	3,913	3,465	5,470	5,226	29,561
Australia	1		36	156	108	199	471	70	347	890	1,230	1,324	4,832
Far East		2		176	392	3,252	2,372	1,807	2,404	3,110	4,858	6,063	24,436
Africa			37										37
Near East						648		948	1,426	1,321	1,310	997	6,650
Miscellaneous					27	414	500	1,209	1,107	1,090	1,210	1,259	6,816
Total Trade	8,434	5,177	9,271	7,420	15,110	28,335	26,221	24,457	29,978	35,853	43,800	57,052	291,108
<u>Intercompany</u>													
Argentina				234	1,389	1,255	817	540	218	603	84	370	5,510
Australia								30	461	633	859	1,165	3,148
Austria										175	170		345
Brazil		8	12	23		56	370	802	1,432	1,250	1,673	2,134	7,760
Canada	1,105	1,327	2,981	3,554	4,679	9,413	11,800	8,894	11,233	21,491	20,457	7,787	104,721
England	285	93	113	173	573	1,481	917	951	1,978	1,793	3,783	1,713	13,853
France									243	139	419	16	817
Germany						175	800	680	1,116	1,686	2,271	2,547	9,275
Italy			7	1		4	15	31	27	36	46	7	174
Japan										10	11	19	40
Lichtenstein									15				15
Mexico							132	660	617	595	341	716	3,783
Monaco								45	46	28		11	130
Netherlands									412	406	119		937
Spain							430	22	56	21	53	12	594
Switzerland						13	3	217	132	140	45	187	737
Venezuela									60	98	24	20	202
Total InterCo	1,390	1,428	3,113	3,985	6,641	12,529	15,812	12,829	18,024	28,850	30,730	16,710	152,041

SCHEDULE G

**IMPORTS - GEOGRAPHICALLY
U. S. DIVISIONS**

(Thousands of Dollars)

<u>Trade</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Total</u>
Canada	67	85	127	98	511	687	493	725	1,071	1,869	1,793	3,152	10,678
Europe			9	6	416	798	956	1,580	1,455	1,554	1,508	2,869	11,151
United Kingdom					12	17	23	80	194	257	964	1,021	2,568
South America									300	300	300	300	1,200
Far East	7	30	117	523	824	621	725	1,131	1,993	2,097	2,549	3,614	14,231
Near East									15	149			164
Miscellaneous							35					8	43
Total Trade	74	115	253	627	1,763	2,123	2,232	3,516	5,028	6,226	7,114	10,964	40,035
 <u>Inter Company</u>													
Brazil												149	149
Canada							14	13	4	8	563	404	1,006
England						4	6	5	7	418	10	10	460
France												60	60
Germany												1	1
Italy											25		25
Spain												22	22
Switzerland								1	1	1			3
Total Inter Co.						4	20	19	12	427	598	646	1,726

OVERSEAS FUNDS FLOW
(TRADE, INVESTMENT, DIVIDENDS,
ROYALTIES, ETC.)

SCHEDULE H

(Dollars in Thousands)

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>Totals</u>
<u>Flow to United States</u>													
Export Sales	21,558	17,650	21,748	21,457	32,257	40,864	42,033	37,286	48,002	64,703	74,530	73,762	495,850
Dividends - Net		76	129	485	728	1,118	965	900	430	1,058	1,260	2,420	9,569
Interest						50	128	204	283	258	147	302	1,372
Royalties, Fees, Rentals		94	75	428	1,233	2,718	2,625	3,558	3,293	3,969	5,161	4,022	27,176
Decrease in Loans and Receivables								2,957	1,486	5,345			9,788
Sub Total	<u>21,558</u>	<u>17,820</u>	<u>21,952</u>	<u>22,370</u>	<u>34,218</u>	<u>44,750</u>	<u>45,751</u>	<u>44,905</u>	<u>53,494</u>	<u>75,333</u>	<u>81,098</u>	<u>80,506</u>	<u>543,755</u>
<u>Flow from U.S.</u>													
Imports	74	115	253	627	1,763	2,127	2,252	3,535	5,040	6,653	7,712	11,610	41,761
Investments		21,778	2,260	1,280	1,853	1,882	1,058	13,665	2,843	1,934	2,963	4,614	56,130
Net Foreign Borrowings for direct Investment									(3,203)	116	3,087	(162)	(162)
Increase in Loans and Receivables	16	2,062	901	283	1,205	6,195	3,547				7,578	1,395	23,182
Inc. (Dec.) Net Assets of AFN's	467	1,831	896	2,643	946	866	2,988	(1,966)	461	(593)	(73)	110	8,576
Miscellaneous												164	164
Sub Total	<u>557</u>	<u>25,786</u>	<u>4,310</u>	<u>4,833</u>	<u>5,767</u>	<u>11,070</u>	<u>9,845</u>	<u>15,234</u>	<u>5,141</u>	<u>8,110</u>	<u>21,267</u>	<u>17,731</u>	<u>129,651</u>
Net Flow ()													
Unfavorable	21,001	(7,966)	17,642	17,537	28,451	33,680	35,906	29,671	48,353	67,223	59,831	62,775	
Cumulative		13,035	30,677	48,214	76,665	110,345	146,251	175,922	224,275	291,498	351,329	414,104	414,104
Net Corporate Sales	391,345	367,232	427,471	487,166	559,435	701,707	878,344	829,677	937,029	1,073,384	997,434	1,035,662	

SCHEDULE JEXPORT SALES TO U.S. FROM INTERNATIONAL DIVISIONS

(Thousands of Dollars)

<u>Year</u>	<u>Total</u>	<u>From Canada</u>	<u>All Other</u>
1960	-	-	-
1961	9	-	9
1962	13	-	13
1963	11	-	11
1964	13	-	13
1965	28	-	28
1966	342	312	30
1967	11,088	11,070	18
1968	20,370	20,335	35
1969	21,521	21,497	24
1970	23,157	23,146	11
1971	23,495	23,358	137

SCHEDULE KINTERNATIONAL DIVISIONSTRADE IMPORTS FROM U.S. EXCLUDING INTER COMPANY

(Thousands of Dollars)

<u>Year</u>	<u>Capital Goods</u>	<u>All Other</u>	<u>Total</u>
1960	-	19	19
1961	-	127	127
1962	4	38	42
1963	2	145	147
1964	2	451	453
1965	46	755	801
1966	815	1,964	2,779
1967	578	7,177	7,755
1968	270	12,842	13,112
1969	301	17,017	17,318
1970	228	18,632	18,860
1971	454	16,667	17,121

SCHEDULE L

EATON CORPORATION

WAGES, SALARIES AND EMPLOYEE BENEFITS

(Thousands of Dollars)

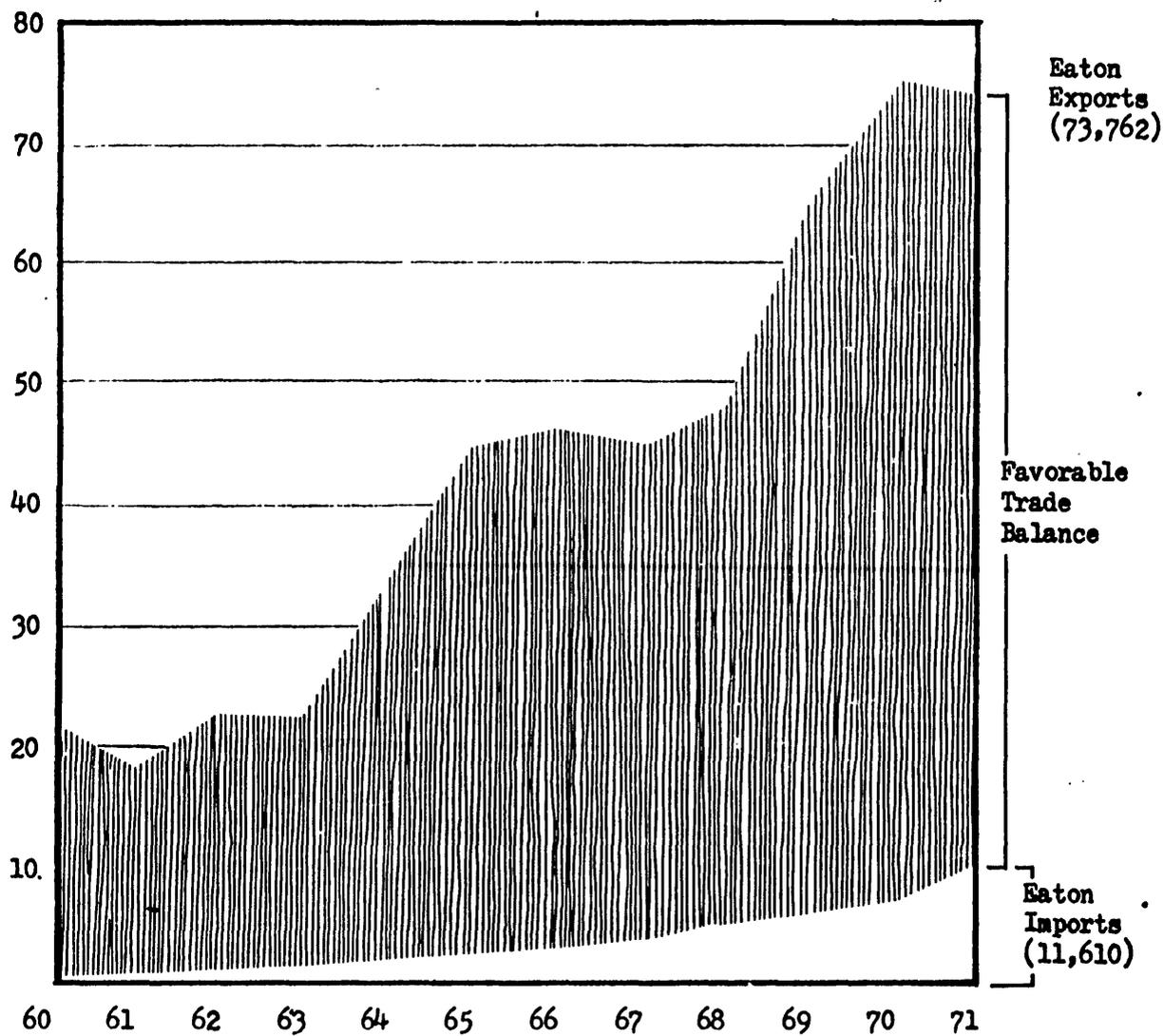
		<u>Wages, Salary, Incentive & Commission</u>	<u>Fringes</u>	<u>Others</u>	<u>Total</u>
1971	U. S.	224,927	62,411		287,338
	International	40,839	13,985	95	54,919
	Total	265,766	76,396	95	342,257
1970	U. S.				
	International				
	Total				
1969	U. S.	237,626	54,026		291,652
	International	44,162	10,562		54,724
	Total	281,788	64,588		346,376
1968	U. S.	191,381	46,476		237,857
	International	40,332	8,565		48,897
	Total	231,713	55,041		286,754
1967	U. S.	159,534	37,678		197,212
	International	30,433	10,350		40,783
	Total	189,967	48,028		237,995

SCHEDULE MEATON EMPLOYMENT STATISTICS

<u>Year</u>	<u>U. S.</u>	<u>Non U. S.</u>	<u>Total</u>	<u>Significant Acquisitions</u>
1960	9,400	2,000	11,400	
1961	11,300	2,500	13,800	Livia (500)
1962	11,500	4,500	16,000	ENV (2000)
1963	21,950	9,000	30,950	Y & T (12,500), Dole (1350)
1964	22,400	8,600	31,000	
1965	25,369	11,109	36,478	
1966	27,221	11,248	38,469	
1967	24,526	11,431	35,957	
1968	26,837	13,306	40,243	Fawick (425), Am. Monorail (410) Timberjack (675)
1969	30,717	15,200	45,917	McQuay (1700), Tinnerman(1065)
1970	26,681	15,545	42,226	
1971	26,932	14,471	41,403	Char-Lynn (575)

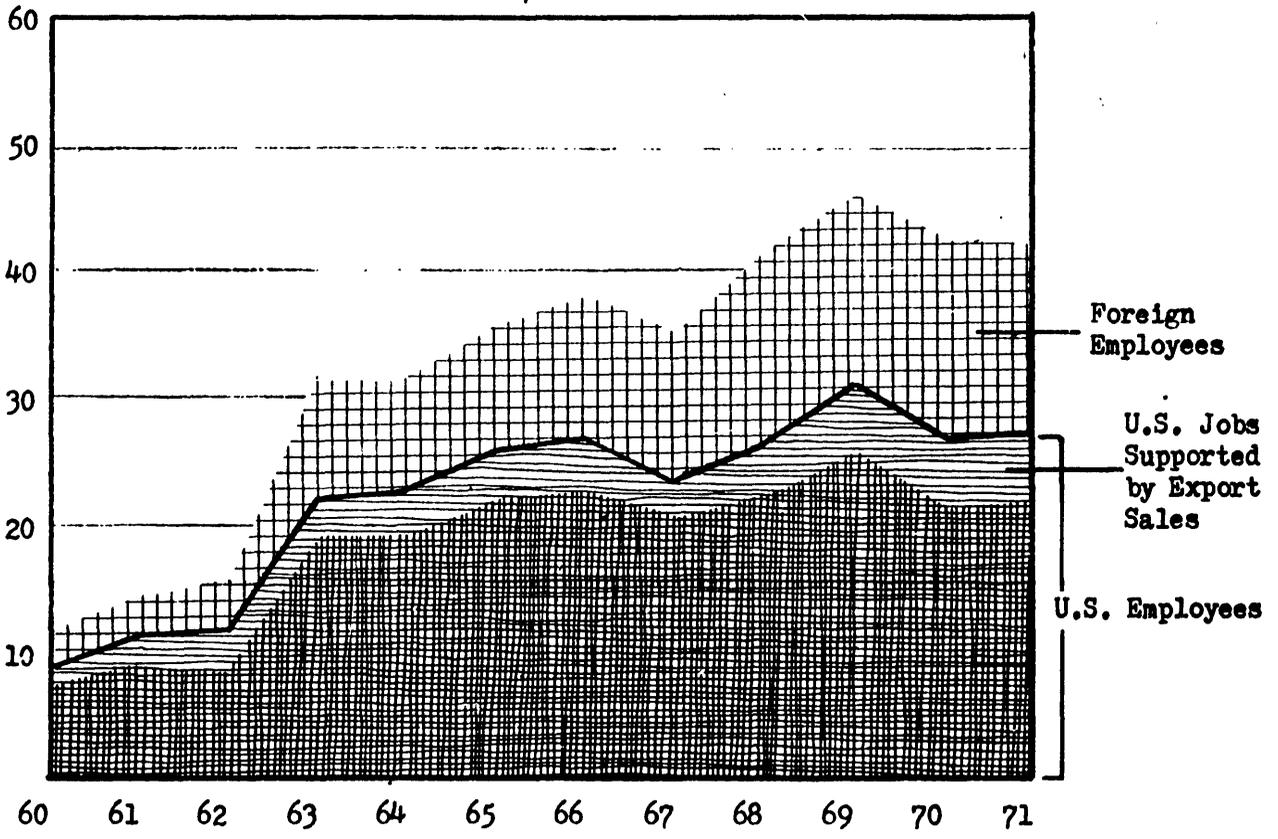
Schedule N
Eaton's Favorable Trade Balance, 1960-1971

Sales
(millions)



Schedule O
Demonstration of Domestic and Foreign Eaton Employee Growth Patterns

Employees
(thousands)



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longyear

LONGYEAR COMPANY

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October 16, 1972

Sub-Committee and International Trade
Committee on Finance
2227 New Senate Office Building
Washington, D. C.

Gentlemen:

We appreciate the opportunity which your committee has given us to submit documentation based on our experience and results as a multi-national corporation.

We emphatically agree that in spite of the voluminous information which has been released on this subject, that there is an abundance of ignorance surrounding the operation and affects of multi-national corporations, and that this is, in part, the result of the biased and incomplete information which has been published. We are also concerned that judgments are being made and decisions reached on the false assumption that only large and well publicized giant corporations of the United States are "multi-national", whereas, in fact, there are thousands of smaller, less well known corporations who have multi-national operations.

The Longyear Company represents one of the smaller multi-national corporations. Our consolidated net sales in 1971 were \$34,957,342, and of these sales \$13,253,76 were sales of the United States corporation which included our export sales from the United States. Our Company was incorporated in 1911 and occupies a dominant position worldwide in the furnishing of services and products to the mineral and construction industries. We include in our organization six subsidiaries, six affiliates, and two licensees operating outside of the United States.

The ever-increasing demand for minerals worldwide has provided an opportunity for expansion of our services and sales of products. The United States is today a "have not" nation with respect to many minerals, and since World War II, with minor exceptions, has imported far more minerals than we have exported. This deficit has been increasing annually in the last 20 years, and this condition can be expected to continue. Since the search for minerals is worldwide, our opportunity for expansion has been greater outside of the United States. To meet this demand we became a multi-national corporation through no choice of our own. Our investments abroad were made necessary if we were to be competitive. These investments have benefitted the United States, the host countries in which we operate, and the Longyear Company, and at the same time we have increased our exports from the United States substantially with an increase in employment of American labor.

Over the years Longyear has received, in the form of dividends and royalties from our overseas operations, substantially more than the total investment which we

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have made overseas. In addition, during the period in which we became a multi-national corporation, our exports have increased. In 1971 our exports of products manufactured in the United States were over eleven times as much as the average exports during the 1940's.

Conforming with the request of the Sub-Committee, the following factual material is submitted on the issues outlined by you:

1. The advantages or benefits of Longyear as a multi-national corporation definitely outweigh the problems of costs, and these advantages or benefits apply to the United States, to the host countries in which we operate, and to the Longyear Company itself.
2. Maximization of the benefits of multi-national corporations, and minimizing of costs can best be obtained where the United States operates together with other countries. If this is done, our goals of achieving full employment and balance of payments adjustment will be realized.
3. Longyear has more than doubled its employment of United States labor in the manufacturing of its products since 1949. Since we are at present exporting 50% of the products manufactured in the United States, 50% of the labor we employ is involved in export business. Our imports of Longyear products manufactured overseas is negligible and is only done where products are manufactured overseas which are not manufactured by us in the United States because of the lack of market requirements.
4. Longyear has effectively improved the balance of trade and payment. Our export sales in 1971 were \$3,476,820. Dividends returned to the United States in this same year from overseas operations were \$895,090, and royalties \$107,283.
5. We are certain that our company has not appreciably affected or challenged the international monetary system adversely. The confusion and instability of exchange rates have undoubtedly penalized us in our ability to export products from the United States.
6. Technology and R&D for our company has been primarily carried out in the United States. We have, in recent years, developed some capacity for both of these in our subsidiaries, and we would expect in the future that since these subsidiaries, operating in various parts of the world and in closer touch with demands for specialized and improved equipment, may result in the development of technology and research and development which will be helpful to all of the Longyear organization including the goods we manufacture in the United States.
7. 1971 was not a normal year for our company, since the demand for our services and products worldwide was sharply reduced as a result of a reduction in mineral exploration. Our consolidated net sales in 1971 were \$34,957,342 as compared with \$39,426,848 in 1970. Net earnings for the year 1971, after taxes, were \$1,127,726, as compared with \$2,696,046 in 1970.
8. We have had no serious legal problems in operating as a multi-national corporation

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and this would include international regulatory institutions and their jurisdictions, as well as treaties and agreements.

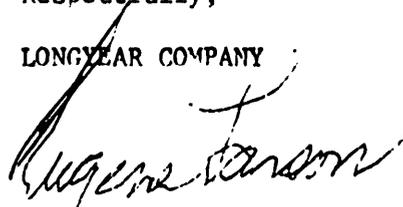
9. We have had no particular problem with foreign tax laws in the countries in which we operate, and, in general, the corporation tax rates in these countries are similar to that of the United States.
10. While recognizing the differences which exist in anti-trust laws between certain foreign countries and the United States, these have, to date, not had any affect on us.

The Longyear Company has been a firm supporter of freer, fairer world trade including the opportunity for investment by foreign companies. We are convinced that multi-national corporations both of the United States and other countries, where equally fair rules and regulations exist, is to the advantage of all countries. As mentioned above, we think that multi-national corporations and U. S. investment abroad has been overall to the advantage of the United States, the host countries, the companies themselves, and to United States labor. We recognize that there may be isolated cases which have affected U. S. labor, and that the import of certain goods and change in location of where goods are manufactured has, in some cases, been to the disadvantage of U. S. workers. It is our strong opinion, however, that whereas the multi-national corporation is, in the overall, to the advantage of U. S. labor, that where specific instances occur in which U. S. labor is affected this should be recognized and assistance given to the firms or to the labor involved.

We commend the Sub-Committee for the study they are making. We very much hope that every effort will be made to obtain in this study results of smaller corporations as well as the large. We are prepared and would welcome the opportunity of presenting any additional information which might be helpful in this study.

Respectfully,

LONGYEAR COMPANY



Comments by
FREDERICK S. DONNELLY, JR.
Vice-President and General Manager
International Operations
ARMSTRONG CORK COMPANY
Lancaster, Pa. 17604
December, 1972

Submitted to
Subcommittee on International Trade
Committee on Finance
United States Senate

Armstrong Cork Company manufactures and markets a comprehensive range of interior furnishings, including resilient flooring, carpets, ceiling systems, and furniture; and a variety of specialty products for the building, automotive, textile and other industries.

Armstrong's activities outside the United States date from 1878 (just 18 years after the parent company's founding), when a cork purchasing agency was established in Spain. Since then our foreign operations have grown along with our domestic business.

Today Armstrong and its subsidiaries operate 39 plants in this country and 14 outside the United States. We employ 23,500 men and women, of whom 19,000 are employed in the United States. In 1971 consolidated net sales amounted to \$564 million. Of this amount, about 17 percent was represented by sales of our international subsidiaries, including sales of products exported to them from the United States.

Our international business has been good for our company and for the several groups that benefit from our success--employees, customers, shareholders, suppliers, community neighbors, and government.

In general, we believe that international business is good for the United States. We are concerned about proposed legislation, such as the Hartke-Burke Bill, that is aimed at seriously impeding foreign investment for U. S. corporations and at sharply reducing the profits resulting from current investments.

Such legislative proposals are founded on the premise that "American multinational companies are in the business of exporting jobs"--that there is a direct correlation between foreign production and U. S. unemployment. These assumptions, which have been disseminated widely by some leaders of the AFL-CIO, are the inspiring force behind the Hartke-Burke Bill and other similar legislative proposals.

Are the "exporting jobs" statements based on fact or on prejudice?

I don't know enough about all aspects of multinational companies to say that no regulation is needed; but I do feel it important that some positive sides of the story be brought out as well as the sensational negatives. For this, I'll concentrate on the activities of my own company, Armstrong Cork.

First of all, while Armstrong's foreign investment has grown substantially --in fact, it has more than doubled since 1965--virtually all the products we manufacture abroad are to serve markets outside the United States. With one exception, none of our foreign plants ship into the United States. The exception is a plant operated by one of our associated companies in Spain, from which we import cork wallpaper. This cork wallpaper is an indigenous Spanish product that could not readily be made in the United States in any event.

So we have not exported any jobs from the United States to other countries.

But we have exported a great many U. S.-made goods, contributing toward a favorable balance of trade position for the nation. During the same six-year period (1965-1971), despite our increase in foreign investment, our exports from the United States have doubled. For 1972 it appears that our exports are continuing to increase at about the same rate: they are running more than 20 percent ahead of those in 1971. To take one of our U. S.-located ceiling materials plants as an example, currently more than 18 percent of its production output is being exported.

Our export sales of \$17 million from domestic plants made a significant contribution to the parent company last year. What is more, it would appear that those increased exports led to an increase of almost 200 Armstrong jobs in the United States.

A standard response to this, we have found, is that if we did not manufacture abroad we would have served those foreign markets from our U. S. plants and would have increased our exports and the number of U. S. jobs even more. This sounds plausible in theory. But it isn't true.

For one thing, many of our U. S. products just can't compete in foreign markets. The only way we can sell a "commodity" product such as vinyl-asbestos flooring tile in Great Britain or Europe in competition with locally produced goods is to manufacture there as we do. We could not export vinyl-asbestos tile to Great Britain or Europe any more successfully than we can export vinyl-asbestos tile to Japan--and our success with this product in Japan, where we do not manufacture it, has been almost zero.

With products like mineral fiber ceiling materials or vinyl sheet flooring material, where we have a clearly recognized edge on our competition everywhere, we can often open a market through exports from the United States. We have done this in the past. And we are doing so today--in Japan, for example, where we are developing a market for sheet vinyl flooring. We can hold these markets--for a while. But sooner or later, if we are successful, the local competition begins to catch up, and, as they do, our higher export costs make us less and less competitive. When this occurs, we consider the possibility of building manufacturing plants in those foreign markets, so the markets can be served by Armstrong products made locally as well as those exported from the United States. If we relied only on exports in such a situation, we would be unable to remain competitive with our products. Our exports would become less, rather than more, than they are today.

Also, the existence of our domestic business in each of these world areas makes it possible for us to have the kind of organizations that can service export products more effectively. The strong marketing organization in Europe for our mineral fiber ceiling materials, which are produced in both Europe and the United States, makes possible the sale of other ceiling products, which are made only in the United States and exported to European markets. Our vinyl-asbestos flooring tile business in Great Britain and Europe makes possible the sale of sheet flooring products imported from the United States. We build on strength worldwide. And through operating successfully at home as well as abroad, we are doing what we can to lessen the likelihood that foreign manufacturers decide to invade the U. S. market--which could substantially cut into U. S. jobs.

Finally, a comment on a broader benefit that accrues when a number of American companies operate internationally as we do. Multinational companies bring people together across national boundaries to work for common goals. They help to provide otherwise unavailable resources to improve world living standards. In these contexts, we feel that being multinational is a sign of maturity not only for Armstrong but also for the United States and the world.

**Anderson Clayton**

P. O. Box 2538 Houston, Texas 77001 (713) 224-6641

September 13, 1972

AIR MAIL

Subcommittee on International Trade
Committee on Finance
2227 New Senate Office Building
Washington, D.C.

Dear Sirs:

In response to Senator Abraham Ribicoff's invitation to submit papers on multinational corporations, we would like to respond to those issues contained in his press release dated June 1, 1972 that particularly affect our Company and upon which we have some experience that may prove helpful. In particular, we feel qualified in responding to issues III, IV, VI and IX; however, some explanation of the nature of our Company's foreign activities and how they originated is needed to understand and accept our responses.

Anderson, Clayton & Co. is an international processor and distributor of consumer and industrial foods, vegetable oils, animal and poultry feeds, planting seed, raw cotton and green coffee. It also operates warehousing and distribution services and, in the U. S. only, manufactures material handling machinery and owns and operates property/casualty and life insurance companies. Outside the United States its major operations are in Mexico and Brazil. Founded in 1904 as a cotton merchandising partnership, the Company added collateral activities -- first, ginning the cotton crop, then warehousing. The seed removed from the cotton in ginning then became the basis for two new businesses -- extracting and refining vegetable oil and making animal and poultry feed out of the seed protein. Less obvious but related businesses which also evolved were planting seed, materials handling equipment manufacture and insurance. Also, from merely a supplier of vegetable oils to consumer foods processors, the Company entered the foods production business in the U. S. and abroad.

Anderson Clayton initiated its program of direct investment abroad in the early 1930s when its founder correctly foresaw that ill-conceived farm programs begun in those years would change the United States from a supplier of about two-thirds of the world's cotton to a position as a residual supplier of a minor fraction of today's total. The Company entered Latin America to develop new sources of supply for its established and growing markets. There Anderson Clayton's business development followed much the same pattern as in the United States, emerging from a cotton merchandising base into kindred activities and eventually into a wide range of businesses.

Subcommittee on International Trade
September 13, 1972
Page 2

III - The Effects of Multinational Corporations on U. S. Labor in Manufacturing Industries - Of the total sales of Anderson, Clayton & Co. and subsidiaries, which would have amounted to approximately \$827,029,100 if they had been prepared on a fully consolidated basis for the year ended June 30, 1972, approximately 36% were made by foreign subsidiaries, and the Company's direct investment abroad represented a rather similar relationship to its total investment. However, by no stretch of the imagination could any substantial part of such investment be considered to be at the expense of employment of American workers. Exports of these foreign subsidiaries to the U. S. have been minimal except a commodity like green coffee which is not produced in this country. On the contrary, as a major exporter of green coffee from Brazil and several other countries over the years, these foreign subsidiaries participated in the chain of activities providing increased employment for American seamen, longshoremen, warehouse and transportation workers and employees of American coffee roasters, wholesalers, and retailers.

Although the raw cotton merchandising activities of the Company's foreign subsidiaries have competed in foreign markets with the U. S. exports of this Company's domestic cotton merchandising division and with other U. S. cotton exporters, we do not believe that the activities of these foreign subsidiaries have appreciably affected U. S. exports and any related employment, as compared with what such exports and employment would have been without their participation. Under the high costs of cotton production in the U. S. resulting from government price support programs and related control activities, and from escalating U. S. labor costs and other factors, the U. S. has become the residual supplier of cotton to foreign markets over many recent years. It was for this reason that this Company launched its cotton merchandising activities abroad. Had it not done so, other exporters -- native, from the U. S. and from other countries -- would have provided all of the merchandising services for these relatively low-cost foreign growths instead of just that part not supplied by Anderson Clayton's foreign subsidiaries.

IV - The Multinational Firm and the Balance of Trade and Payments - Since over several decades of foreign investment by this Company the returns on such investments have exceeded many times the amounts so invested (except for short-term, seasonal loans with subsequent repayments) such activities of this Company have had a very favorable effect on the U. S. balance of payments. The Company has received \$110,220,000 in dividends from foreign subsidiaries in the last 25 years.

VI - Technology, R & D, and the Multinational Firm - Advanced technology transferred abroad by this Company has gone into production of products like edible oils, margarine, cattle and poultry feeds, and planting seed - all very

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largely for local consumption. These products, because of one factor or another such as transportation costs, import barriers, perishability and local customs or tastes could not be successfully imported into the U. S. Since virtually none of the products produced by these foreign subsidiaries is exported to the U. S. such transfer of advance technology cannot be deemed to have any adverse effect on employment here.

IX - U. S. and Foreign Tax Laws Regarding Multinational Corporations -

The combined effective income and withholding tax rates for Brazil and Mexico are approximately 48% and 54% respectively. At the present time, subject to certain limitations these taxes are allowed as a credit against U. S. tax on dividends. Should taxes paid to foreign governments be required to be treated as a deduction as proposed instead of as a credit, Anderson Clayton would be paying an effective tax in excess of 70% on each dollar of pre-tax income earned by its foreign subsidiaries in these countries.

This prohibitive tax rate would for all practical purposes eliminate any incentive for remittance of dividends from foreign subsidiaries, and would encourage reinvestment of earnings in foreign assets. This, of course, would prove very detrimental to the U. S. balance of payments.

The response outlined herein has been taken from the experience and books and records of this Company. We are prepared to document factually the material covered by the foregoing issues and hope you will request same if it will assist you in your study.

Respectfully yours,



Don C. McDonald
Vice President & Secretary

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STATEMENT OF
MANUFACTURING CHEMISTS ASSOCIATION
ON THE ROLE OF MULTINATIONAL CORPORATIONS
IN THE CHEMICAL INDUSTRY
Submitted to the
SUBCOMMITTEE ON INTERNATIONAL TRADE
OF THE SENATE COMMITTEE ON FINANCE

December 31, 1972

I. Introduction

On June 1, 1972, Senator Abraham Ribicoff, Chairman of the Subcommittee on International Trade of the Senate Committee on Finance, invited documented papers covering key issues raised by the activities of multinational corporations. In a letter dated June 9, 1972, Mr. Robert A. Best of the Finance Committee staff wrote Mr. William J. Driver, President, Manufacturing Chemists Association (MCA), concerning the desire of the Subcommittee for an industry-by-industry assessment of the impact of multinational corporations on the United States economy and welcomed a submission from this Association.

The Manufacturing Chemists Association is a nonprofit trade association of 168 United States members representing more than 90 percent of the production capacity of basic industrial chemicals within this country. This response analyzes the useful role played by multinational corporations in chemical manufacturing.

The chemicals and allied products industry of the United States has been a growth industry. Assets over the past ten years increased at a rate of about 8.1 percent annually to an estimated level of \$59.2 billion at the end of 1972. Shipments over the same period have grown at a 6.8 percent rate to about \$56.4 billion. Income after taxes approximated \$4.4 billion, and the industry provided employment for about one million people (Table I). The industry has a vital stake in foreign trade with 1972 exports in the neighborhood of \$4.0 billion and imports at \$2.0 billion.¹

Members of the chemical industry believe that, from an economic standpoint, foreign markets are best served by exports from the United States. This philosophy remains the practice so long as foreign government regulations and competitive factors permit. Overseas operations are established when competitive circumstances or government requirements make it impossible for the markets to be served by manufacture in this country. When it becomes apparent that foreign manufacturing is the only manner in

1 Department of Commerce, Bureau of Census.

which a market can be retained or expanded, then taxation becomes significant in determining how the foreign entity is structured and where it is located. This structuring is necessary in order to minimize costs and thereby retain a competitive position in foreign markets.

In 1966, chemicals accounted for 13 percent of total U.S. manufacturing direct investment abroad.¹ By 1971, the level of chemical direct investment abroad had risen to \$4.5 billion,² 8.2 percent of the 1971 U.S. chemical assets (Table 1).

II. Balance of Payments

The chemical industry is a positive contributor to the national balance of payments in the investment account as well as the trade account. As noted above, the 1972 foreign trade surplus of the industry approximated \$2.0 billion, and the industry has provided a trade surplus of \$19 billion over the past ten years.³

Overall investment income from United States direct investment abroad increased from \$5.4 billion in 1966⁴ to \$9.46 billion.

1 U.S. Direct Investments Abroad - 1966. Part II. Investment Position, Financial and Operating Data. Group 2. Preliminary Report on Foreign Affiliates of U.S. Manufacturing Industries, Department of Commerce, Table 3.

2 Survey of Current Business - Department of Commerce.

3 Department of Commerce, Bureau of Census.

4 The Multinational Corporation, Studies on U.S. Foreign Investment Volume 1, Department of Commerce. Study 3, Table 1-B.

in 1971.¹ Furthermore, this investment income has exceeded U.S. capital outflows associated with investment abroad. In 1966, U.S. direct investments abroad in chemicals and related products amounted to \$3.7 billion.² This amount increased to \$4.5 billion in 1971.¹ In 1971, when the U.S. recorded a trade deficit of over \$2 billion, investment income far exceeded direct investment outflow and contributed a positive \$4.7 billion to the balance of payments.¹

While the Department of Commerce has not routinely collected trade and other economic data relating to the activities of all U.S. chemical companies, it recently conducted a special survey of international economic activities of some 298 U.S. multinational companies, including 41 companies that manufacture and sell chemicals and allied products whose 1970 investment in foreign affiliates approximated \$2.6 billion.³ The resulting data are believed to be representative of the U.S. chemical industry.

1 Survey of Current Business - Department of Commerce.

2 U.S. Direct Investments Abroad - 1966, Table 3.

3 Special Survey of U.S. Multinational Companies - 1970 - Department of Commerce.

According to the Department of Commerce survey, U.S. merchandise exports of these chemical companies rose from over \$1.5 billion in 1966 to over \$2 billion in 1970.¹ During the same period, U.S. merchandise imports of these companies rose from \$664 million to only \$788 million.¹ Thus, the trade surplus of these chemical companies increased from about \$800 million to about \$1.2 billion during this five year period, a margin of about \$400 million.¹

The multinational company is in a large part responsible for the ever increasing volume of goods being exported from the U.S. Far from displacing exports, foreign investments made by U.S. companies result in an increase in U.S. exports. This increase can be attributed to three sources:

(1) exports of intermediates which require further processing by the foreign affiliates; (2) better marketing of U.S. exports for resale as a result of establishing a stronger marketing network in a foreign market when local manufacture is undertaken, and (3) purchase of machinery, equipment, and services

1 Special Survey of U.S. Multinational Companies - 1970, Tables 5.

from the U.S. for the overseas plant. Besides providing a boon to the payments balance, these exports mean additional U.S. jobs.

For the chemical industry segment, the survey shows that the 1966 merchandise exports of the reporting chemical companies was \$1.560 billion, 41 percent of which went to majority owned affiliates.¹ In 1970, these figures increased to \$2.076 billion in merchandise exports, 47 percent of which went to majority owned affiliates.¹

Of the \$633 million of merchandise shipped to foreign affiliates in 1966, \$316 million was intended for resale (which can be attributable in part to the establishment of a stronger marketing effort resulting from the affiliates' presence), \$53 million of which was in the nature of capital equipment for use by the affiliate, and \$265 million of which was in the nature of products which required further processing.² The comparable 1970 figures were \$749 million worth of

1 Special Survey of U.S. Multinational Companies - 1970, Tables 5.

2 Special Survey of U.S. Multinational Companies - 1970, Tables 4.

merchandise shipped to majority owned foreign affiliates, \$440 million of which was for resale and \$283 million of which was intended for further processing.¹ Although it is impossible to break these figures down further to determine what percentage is attributable to the presence per se of the foreign affiliate, industry experience indicates that influence of the affiliate is significant.

Importation back into the U.S. of products produced by foreign affiliates is relatively small and is hardly indicative of any desire to supply the U.S. market from abroad. In 1966, the net sales of goods and services of these majority owned affiliates of U.S. chemical companies was \$5.143 billion, of which \$123 million (about 2.5 percent) came from sales to the U.S.² In 1970, the comparable figures were \$7.875 billion in net sales of which only \$169 million (about 2.1 percent) was derived from sales to the U.S.²

1 Special Survey of U.S. Multinational Companies - 1970, Tables

2 Ibid., Tables 3.

The next major element of this balance of payments analysis is the net effect of funds sent overseas by U.S. industries in the form of royalties and other payments for technology, interest payments, and dividends (repatriation of earnings). Net returns for the chemical industry from overseas (after taxes) each year have always exceeded capital outflow. From 1966 to 1970, the income received by U.S. chemical companies from their foreign affiliates increased from \$312 million to \$462 million.¹

Commerce Department data from 1966² indicate that the chemical industry had a favorable balance of payments with their affiliates of:

\$302 million for fees and royalties

\$178 million for patents and know-how

\$124 million for service charges and rentals

Although no more recent comparable figures are available for the entire chemical industry, a study done in

1 Special Survey of U.S. Multinational Companies - 1970, Tables I.

2 U.S. Direct Investments Abroad - 1966, Table 23.

1971 by the National Export Expansion Council's Industry Advisory Committee on Chemicals of sixteen major U.S. chemical companies is believed to be indicative. This report involves products exported under the classifications of SITC 512, 513, 581, 599. These classifications omit many chemical exports; nevertheless, they include thousands of products, represent \$2.37 billion of exports and a net positive balance of trade of \$1.7 billion.

During the five year period, 1966-1970, the sixteen companies surveyed reported an annual increase in licensing receipts with income growing from \$59 million in 1966 to \$98 million in 1970, a growth rate of 14 percent compounded annually. There is every indication that this growth will continue during the 1970's, with income from royalties and fees reaching \$200 million by 1975 for the sixteen firms reporting. From statistical data and judgements made by experienced industry consultants and representatives, foreign licensing of the U.S. technology has long-term beneficial effects on chemical exports and the balance of payments.

Many of the world's multinational corporations are based in other countries, some with important investments in

the U.S. Such investments have effects on the U.S. balance of payments which are, to some extent, opposite to those of the U.S. investment abroad.

Foreign investment in the U.S. has in the past been relatively small -- although it amounted to \$11.8 billion in 1969.¹ During the years 1960-66, annual capital inflows averaged less than \$100 million a year.¹ Since then, however, they have grown rapidly, and in 1970, amounted to \$969 million.¹ (The figures do not isolate chemicals investment and refer only to net capital inflows for overall direct investment in the U.S., excluding reinvested earnings). It seems likely that such investment will continue to grow.

Capital inflows of this sort improve the U.S. balance of payments for the year in which they occur. At the same time, income payments to other countries from these investments in the U.S. have also been rising, although more gradually. In 1970, such payments amounted to \$552 million,

1 The Multinational Corporation - Study 1, pp 74, 75.

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of which \$111 million consisted of fees and royalties and \$441 million of interest, dividends and branch earnings.¹ Such payments of income to foreign investment have exceeded new capital inflows for direct investment during the period 1960-68, but during 1969-70, the inflows were much larger.

III. Technology

The highly developed chemical industry of the modern world is based on publication and free exchange of scientific information and the competitive sale or licensing of technology. Any country which would attempt to isolate itself from this communication and exchange would rapidly find that obsolescence was shutting it out of world trade in technology-based products such as those of the chemical industry. The U.S.S.R. and Communist China have found themselves in that position. The U.S. is as vulnerable to that obsolescence as any country. It has no monopoly on science or technology. Even as far back as the 1930's and 1940's six out of

1 The Multinational Corporation - Study 1, pp 74, 75.

fifteen important product developments of E. I. du Pont de Nemours & Company were based on foreign inventions. This picture is not changing. A study of 30 great innovations of the past three decades (nineteen of which are chemical) discussed in The Sources of Invention by Jewkes, Sauers and Stillman showed that eleven of them were based on foreign discoveries or developments. Discoveries are made where research is done, and only a fraction of that is in the U.S. Of the top ten chemical companies leading in R & D expenditures, only three were in the U.S.,¹ and it is estimated that the \$1.7 billion or so spent by the chemicals and related industries in the U.S. for their own research represents only about 40 percent of the free world effort. The U.S. chemical industry, however, must have access to all knowledge and discoveries wherever they are available if it is to remain competitive.

¹ Chemical Age/Volume 105/Number 2767/1972 July 28.

Technological Innovations and Gaps in Technology - Analytical Report by OECD states:

"A more open and liberalized world, together with growing R and D activities in a wider number of countries, and changing patterns in the relative sizes of Member countries' R and D efforts, have meant greater opportunities for all countries to absorb and benefit from the results of foreign R and D, and - for many countries - the need to concentrate resources in sectors if they are to achieve international levels of excellence.

Furthermore, there is some empirical evidence which shows that successful innovations have already in the past relied heavily on inputs of foreign knowledge. In a study of the history of successful innovations in the United Kingdom, J. Langrish identified 158 important ideas used in 51 innovations. Of these ideas, approximately one-third were generated within the firms making the innovations, one-third came from outside the firm but within the United Kingdom, and one-third originated in foreign countries. Thus, even in a Member country with a relatively large R and D effort, successful innovations have in the past relied to a considerable extent on imported knowledge."

Foreign technology eventually becomes available worldwide. Scientific information is published in the open literature and, as will be discussed below, developed technology becomes available for licensing. The new, developing science such as new research in chemistry, is often first communicated directly, man to man. This communication is one

of the benefits to U.S. companies which maintain overseas laboratories to support their foreign marketing operations, for their technologists and scientists can keep in touch with their peers and with the research under way in their own localities.

Technology for the manufacture of chemical products is available worldwide, and if U.S. firms are prevented from selling technology for such processes, prospective buyers have many alternatives elsewhere. The April 20, 1970, issue of Chemical Engineering lists numerous examples showing that competitive technologies are available for most chemicals. European companies are indeed purchasing technology where they find the transaction most favorable, be it Europe, U.S., or Japan (Table II).

The sale of technology has become a highly competitive worldwide business. A refusal by the U.S. to license its know-how would merely result in a loss of income in the United States with little effect on overseas competition. Moreover, a U.S. company which failed to produce a patented product abroad would face compulsory licensing or lapse of its patent rights in nearly all countries outside the

United States. If its patent rights relate to production processes, it would not even be protected by U.S. patent law for sales of that product in the U.S. market from unlicensed foreign production. Thus, preventing a U.S. company from transferring technology abroad through foreign production or licensing would only serve to harm the competitive position of that company, which has research costs built into its product (or licensing arrangements).

The sale or use of technology abroad, in addition to its reduction to practice at home, is often an economic necessity. The cost of new product or process research, in the face of competitive customer protection and ecological demands, has become a major factor of business investment or expense. In fact, the R & D expense may be on the same order as plant investment in many new chemical processes. To obtain even a modest return on a new venture, it is often necessary to establish multiple use of this investment in technology, the R & D costs. This is effected through the construction of second and third plants based on the same technology to supply markets in parts of the world not available to products from the first plant. These additional plants may be

investments of the company which performed the research, or licensees of that company. Thus, a healthy U.S. research and development activity is dependent on foreign outlets to help support it and make it available to U.S. industry.

It should be pointed out that technology is not usually sold or even exported in the initial stages when it is sometimes exclusive or unique. Unless a company has no use for a discovery or piece of technology, in which case it may be sold immediately, the first local application of the information may antedate later utilization by some years. One U.S. chemical company found that its second, foreign investments for its new product or process developments averaged ten years behind the first plant construction. By that time, competitive technology for those products was often already available, but use of the company's own technology offered an economic advantage.

Although there are many universally accepted reasons why a healthy U.S. R & D activity should be maintained, it is particularly pertinent to this discussion that R & D seems to have a direct bearing on our balance of trade. Economists

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William Gruber and Raymond Vernon¹ find that "industries associated with a relatively high research effort also tend to export a relatively high proportion of their output." Five U.S. industries with high research (chemicals included but not separated) had a 5.2 percent on sales excess of exports over imports, whereas, fourteen other industries showed a 1.1 percent on sales excess of imports over exports.² The U.S. excels in this respect. United States exports in eight technology-intensive industries, including the chemical industry, were 28.9 percent of the total exports of the industries, whereas, in sixteen others, less technology-intensive industries, U.S. exports were only 17.3 percent of the world total.³

Supporting the marketing of U.S. exports and of products manufactured by their overseas affiliates is the important role of foreign laboratories of the large U.S. chemical companies. This effort, although a vital part of foreign marketing operations, is not a large expenditure by the chemical

1 The Technology Factor in International Trade, p.235.

2 Ibid., Table 1, p.23.

3 Ibid., Table 4, pp 245-246.

industry. Of the top twenty basic chemical companies (SIC 281) only six carry out research outside of the U.S., ranging from one to 20 percent of their total effort.¹ Much of the work of these laboratories is classified as customer sales technical service. For example, nineteen of the twenty-one foreign laboratories of Du Pont perform only applied research or technical service. Most of the European laboratories associated with the Dow and Union Carbide organizations are also for technical service, and Monsanto located its Technical Centre in France "to serve its customers throughout Europe."² Product grades must be tailored to the needs of the local markets and customer service work must be done in close collaboration with the customers themselves. It turns out then that workers in foreign laboratories are supporting rather than supplanting U.S. laboratory personnel.

A restriction on the export of U.S. technology could lead to foreign retaliatory actions:

1 Chemical & Engineering News, May 29, 1972, p.6.

2 Chemical Age, August 11, 1972.

- (1) Other countries might restrict the export of their technology to the U.S. Although the U.S. is a leader in technology in many specific areas, there are other areas where foreign technology is economically advantageous.

Restriction of free competition would, therefore, be to the detriment of U.S. industry. Moreover, since U.S. patent laws do not provide for compulsory licensing (i.e., foreign patent rights would be enforceable in the U.S.) foreign efforts to control the export of technology could be fairly effective in preventing the transfer into the U.S. of new technologies developed abroad, and U.S. patent laws would prevent this technology from being copied.

- (2) Without the U.S. technology to go with it, foreign countries might take measures to prevent U.S. investment, thus barring U.S. companies from markets which cannot be served by exports.

Thus, the real effect of the restrictive measures would be quite the opposite from their laudable objectives.

IV. Tax Considerations

United States tax policy has sought to apply a principle of neutrality with respect to the taxation of its citizens and residents, so that a dollar of income will bear generally the same tax burden regardless of the country in which the income may be generated. Accordingly, the United States has long allowed a domestic parent organization incurring a U.S. income tax liability on earnings derived abroad to credit that liability with the amount of foreign income tax that has been paid on such earnings. The parent organization in the U.S. may realize these profits directly through operation of a foreign branch or they may be received in the form of dividends from a foreign subsidiary corporation. In the absence of a credit against U.S. income tax liability, the income would be subject to international double taxation. The foreign tax credit system recognizes that the country in which the operations are undertaken and the profits derived has the primary call on taxing the income of the enterprise within its borders.

While United States corporations pay federal income taxes generally at a rate of 48 percent on earnings from within the United States, the following table sets forth the typical tax impact where a U.S. manufacturing company has foreign subsidiaries operating in certain of the major industrial countries of the world:

	<u>Foreign Income Tax</u>	<u>Foreign Withholding Tax on Dividends*</u>	<u>Effective Foreign Income Tax Rate</u>
Canada	51%	\$ 4.40	55.4%
France	50	1.50	51.5
Germany	44	5.10	49.1
Italy	46	1.60	47.6
Japan	44	3.40	47.4
Netherlands	47	1.60	48.6
U.K.	<u>40</u>	<u>5.40</u>	<u>45.4</u>
Average for Group	45.9%	\$ 3.29	49.3%

*Per \$100 earnings net after taxes assuming 60% payout as dividends

It can be seen from the last column that the effective foreign income tax rate approximates, and in most cases exceeds, the 48 percent rate applicable to earnings in the United States.

The tax systems of other capital exporting countries also recognize the necessity of avoiding double taxation and of preventing the imposition of discriminatory taxation on earnings derived from sources outside their own national borders. Accordingly, Canada, Germany, Japan and the United Kingdom employ tax credit systems with respect to operations of their nationals abroad. Furthermore, France, Italy, and The Netherlands even exempt some income of their nationals from home country taxation when derived from foreign operations apparently to encourage foreign investment.

The manner of taxing foreign income as well as computation of foreign tax credits has been reviewed periodically over the last twenty-five years. That resulting in the Revenue Act of 1962 was probably the most comprehensive change in tax policy. It eliminated any practical advantage to the use of "tax haven" operations by U.S. business to avoid income taxes.

Today there is a call for searching review of U.S. taxation of foreign income, and demand for tax revisions to change established U.S. policy and increase the tax burden on income from foreign sources based on the notion that somehow

such income is favored with tax preferences. Overlooked is recognition that the whole network of international taxation, including tax treaties between countries to avoid double taxation, was developed to achieve tax equity.

Proposals have been submitted to increase the burden on foreign income, but justification has not been persuasive. The tax system is primarily established to produce revenues for the U.S. government, and fairness and equity are necessary to preserve the integrity of any tax system.

A bill introduced by Senator Hartke and Congressman Burke would, among other things, impose tax on current earnings of foreign subsidiaries, whether or not remitted. It would also terminate the foreign tax credit provisions of the Internal Revenue Code and, instead, allow foreign taxes to be treated only as a deduction in determining income subject to U.S. taxes. Either of these provisions would substantially increase the burden of taxes on income from overseas activity and thus would serve to reduce business currently done abroad, as well as to curtail continued replacement or expansion of overseas activities.

With respect to the two major tax elements of the Burke/Hartke proposals, it should be noted that it is generally not possible to repatriate all the earnings of foreign subsidiaries in view of demands for increased working capital brought on by inflation as well as business expansion. The additional tax which would result from elimination of tax deferral would either jeopardize the financial position of foreign subsidiaries by forcing them to distribute funds needed for normal business operations or require the tax on earnings retained abroad to be paid out of domestic funds. The effect of the latter could be a reduction in plant expansion in the U.S. by ultimately requiring the commitment of additional U.S. funds from parents in order to keep their subsidiaries competitive.

The combined effect of the elimination of tax deferral and the repeal of the foreign tax credit would increase the effective rate of taxation on most foreign subsidiary operations to over 70 percent. The comparative table presented below shows the effective tax rates applicable to income received by the parent corporation in one country from its wholly owned manufacturing subsidiary operating in each of the other major countries and how they would be affected by the Burke/Hartke proposals.

COUNTRY IN WHICH SUBSIDIARY OPERATES AND PAYS TAX

	<u>Canada</u>	<u>France</u>	<u>Germany</u>	<u>Italy</u>	<u>Japan</u>	<u>Netherlands</u>	<u>U.K.</u>
Corporate Income Tax Rate on Subsidiary's Earnings	<u>51%</u>	<u>50%</u>	<u>44%</u>	<u>46%</u>	<u>44%</u>	<u>47%</u>	<u>40%</u>
Statutory Rate of Withholding Tax on Dividends to Parent <u>Located in the Following:</u>							
United States	15%	5%	15%	5%	10%	5%	15%
Canada	-	-0-	15	30	15	15	15
France	-0-	-	25	15	15	-0-	5
Germany	15	-0-	-	30	10	10	15
Italy	15	15	25	-	10	-0-	5
Japan	15	15	25	10	-	5	10
Netherlands	15	-0-	10	-0-	10	-	5
U.K.	15	5	25	-0-	10	5	-
Tax on Dividends by Country <u>Where Parent is Located:</u>							
All Eight	-0-	-0-	-0-	-0-	-0-	-0-	-0-
United States - if Burke/ Hartke type proposal were adopted	22	23	24	25	25	24	26
Combined Effective Rate of Tax on Subsidiary and on Parent <u>Located in the Following:</u>							
United States	55	52	49	48	47	49	45
Canada	-	50	49	56	49	52	45
France	51	-	53	51	49	47	42
Germany	55	50	-	51	47	50	45
Italy	55	55	53	-	47	47	42
Japan	55	55	53	49	-	49	44
Netherlands	55	50	47	46	47	-	42
U.K.	55	53	53	48	47	49	-
United States - if Burke/ Hartke type proposal were adopted	77	75	73	73	72	73	71

Above computations are based on assumed dividend distributions of 60% of net profits after foreign corporation tax.

The foregoing table illustrates the uniform pattern and consistency in tax rates and concepts which prevail in the capital exporting countries with respect to taxation of earnings, both domestic and foreign. The dividend withholding taxes which range from -0- to 30%, with 10% and 15% predominating, are governed in many cases by a network of conventions for avoidance of double taxation.

It should be particularly noted that in no cases would a tax be imposed by the country in which the parent is located on receipt of dividends from earnings of subsidiaries in the other capital exporting countries. This situation would be severely changed by the United States if a Burke/Hartke type proposal were adopted by an additional tax of 22% to 26% as shown in the table. When this is added to the normal income taxes due in host countries, the combined effect is a tax rate of 71% to 77% for a U.S. parent with earnings abroad, a discrimination against foreign operations which would seriously affect the ability of U.S. corporations to compete.

U.S. companies with foreign interests have re-evaluated their position in view of these proposals. It is clear that, if enacted, the Burke/Hartke proposals would restrict capital investment abroad and, consequently, reduce the earnings flow to this country.

V. Employment

The multinational corporation has been under attack as a device which exports U.S. jobs. If this were true, the sizable investment of the chemical industry, as in other industries, in producing facilities abroad should find considerable utilization in plants supplying the U.S. market. Trade data does not bear this out. As noted earlier, shipments to the United States from foreign affiliates of U.S. companies are relatively small. The Department of Commerce survey of 41 U.S. chemical companies with affiliates abroad even showed a decline in the proportion of their foreign affiliates sales returning to this country from 2.5 percent in 1966 to 2.1 percent in 1970.¹

Hand in hand with the export of jobs charge is a concern over flight of capital from the United States lessening domestic investment. A study released in November 1972 by Business International Corporation (BI) provides some useful historical comparisons. For the chemical industry (including

1 Special Survey of U.S. Multinational Companies - 1970, Tables 3.

pharmaceuticals) the BI survey includes companies whose aggregate sales represented 46 percent of the industry's 1970 total sales.

During the 1960-1970 period the chemical companies included in the BI study increased their worldwide net fixed assets (less depreciation) by \$17.2 billion. Roughly five out of every six of these dollars, or \$14.2 billion, represented an increase in plant and equipment in the United States. The remainder, or \$3.0 billion, represented plant investment in a foreign country. Some critics of the multinational corporations suggest that there is a flight of capital from the U.S., and that all of this money would have been better spent in the U.S. alone. Actually, the U.S. chemical industry was overinvested during the 1960-1970 period; according to a McGraw-Hill survey capacity utilization varied from 76 percent to 85 percent.

The BI study showed 1970 exports of the companies included totaled \$1.7 billion, about 46 percent of the total U.S. chemical exports of \$3.8 billion. Of this \$1.7 billion, roughly \$1.0 billion or 57 percent of these exports were to foreign affiliates.

Consequently, rather than impede exports from the United States, these foreign operations helped to increase exports, and in so doing, increased domestic employment. In fact, detailed studies by several of the major U.S. chemical companies have demonstrated that their foreign operations have attracted exports from the U.S. to such an extent that U.S. exports would be considerably lower if these foreign investments had not been made.

According to the data from the BI study, the companies included employed 493,000 people in 1970, an increase of 134,000 people over the 1960 level.

Imports from their foreign affiliates of the chemical companies included in the BI analysis averaged less than one-half of one percent of U.S. sales in the 1960-1970 period. Obviously, with such a minor reliance on imports from their affiliates it could not be construed that these foreign operations were made to displace U.S. employees. That is, the foreign operations were not installed with the purpose of re-exporting the product back to the United States.

The current level of employment in the chemical industry of 1.005 million is down from the 1969 peak of 1.060 million (Table I).

The recent hard times experienced in the domestic economy bore significant influence upon the "tightening of belts" required, a factor affecting all U.S. industry. The outlook now is for an employment rise in the days ahead.

VI. Conclusions

U.S. multinational corporations have a constructive force which is particularly apparent in the chemical industry. The benefits have not only been favorable to the countries hosting their foreign affiliates, but also to the United States.

Host countries receive obvious advantages from the employment, technology and management skills brought there. If such affiliates were not beneficial to those countries and their populaces, obviously their presence would have been terminated.

Similarly, the United States gains. Such profitable operation brings positive contributions to the balance of payments. U.S. exports receive direct stimulus. The technology base for U.S. industry is strengthened. The ability to keep up with foreign competition is enhanced. These measures produce more jobs for U.S. employees.

In contrast, punitive taxation of such enterprise to curb their international operations can only lead to hurting the U.S. balance of payments, eventual substantial drop in exports,

loss of competitive position for U.S. industry, and weakening the U.S. technology base, all with adverse impact on U.S. domestic employment.

Professor Emile Benoit, writing in the November-December 1972 issue of the Columbia Journal of World Business, summed up the common sense realities of the situation. Two paragraphs from this article follow:

"Admittedly, estimates of trade effects will depend a good deal on the assumptions one makes as to how much of U.S. exports to U.S. affiliates might have been sold to foreign-owned companies if the U.S. investments had not been made, and the extent to which the U.S. foreign investments displaced U.S. exports. There is no reason to doubt the repeated assertions of U.S.-based multinational companies that they would not deliberately destroy their own export markets by setting up a competing foreign production facility unless they had good reason to believe that they would soon lose the export market to a foreign-based producer enjoying tariff advantages, lower shipping costs, lower production costs, or superior selling advantages in the local market.

In such cases prompt action to forestall a foreign competitor by establishing their own foreign production facility has repeatedly led to prolonging the market for U.S. exports, by shifting over to exports of capital goods (for producing the end-item), components, spare parts, raw materials and supplementary items not produced by the affiliate but sold through it. Most U.S. companies are pretty sure that it would not have been possible to sell most of these prolonged exports if the investment had

been made by a foreign competitor. The competitor, its bank or its home government would have insisted on sourcing from the investor's own country. But even if one is inclined to discount such claims, there is no sound reason to doubt that even without U.S. investment the areas capable of producing goods competitive with U.S. exports would sooner or later have done so."

Table I

INDICES OF CHEMICALS AND ALLIED PRODUCTS INDUSTRY
1962 - 1972

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972#	% Increase 1972 over 1962	% Average Growth Rate per Year
1. Total Shipments (in billion \$)	29.3	31.8	34.3	37.5	40.8	42.1	45.6	48.3	49.3	52.2	56.4	92.5	6.8
2. Production Index (1967=100)	61.6	67.3	73.9	82.2	92.8	100.0	109.9	120.4	120.2	126.4	145.0	135.4	8.9
3. Corporation Sales (in billion \$)	30.3	32.4	36.3	40.1	44.5	47.5	52.0	55.5	58.1	62.1	68.0	125.4	8.5
4. Net Income(after taxes) (in billion \$)	2.2	2.4	2.9	3.2	3.5	3.26	3.53	3.59	3.43	3.78	4.4	99.9	7.2
5. Net Income to Sales, Ratio (per cent)	7.4	7.5	7.9	7.9	7.8	6.9	6.8	6.5	5.9	6.1	6.5	-	-
6. Assets (in billion \$)	27.1	28.7	31.7	35.4	38.2	41.6	44.8	48.0	52.1	55.7	59.2	118.4	8.1
7. Capital Expenditures, New Plant & Equipment (in billion \$)	1.56	1.73	2.08	2.73	3.26	3.06	2.83	3.10	3.44	3.44	3.39	117.3	8.1
8. Wholesale Price Index (1967=100)	99.1	97.9	98.3	99.0	99.4	100.0	99.8	99.9	102.2	104.2	104.2	5.1	0.5
9. Total Employment (in thousands)	848.5	865.3	878.6	907.8	961.4	1001.4	1029.9	1059.9	1049.0	1008.2	1005.0	18.4	1.7
10. Average Weekly Wage Production Workers (in dollars)	110.24	112.88	116.48	121.09	125.58	128.96	136.27	145.05	153.50	163.90	175.21	58.9	4.7
11. Funds for Research and Development (in million \$)	939.0	1004.0	1098.0	1198.0	1271.0	1357.0	1458.0	1560.0	1622.0	1671.0#	1720.0	83.2	6.2

- Sources: 1. U. S. Department of Commerce, Bureau of the Census.
2. Federal Reserve Board.
3,4,5,6. Federal Trade Commission.
7. U. S. Department of Commerce, Bureau of Economic Analysis.
8,9,10. U. S. Department of Labor, Bureau of Labor Statistics.
11. National Science Foundation (Industry generated funds only - excludes Government sponsored R&D).

*Compounded annually.

#Estimated.

Table II

NEW PLANTS BUILT IN EUROPE
IN 1971 AND 1972

	<u>No. of Plants with Technology from</u>		
	<u>U.S.</u>	<u>Europe</u>	<u>Japan</u>
<u>PLASTIC PRODUCTS</u>			
Polyethylene			
High Density	4	4	-
Low Density	4	6	-
Polyisobutylene	-	2	-
Polypropylene	-	6	-
Polystyrene	8	3	1
Polytetrafluorethylene	-	1	-
Polyvinyl Chloride	1	13	1
Styrene-Acrylonitrile Resin	-	-	2
<u>CHEMICALS</u>			
Acrylonitrile	6	2	-
Caprolactam	-	2	1
Carbon Tetrachloride	6	2	-
Chlorine	4	14	-
DMT & Terphthalic Acid	5	6	1
Ethanol	-	2	-
Ethylene Oxide	2	7	-
Isopropanol	-	2	-
Maleic Anhydride	5	6	-
Methanol	-	6	-
Vinyl Chloride	7	7	1

Source: Chemscope European Chemical News, Feb. 25, 1972.

Statement to the
INTERNATIONAL TRADE SUBCOMMITTEE
of the
SENATE FINANCE COMMITTEE

MONSANTO COMPANY
December 31, 1972

Monsanto Company commends the International Trade Subcommittee of the Senate Finance Committee for soliciting statements concerning the effect of multinational company operations. It is fitting and proper that the Congress look into this matter. Monsanto is proud of the contributions it has made to the U. S. economy and to its employees in its 71-year history and particularly so with regard to its overseas operations. We therefore welcome the opportunity to comment on this matter.

This statement to the Subcommittee should be considered supplemental to, and consistent with, the Manufacturing Chemists Association statement submitted in behalf of the U. S. chemical industry.

A brief summary of Monsanto's operations as a multinational company provides the background for the responses to questions asked by the Subcommittee:

A PROFILE OF MONSANTO

Worldwide Sales by Product Categories:

Plastics type products	23.3%
Man-made fibers	23.0%
Products for agriculture	9.7%
Phosphates and detergents	8.8%
Other, including electronic products and rubber and oil, food, textile and paper chemi- cals	35.2%
	100.0%

Investment and Earnings

Monsanto has been an international company since 1920 when it acquired manufacturing facilities in the U. K. It now has manufacturing facilities operating as subsidiaries, associates or affiliates in 18 foreign countries. 21.9% of investment over the period 1967-71 was installed abroad. Earnings from operations abroad have averaged about one-third of total earnings in the last five years.

Sales

Monsanto products are sold in almost every country of the world. Total sales in 1971 were \$2.09 billion. Of this, 22% was sold in foreign markets. Three-fourths of this was produced in foreign plants and the balance in the U. S.

Exports from U. S. plants, about 9-10% of production, are growing at about the same rates as sales from foreign plants. During the last five years, intermediates for further processing abroad ranged between 27-30% of Monsanto's exports. During this same period, one-half of 1% of total sales of products made outside the U. S. were imported into the U. S.

Employment

Of Monsanto's 59,300 employees at the end of 1971, 45,100 were in the U. S. and 14,200 were abroad. There was a decrease during 1970-71 on both U. S. and foreign employment from 1969 peaks, by almost equal percentages. This was due to changes in national economic conditions and not because production was shifted from one country to another.

Balance of Payments

When all Monsanto transactions are considered, they afforded the U. S. a net positive contribution to the U. S. balance of payments of \$103 million in 1971 and an estimated \$131 million in 1972.

THE U. S. TRADE AND BALANCE OF PAYMENTS PROBLEMS

The problems of the U. S. with regard to the imbalance of trade and the large and continuing deficits in the balance of payments are well known. It is apparent, however, that the steady decline of the trade balance from \$7 billion surplus in 1964 to an estimated \$6 billion deficit in 1972 deserved more attention and effort than was given to it during the decline! The economic and monetary problems resulting from this trade imbalance, including the impact of imports on industries and workers, have not been dealt with realistically.

The chemical industry trade balance has begun to experience the same deterioration experienced by the steel and textile industries many years ago and by the total U. S. merchandise trade balance as described above. The maximum excess of chemical

exports over imports was in 1970 with a trade balance of \$2.4 billion. It declined to \$2.2 billion in 1971 and is estimated to have further deteriorated to \$2.0 billion in 1972. The annual growth rate over the last five years has been 7.4% for exports and 15.2% for imports.

Again, as in the case of U. S. industry generally, chemical imports have impacted parts of the industry severely. However, policy makers must become aware that sharing the U. S. market with imports is frequently not the greatest problem for U. S. producers. In most cases, competitive difficulty comes in selling the U. S. share of the domestic market at prices set by the imported products.

WHY THE U. S. NEEDS STRONG MULTINATIONAL COMPANIES

The world chemical industry includes a large number of multinational corporations with only three of the first ten located in the U. S.:

<u>U.S.</u>	<u>Foreign</u>	<u>1971 Sales</u> (<u>\$ MILLION</u>)
1. duPont		3,848
2.	I.C.I. (U.K.)	3,733
3.	Hoechst (Germany)	3,665
4.	Montedison (Italy)	3,460
5. Union Carbide		3,038
6.	BASF (Germany)	2,948
7.	Bayer (Germany)	2,928
8.	AKZO (Netherlands)	2,314
9.	Rhone-Poulenc (France)	2,191
10. Monsanto		2,087

All of the foreign firms are strongly competitive, and have foreign operations which make them truly multinational. Most of them are owned and/or controlled to a major degree by the national governments and in all cases are an integral part of the planned economies which are common to all major industrial countries except the United States.

It is clear that nations which discourage multinational operations of chemical firms could not compete tradewise with other countries in the production of chemicals. It is necessary for competitive chemical companies to enter foreign markets with production there. This is almost always accompanied by increased exports of intermediates from established home country plants. Additionally, it is necessary to spread very high R & D costs over a maximum number of plants, both domestic and foreign.

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MONSANTO'S POSITION ON U. S. TRADE POLICY

As Monsanto's Chairman of the Board, Mr. C. H. Sommer stated in a letter to Senator Hartke dated May 6, 1972:

"We have had, Senator, a long time interest in U. S. trade policy and have frequently articulated opinions about it. Our 50 years of experience in overseas operations gave us a unique understanding of world trade patterns, the influence of tariff and non-tariff barriers on trade, the philosophy of foreign government trade policy and trade negotiations and in understanding the formation of U. S. trade policy.

The record we have made with the U. S. Congress on trade policy is clear and unambiguous. We have always favored a strong U. S. manufacturing economy and the creation of a maximum number of jobs in the United States. We did this from our strong conviction that the present difficulties of the U. S., international economic situation would be the sure result of a misdirected foreign trade policy and at the expense of being called "protectionists" by members of Congress and the labor unions who are now belatedly concerned."

Prior to the enactment of the 1962 Trade Expansion Act, Monsanto repeatedly emphasized these concerns in discussions with members of the U. S. Congress and with the labor unions representing workers in Monsanto plants. Unfortunately, the Trade Expansion Act was passed and its authority executed in the Kennedy Round. U. S. chemical tariffs were cut by 50% and the U.K.-EEC chemical tariffs by 20%, an inequitable agreement for the U. S.

Multinational corporations are now being charged with causing the problems that a number of them warned about and worked hard to avoid. Many of those who opposed us in the public forums helped create the very conditions about which they are now concerned. While agreeing for the most part with the analysis of U. S. trade problems, we cannot agree with the identification of multinational companies as the cause. It is critically important that anti-multinational legislation not be passed because it will not solve U. S. trade problems. Instead, we must all turn our attention to making U. S.-based industry as competitive as possible.

Following are responses to questions raised by the Subcommittee which are pertinent to Monsanto's operations:

(1) The Multinational Firm and the Balance of Trade and Payments

As shown in the profile of Monsanto at the beginning

- 5 -

of this statement, all transactions affecting the U. S. balance of payments show a net contribution of \$103 million in 1971 and \$423 million over the last four years. Inflows include revenue for exports; dividends, royalties and interest income from foreign operations and borrowing abroad. Outflows are purchases of imports; taxes to foreign countries on dividends, royalties and interest and interest expense.

It is clear that on a balance of payments basis, Monsanto's multinational operations are a positive, and constructive influence on the economic well-being of the U. S.

(2) The Effects of Multinational Corporations on U. S. Labor in Manufacturing Industries

The effect of Monsanto's operations abroad have been of demonstrable benefit to U. S. labor. Both U. S. and foreign employment peaked in 1969 and declined in almost the same proportion through 1971. The drop in jobs in the U. S. and abroad was caused by internal national economic conditions and not by shifts in Monsanto's exports or imports.

Many Monsanto jobs in U. S. plants depend upon exports, which averaged about 70 times its imports over the last 5 years. These exports averaged 9.4% of total U. S. production. One manufacturing location ships 86% of its production to foreign countries.

In 1971, exports provided jobs for 3,960 of 45,100 U. S. jobs. The nations to which we ship U. S. exports would move to restrict them if currently promoted U. S. trade legislation is enacted. Without the good will of foreign countries in which our customers do business, U. S. exports and the jobs dependent on them would not exist.

It is important to realize too, that 21.2% of Monsanto's exports exist only because of its foreign plants. These are partially finished products, called intermediates, which are further processed abroad to fully finished products and sold in those markets.

Monsanto employees have not been impacted by imports from its foreign plants. Only 1/2 of 1% of foreign production is shipped to the U. S. These imports amount to about one eighth of 1% of Monsanto sales in the U. S.. They do not compete with U. S.-made products, and are sometimes imported to satisfy temporary U. S. shortages.

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(3) The Profits of Multinational Firms in the U. S. and Abroad and the Federal Taxes Paid by Such Corporations in the U. S. and Abroad

Monsanto pays taxes on earnings in foreign countries just as it does to the U. S. on earnings made here. It is right and proper that taxes be paid into the economy that generates the income.

The very strong efforts to change present taxation of multinational company foreign earnings appears to be punitive and self-defeating. The proposals are for the U. S. to tax foreign earnings in the year earned whether or not they are returned to the U. S. and to treat foreign taxes paid as deductions and not as credits.

If this is done, Monsanto would be forced to pay taxes to the U. S. on the same earnings, a form of double taxation. Treatment of foreign taxes as a deduction instead of a credit would add yet another burden to the double taxation.

If both of the above tax changes were made, Monsanto's tax rate on foreign earnings (based on retro-active calculations over the past five years experience) would have been in the 63-69% range. Such a tax burden would make Monsanto non-competitive in its foreign operations and cause a severe cut-back in operation of our foreign plants. This, in turn, would decrease exports from U. S. plants and decrease the flexibility our U. S. plants need in use of technology, know how and other factors used so effectively by chemical multinational companies in other major countries.

There is no unfairness to the U. S. or to Monsanto employees in the present taxation system. The proposed changes would in no way solve the country's serious problems and would, instead, worsen them.

(4) Technology, Research and Development and the Multinational Firm

Monsanto, like most chemical companies, depends heavily on research and development to provide new products. They are essential to its success because matured products are only marginally profitable. For this reason, an adequate cash flow from commercial products must be generated to support R and D.

R and D expenditures over the past five years in millions of dollars:

<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>
84.2	86.3	101.5	98.1	86.7

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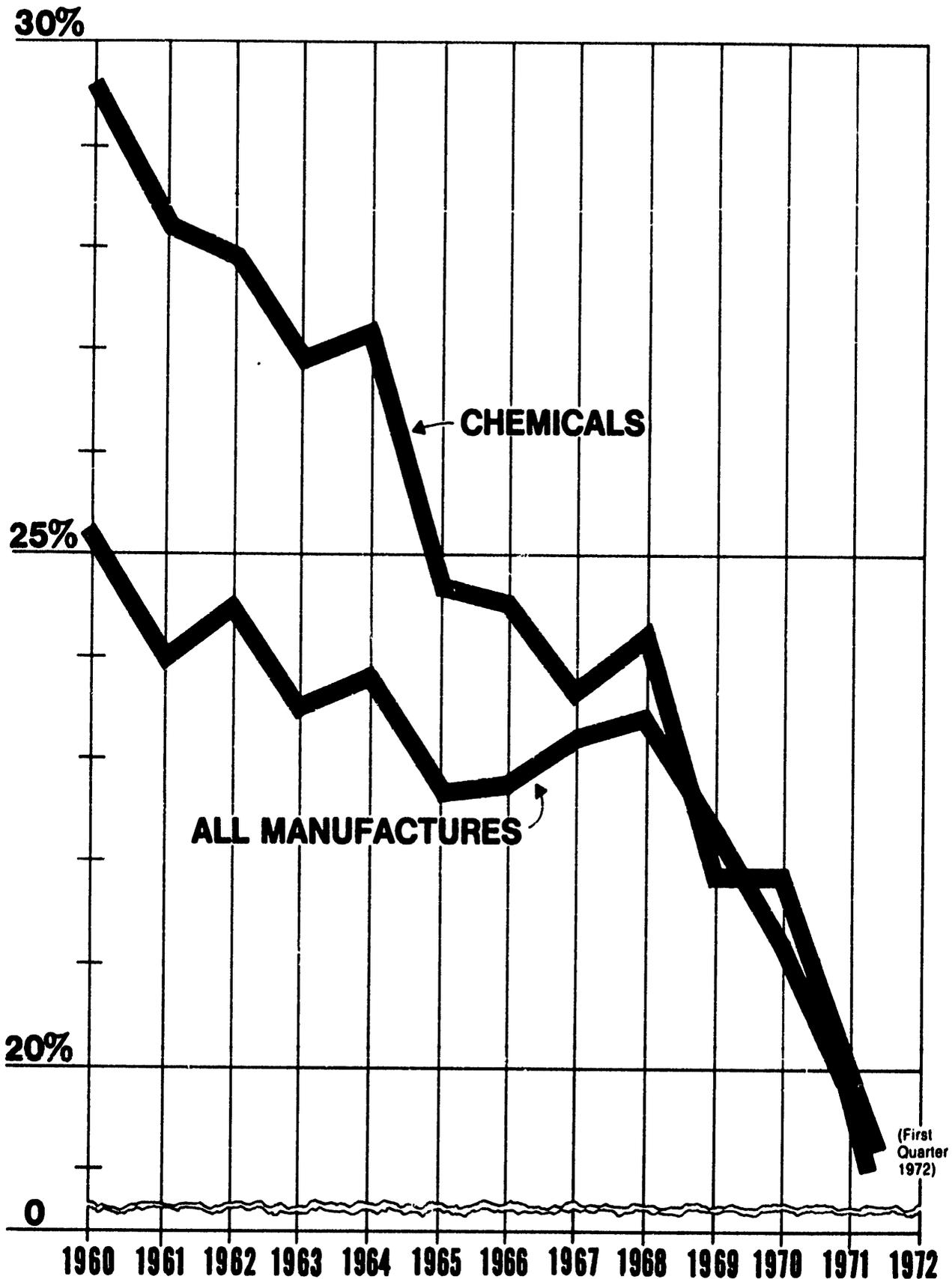
About 15-20% of these expenditures are made outside the U. S.. Most of this is for development expenses in adapting U. S. products for foreign markets.

Declining U. S. economic conditions caused a drop in total earnings from the peaks of 1967-69 and brought on the 1971 drop in R and D. When adjusted for inflation, the "real" R and D of 1971 is below that of 1967 and 1968. There is no precise way to measure new product development for comparison with earlier years and with that in other countries. However, it is likely that technological innovations are lower, not only for Monsanto, but for the U. S. chemical industry generally.

It is extremely important to understand that the cost of research and development done in the United States can only be justified when it is spread over the largest available market. The very high cost of bringing a new product on the market includes an almost unbelievably complex amount of testing to meet expanding U. S. government requirements. Other major industrial countries place relatively modest standards in comparison. Therefore, the development of technology must be based on world-wide use and not restricted to use in the United States. The \$6.6 million dollars of royalties returned to the United States for Monsanto technology used abroad is only one of the benefits to our country. Any chemical company would pare down its R & D effort if the resulting new technology was not usable in foreign markets.

Shipment of goods to the United States from plants abroad using Monsanto technology developed in the U. S. is minimal. A restriction on the use of this technology abroad would hurt the U. S. economy and the U. S. worker and would in no way change the present level of imports or level of U. S. employment beneficially.

U.S. SHARE OF WORLD EXPORTS



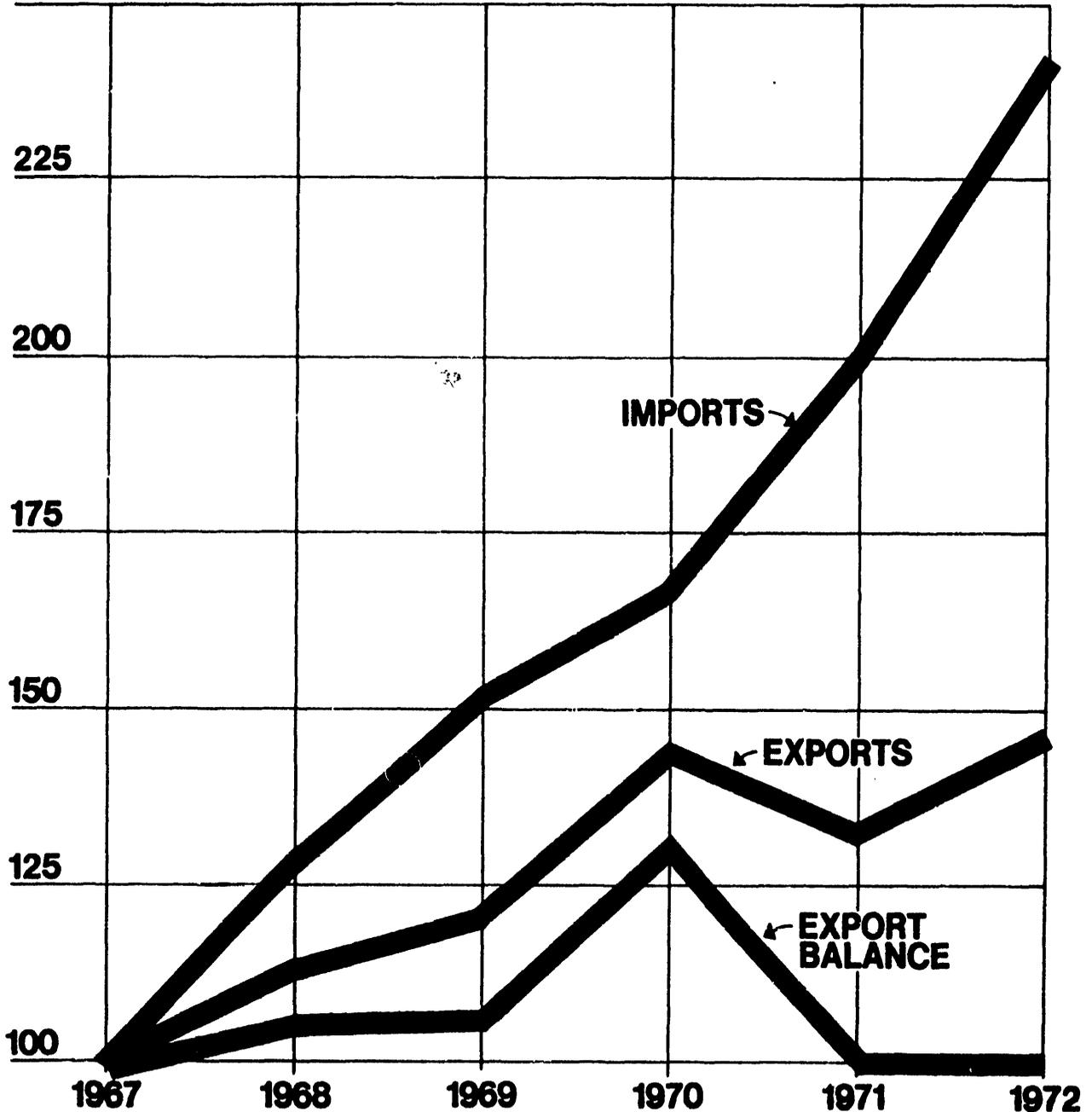
Source: U.S. Department of Commerce.

U.S. Organic Chemical Trade

SITE GROUPS 512 & 531

250

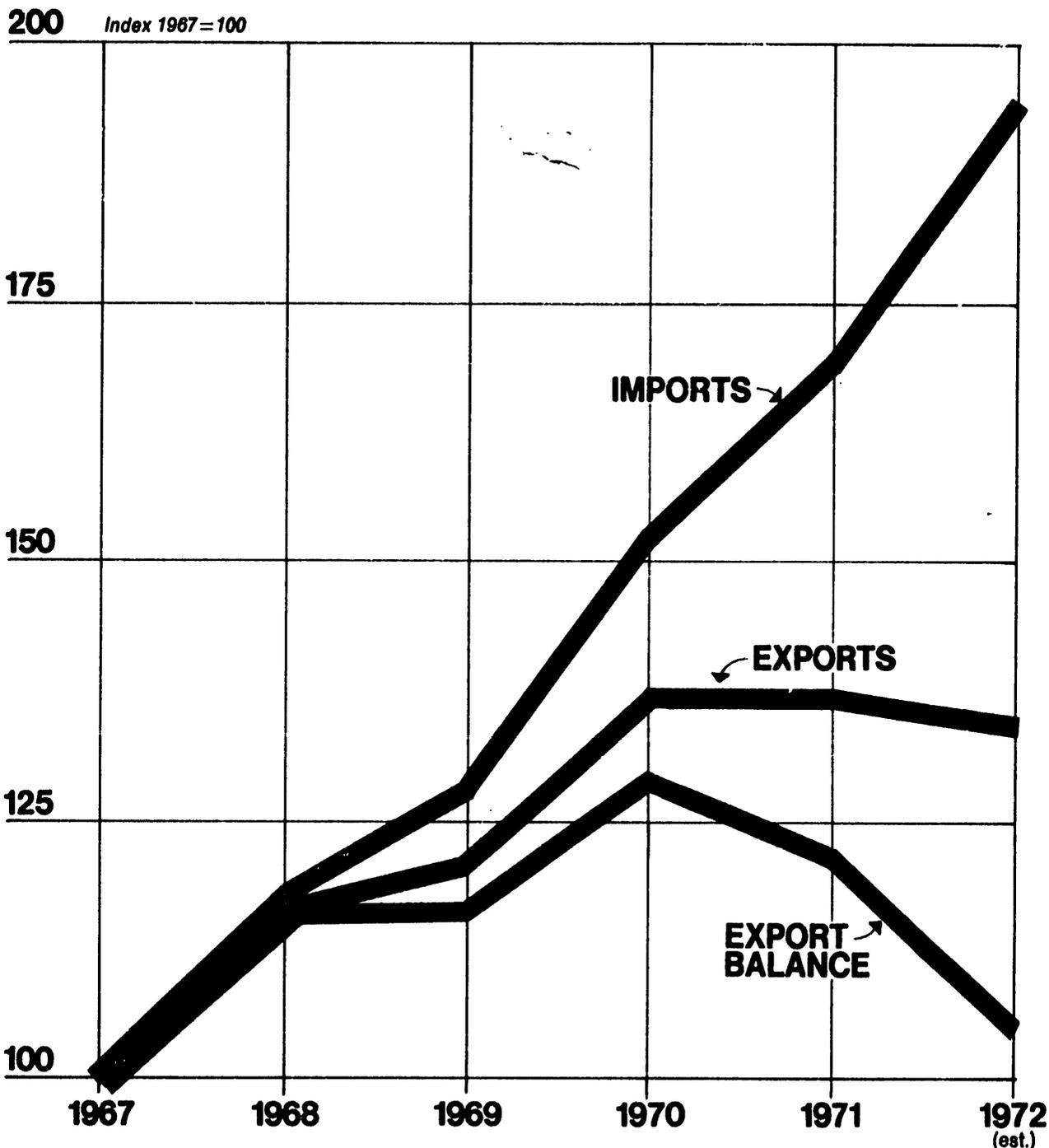
Index 1967 = 100



	IMPORTS	EXPORTS	EXPORT BALANCE
<i>(Millions of dollars)</i>			
1967	251.2	780.2	529.0
1968	325.1	884.7	559.6
1969	379.0	937.6	558.6
1970	421.3	1,112.6	691.3
1971	501.8	1,033.2	531.4
1972	609.0	1,140.0	531.0

Source: U.S. Bureau of Census. 1972 estimate based on 9 month's data.

U.S. Chemical Industry Trade Balance



	IMPORTS*	EXPORTS	EXPORT BALANCE
<i>(Millions of dollars)</i>			
1967	947	2,803	1,856
1968	1,117	3,289	2,172
1969	1,216	3,383	2,167
1970	1,436	3,826	2,390
1971	1,599	3,837	2,238
1972 (est.)	1,840	3,761	1,921

*excludes Uranium Oxide

Source: U.S. Bureau of Census. 1972 estimate based on 9 months' data.

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Subcommittee on International Trade
Committee on Finance
2227 New Senate Office Building
Washington, D. C. 20000

Gentlemen:

In response to the invitation contained in the Subcommittee's June 1, 1972 press release concerning multinational corporations, we would wish to go on record with certain observations keyed specifically to this Corporation and its operations. We understand that a broader-scale response, reflecting more generally the views of the chemical industry as a whole, is being submitted to the Subcommittee on behalf of the Manufacturing Chemists Association. We would also commend to the attention of the Subcommittee the September 1972 Report of the Industry Advisory Committee on Chemicals of the National Export Expansion Council (the "Chemical Industry Study"), particularly pp. 9-14, for an overview of the areas of concern to the Subcommittee from an industry-wide viewpoint.

We have no desire to burden the Subcommittee with yet another detailed study of the pros and cons of the existence and operations of multinational corporations. Frankly, by some definitions of the multinational corporation (e.g., one which has from one-third to one-half of its sales outside its home country), our credentials to do so could be suspect.

Yet, by other criteria, our experience is relevant and our voice entitled to be heard. We have production facilities in over a dozen foreign nations. The aggregate amount of our overseas investment, defined as equity in and loans to affiliated foreign companies at least 10% owned by us, through 1972, is about \$104 million, from which we have realized, over the same period, through dividends, interest and associated royalty payments, after foreign withholding tax, cash receipts of approximately \$22.8 million.

Apart from supply of essential raw materials (e.g., fluorspar) to our plants in the United States for further processing, and the special situation under the 1965 U.S.-Canada auto agreement, most foreign production was consumed locally or in the immediate market area with only a negligible percentage exported to the United States. Thus, our experience is consistent with the overall chemical industry experience that only a small percentage of goods manufactured by foreign affiliates is imported into the United States. In the case of our foreign affiliates supplying essential raw materials, without such investment domestic plants worth many millions of dollars and employing hundreds of workers would be unable to continue operations.

About a year ago we had the occasion to submit to Senator Inouye, in connection with hearings by the Subcommittee on Foreign Commerce and Tourism of the Senate Commerce Committee, the composite views of various executives of Allied Chemical with respect to issues raised in a questionnaire dealing with various aspects of foreign trade. While the thrust of the Subcommittee's inquiry here may be somewhat different, we find much of relevance in our previous response and would again like to stress some of the points then made.

First and foremost, we were and are strongly in favor of steps to increase exports from the United States, and note with approval the recent DISC legislation, as well as various steps taken within the Department of Commerce to strengthen and support the export sector. As a result of these and other factors, Allied Chemical's export sales have grown in recent years and now constitute around 5% of total annual sales of about \$1.5 billion in 1972. As a further stimulus to exports in the immediate future, we also note with approval the recent amendments to the FDI regulations exempting qualifying export credits to foreign affiliates from the investment controls.

Still, we find that the United States does not compare favorably with other governments, notably in Europe and Japan, in the amount and quality of assistance provided exporting industries. European Common Market countries commonly refund their

substantial value added taxes on exports. Other countries, while controlling imports through requiring import licenses, subsidize exports through complete elimination of corporate income taxes on earnings from exports (Brazil and Venezuela) or through income tax refunds based on a high percentage of sales (Mexico). For a complete tabulation of foreign country export incentives, with particular emphasis on tax incentives, see the Chemical Industry Study, Appendix III.

In our response to Senator Inouye, we also noted our specific support for the strengthening of the commercial officer function of the State Department, both in numbers and training. We also favored tax incentives to encourage increased research and development expenditures necessary to keep U.S. business concerns competitive. For your information, an average of almost \$30,000,000 was expended by this Corporation on research, development, testing and evaluation in each of the last two years (1971 and 1972), all but approximately \$1,000,000 of the total here in the United States.

While we are in favor of positive steps to foster exports, and the jobs related to increased exports, we believe that the numerous studies made of the relationship of foreign investment to U.S. exports, both within and without the Government, have shown that measures which would inhibit foreign investment would actually discourage rather than promote exports, and worsen rather than ameliorate our long term balance of payments position. The figures to support this position have been, we are sure, digested and cited to you in numerous submissions. The means to increase exports lie elsewhere, ready at hand.

With regard to the punitive character of some of the measures being discussed to achieve what in our view is the mis-conceived and self-defeating goal of inhibition of foreign investment, the tax measures stand out. Our Tax Department has calculated that if the two most frequently mentioned tax measures (current taxation of foreign subsidiaries' earnings and repeal of the foreign tax credit) had been effective in 1971, Allied Chemical would have incurred additional U.S. income tax liability of \$4.8 million. With these two measures in effect, the overall U.S.-foreign income tax rate on the operations of its foreign subsidiaries

would increase to about 75%-80%, a clearly penal rate making it extremely difficult, if not impossible, for foreign subsidiaries of Allied Chemical to compete against national and multinational companies not subjected by their governments to similar penalty tax provisions. To impose such a penalty without having established the "crime" of the U.S. multinationals or that the imposition of the penalty would achieve the desired rehabilitative effect in the domestic economy, seems to smack of an upside-down, Alice-in-Wonderland approach.

Finally, we would wish to make one point, relevant to item X of the June Subcommittee press release, which we do not believe is made in the overall MCA presentation. Again, this point is relevant to the goal of achieving increased exports.

In our view, the Webb-Pomerene Export Trade Act would be more useful if it were amended to clarify the scope of the anti-trust exemption provided. One important clarification would be the degree to which the export activities of Webb-Pomerene associations may lawfully affect domestic trade.

We have found the antitrust laws to be an obstacle to our export program in that we have been reluctant, considering the uncertain state of the current law, to enter into a joint export association. We believe that American firms need the power to form joint export associations in order to compete with foreign cartels. A number of our major foreign competitors in the fertilizer business, for example, operate within export cartels which command extensive sources of supply and are able to set export prices. By contrast, to obtain foreign business we must compete not only with foreign producers but also with other American producers. Generally, this results in lower export prices than would prevail if we could bid jointly with other domestic competitors.

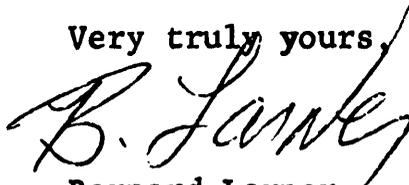
We are also limited in our ability to compete by the availability of goods to any single producer. With nine producers as members, the European fertilizer cartel, Nitrex A.G., is able to bid on entire quantities of foreign government tenders which may be in the range of 100,000 tons of a given product. Even one shipload of such a tender may exceed the capacity of a smaller

producer who might, however, be able to participate in such business as a member of an export association. We should add that cartels can also compete by such devices as drastic price cutting or curtailment of production through the shutting down of facilities, with the adverse consequences of such steps being spread among all the cartel members.

In short, we believe that export sales might be substantially increased if United States antitrust policy clearly encouraged the formation and operation of joint export associations.

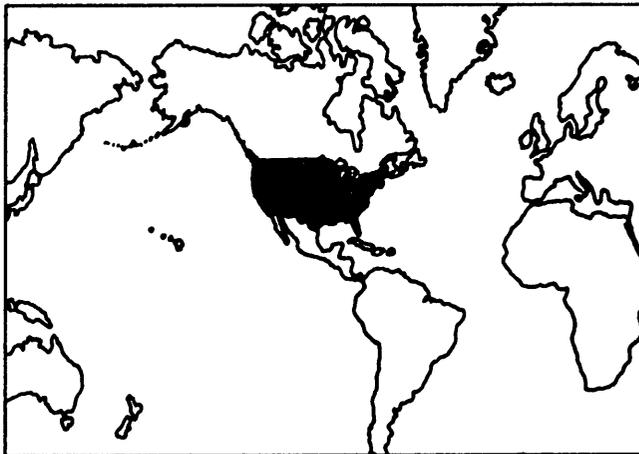
Thank you for this opportunity to comment on the significant issues which the Subcommittee will consider and deliberate in the coming months.

Very truly yours,

A handwritten signature in cursive script, appearing to read "B. Larner".

Bernard Larner
President

UNION CARBIDE's International Investment Benefits the U.S. Economy . . .



A STUDY BY



**UNION CARBIDE CORPORATION**

270 PARK AVENUE, NEW YORK, N.Y. 10017

Highlights
of
Union Carbide's "Multinational" Corporation Study

The effects of foreign investment by U.S. firms, particularly by "multinational" corporations, on employment and the economy of the United States has been a topic of growing public interest and controversy in recent months. In an effort to measure the impact of its foreign investment on the United States, Union Carbide has undertaken an extensive study covering the last two decades, as summarized and analyzed in detail in the accompanying Report. This Report measures the relationships between these investments and the corporation's domestic employment and exports from the U.S. and their effects on the U.S. balance of trade and balance of payments.

Union Carbide is a major, world-wide producer of chemicals and plastics, industrial gases, metals, carbons, and consumer products. Thirty percent of its \$3 billion in sales are made overseas. The Corporation has production facilities in 30 foreign countries, as well as in 44 States, and together with its foreign affiliated companies employs nearly 100,000 persons. Its exports from the U.S. currently exceed \$250 million a year.

The results of Union Carbide's study demonstrate that overseas investments in plants and production facilities can yield substantial benefits to the U.S. economy by increasing exports, creating domestic jobs, contributing to the balance of payments, and helping to finance domestic expansion.

The highlights of the Report include:

-- Union Carbide exports from the U.S. increase as foreign investment grows. This is because the presence of a foreign manufacturing plant with a strong marketing organization "pulls" greater exports from the U.S. of allied, intermediate, and accessory products.

-- Union Carbide exports from 1951 through 1970 increased nearly seven-fold, as compared with an increase in foreign-affiliated production of about five times. Union Carbide exported five percent of its domestic production in 1951 rising to eleven percent in 1970.

-- Over the 20-year period, Union Carbide's total exports were \$517 million greater because of its foreign investment than they would otherwise have been, and 57 percent of its total exports went to or through affiliated foreign companies.

-- Exports "pulled" by foreign investment produced nearly 2,000 more jobs in the U.S. than would have existed without the foreign investment.

-- Union Carbide's positive contribution to the balance of payments was \$236 million in 1970 and exceeded \$800 million over the last five years.

-- From 1966 through 1970 Union Carbide's international affiliates total tax payouts to foreign governments averaged 52.5% of total pre-tax income.

-- Dividends and other income from foreign affiliates exceeded Union Carbide's direct foreign investment by \$20 million in 1970 and by \$246 million over the last 20 years.

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The Report also stresses that investments in foreign plants are made only when a market can no longer be supplied through exports from the U.S., and that such exports are significantly curtailed if the foreign investment is not made.

BENEFIT

OF

UNION CARBIDE'S INTERNATIONAL INVESTMENT

TO

THE UNITED STATES ECONOMY

A STUDY BY UNION CARBIDE CORPORATION

OCTOBER, 1972

**270 Park Avenue
New York, N. Y.
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NOTES

In connection with this Report it should be mentioned that:

- a) The period covered is generally 1951-1970, with certain exceptions made necessary by inability to locate specific data as far back as 1951.
- b) A letter coding system has been used to identify the various product groupings analyzed. This is necessary for competitive reasons.
- c) The charts in this Report have been plotted for the most part on a semi-logarithmic scale, which makes parallel any parts of two curves having the same rate of growth. In this way, a sound impression of comparative or relative growth rates and hence degree of correlation can be obtained visually, which is not possible on the usual arithmetic-scale chart.
- d) Throughout this Report reference to Union Carbide Corporation has been abbreviated to UCC.
- e) Where reference is made to UCC foreign manufacture, this relates to the operations and sales of those foreign affiliated corporations in which UCC has an investment interest of 50% or more, except as otherwise stated.

I. INTRODUCTION

The impact of "multinational corporations" is currently the subject of extensive commentary and discussion in the press, in legislative bodies, and in international organizations. This rather sudden expansion of interest in the international business organization and the tone of much of the commentary gives the impression that a new phenomenon has arisen overnight; something which must be reckoned with as an unfavorable influence on governments, the U.S. domestic economy and employment. In other words, the multinational corporation is being branded by some as a serious world problem.

The term multinational corporation is currently in vogue. However, throughout modern history there have been corporations which have had their headquarters in one country and manufacturing operations in a number of additional countries - - it is certainly not an overnight phenomenon.

Union Carbide (UCC), for example, has been involved in international business since the early 1920's. UCC presently has production facilities in 44 states in this country and in more than 30 countries throughout the world. It also exports from the U.S. to more than 100 countries.

To worldwide markets UCC supplies six major classes of products: chemicals, plastics, gases and related products, metals and carbons, and consumer and related products. In 1971, worldwide sales were slightly over \$3 billion, with about a third going to international customers.

Thus it can be seen that UCC has a deep interest in these accusations which are being leveled at the multinational corporation. Recently the sharpness of the attacks, coupled with an abundance of misinformation, misconceptions, and

myths concerning its implications, has made it desirable for corporations such as UCC to examine closely their own international experience in detail to determine, first hand, if there is any validity to these charges, and further, to make available the results of such analysis to all interested parties.

Accordingly, UCC has undertaken a study, in considerable detail and depth, of the growth of its foreign manufacturing operations in relation to exports from the U. S. The study covers effect on domestic employment, contribution to the U.S. balance of payments, profit development for re-investment in the domestic economy, tax implications, and broad contribution to enhancement of the standard of living upon which world peace and prosperity depend.

The results of the study are presented in this Report. Essentially, they indicate a favorable relationship between foreign investment and U.S. exports with a resultant positive effect upon UCC's domestic employment and earnings.

The favorable findings of our study highlighting the benefits which UCC's international investments have brought to the U.S. economy forces us to challenge the accusation that multinational corporations are a problem. The difficulty may be one of proper perspective. We are reminded of a popular slogan frequently seen in corporate offices which reads:

**"Are You Part of the Problem
or
Part of the Solution?"**

As indicated above UCC has been involved in international business for decades and based on the results of our study, we sincerely feel ourselves to be part of the solution, particularly if the problem involves improving the standard of living of peoples in this country and in other countries of the world.

II. SUMMARY

1. UCC Overseas Investment Policy

- The fundamental principle, which cannot be emphasized too strongly, is that UCC as a matter of long-standing policy has never made a significant new foreign manufacturing investment until it became unfeasible economically, or otherwise, to supply and maintain the market through export from the U.S. Obviously, like most other American companies, UCC does not wish to risk investment and returns overseas if it can "do the job" through export without foreign investment.

- UCC does have several overseas mining and processing plants for minerals which are not found in the U.S. Otherwise, as a matter of policy, UCC does not build manufacturing plants in foreign countries for the purpose of exporting back to the U.S. There is one single exception involving only \$250,000 of assembly investment which actually saved 150 jobs in the U.S. (See Appendix-Section 1 for detailed explanation.)

2. As Foreign Investment Increases So Too Do UCC's Exports

- Over the years, as UCC was forced to install foreign plants to preserve share of market built up through successful export marketing effort and eventually threatened by local competition, it was expected that exports would decline in inverse correlation to affiliated overseas production.

- To the contrary, this study shows that for UCC there has been a direct, positive correlation between the trends of affiliated overseas production and export volume from the U.S. This correlation can be seen from Chart No. 1 opposite, for the period 1951-1970. Despite all of the competitive local manufacturing installations abroad, including our own, UCC total exports in 1970 were 6.7 times greater than in 1951, as compared with a 5.0 times increase in the sales value of total UCC foreign affiliated manufacturing. (All of these data exclude foreign mining operations.)

- The comparison in Chart No. 1 is in terms of sales dollars and therefore "damps" the actual upward trend of exports in terms of physical volume. This is because our average selling prices in 1970 were 23% below the 1957-1959 average level.

On a volume basis, which cannot be calculated compatibly because of the variety of product, the growth rate for export would be considerably higher than indicated in the previous paragraph. To a certain degree the value of foreign manufacture would have been affected in the same way since average selling prices overseas have declined as well.

3. International Investments "Pull" Exports From the U.S.

- Obviously, when UCC decides to install a foreign plant, any exports from the U.S. of the specific finished product involved must eventually be reduced. However, this reduction would have taken place anyway, because UCC makes such a foreign manufacturing investment only when elimination from the market is threatened by some other local installation. Where UCC has failed to make such an investment, experience shows that export of the entire finished product group is seriously cut, in some types to virtually nothing.

- On the contrary, our analysis herein demonstrates that if UCC installs the foreign plant rather than a local competitor, there eventually develops a decided "pull" effect in the form of increased UCC exports from the U.S. of other allied, intermediate, or accessory products not being manufactured by this foreign plant. This is because of the presence of a strong local UCC organization which being "on the scene" can provide a broader, more effective overall marketing effort than is practicable from solely an export marketing organization.

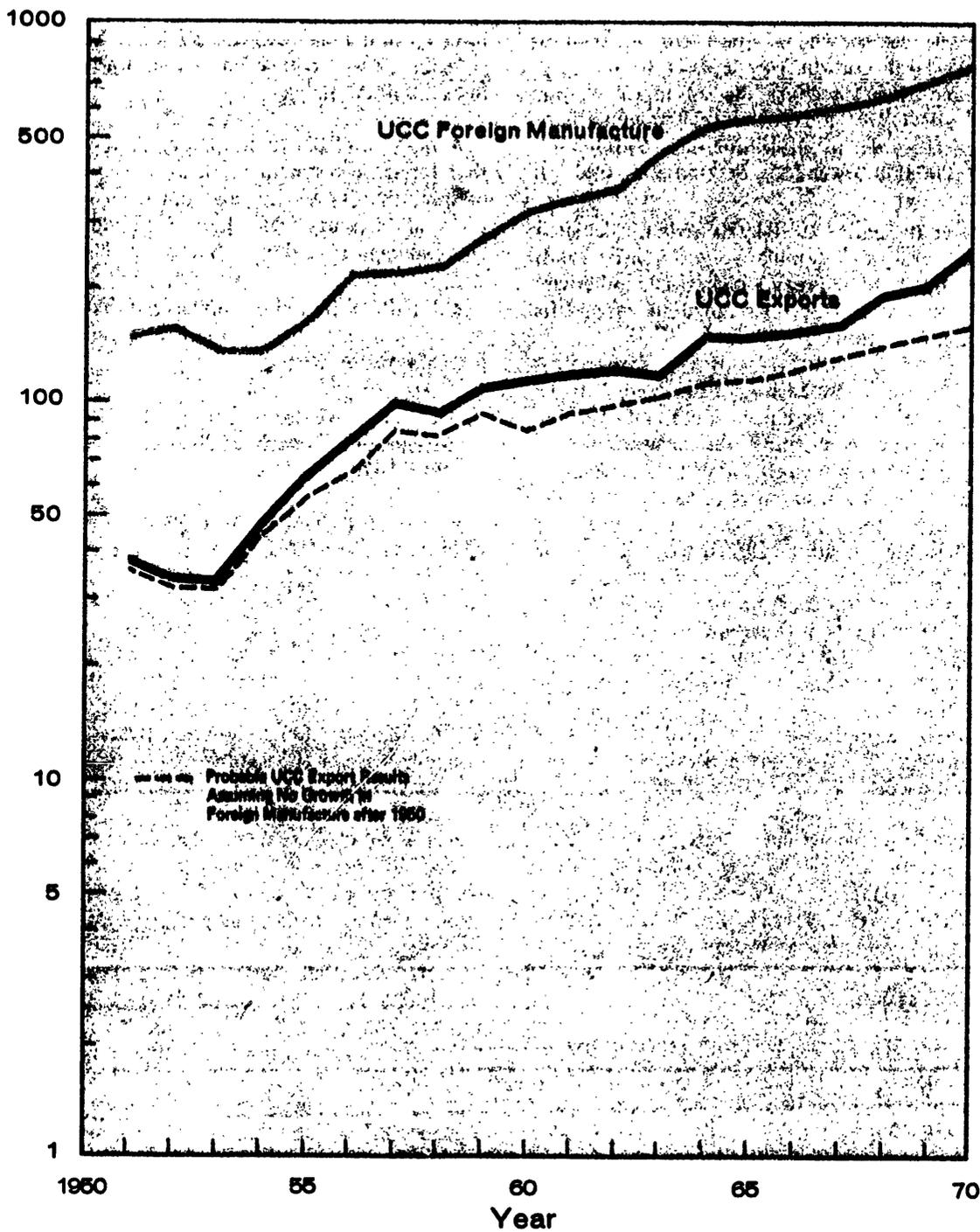
- This "pull" effect is indicated by the fact that 57% of our total exports in 1970 were to our foreign affiliated companies, a large majority in the countries in which UCC manufactures. Over the period 1951-1970, Chart No. 1 shows the effect of "pull" in the striking parallelism of upward trend between sales value of foreign production and exports.

- Also, Section VIII-C-9 (page 29) of this study shows that our exports to foreign markets where UCC has manufacturing facilities generally tend to be at a higher level and have grown about as rapidly as exports to areas where there is no UCC manufacturing investment.

CHART NO. 1

Total UCC Foreign Sales

Million \$



Probable UCC Export Possibility
Assuming No Growth in
Foreign Manufacture after 1960

4. In 1970 UCC's Exports Were \$90,000,000 Higher Because of International Investments

● In 1970 UCC's exports totalled \$253,000,000. Our study shows that if we had not expanded our foreign manufacturing between 1951 and 1970, as shown in Chart No. 1, thereby allowing local, foreign competition to take our place and thus foregoing the advantage of this "pull" effect, UCC's exports in 1970 would have been of the order of magnitude of \$163,000,000, or \$90,000,000 lower (See Section V-A, page 9).

● Over the entire 1951-1970 period, calculated year by year, the cumulative differential totals \$517,000,000 of exports which would otherwise have been lost if UCC had failed to expand its overseas production capability.

● It should be emphasized at this point that the key assumptions of organized labor and others in this country concerning the relationship of American foreign investment and exports from the U.S. are based on unsound reasoning. It is totally fallacious to believe that if American manufacturing operations abroad were shut down, then these overseas markets would automatically be supplied by exports from the U.S. We believe the detailed analysis in this Report covering UCC's experience over a twenty year period dramatically demonstrates the fallacy contained in such an assumption, which to be sound would have to mean that the production and distribution cost of U.S. products in export are generally competitive around the world.

● It seems obvious that if UCC were to shut down its foreign plants, the sales from these operations could never be replaced by exports from the U.S. Rather, virtually all this business would fall to foreign competitors.

5. Export of Jobs?

● UCC's exports create 5,300 jobs, or 10% of our total domestic employment. Without foreign investment there would be only 3,400 export-related jobs.

● Our analysis indicates that an estimated 1,900-2,000 domestic jobs have been created because of the "pull" effect on exports from the U.S. by our international investments. (This point is elaborated upon in the "Employment" section of this Report -- Section V-B, page 9).

● As can be seen by the growth of actual UCC exports from 1951-1970 in correlation with growth of foreign manufacture in comparison with probable export results assuming no foreign manufacture, all as set out on Chart No. 1, it is evident that our overseas investment could not have resulted in export of jobs, but rather contributed to the creation or preservation of jobs in UCC's domestic plants.

● As a corollary to the above, if it were valid that foreign investment has caused an exportation of jobs, then as foreign investment increases over the years, exports from the U.S. should decrease. Our experience has shown exactly the opposite.

● Finally, it should be emphasized that UCC has not laid off employees in the U.S. because of our foreign investments.

6. UCC's Positive Contribution to the U.S. Balance of Payments--\$805 Million From 1966-1970

● If funds flowing out of the U.S. from UCC for direct foreign investment, imports, and miscellaneous net payments are deducted from total funds flowing in from UCC exports, foreign dividends, service fees, and royalties, then it is found that UCC's positive or favorable contribution to the net balance of payments of the U.S. amounted for the single year 1970 to \$236,000,000. Total 20-year figures are not available, but for the last five-year period 1966-70, the total contribution was \$805,000,000.

● Likewise, if two of the elements of the balance of payments equation -- direct foreign investment outflow and inflow of dividend and other income from foreign affiliates -- are compared, it is found that the latter exceeded investment funds sent overseas in 1970 by \$19,900,000. For the period 1951-1970, this net positive contribution by UCC foreign investment to the U.S. balance of payments totalled \$246,500,000.

7. Income Tax Rates Paid by UCC's International Affiliates Averaged 52.5% During 1966-1970

● Between 1966 and 1970 UCC's share of the total income and withholding taxes paid to foreign governments by international affiliates amounted to \$196,000,000. This was 52.5% of total combined before-tax earnings of such international

affiliates, somewhat higher than the statutory U.S. rate. If UCC is in any way representative, it seems evident that the charge that the American multinational corporation makes foreign investments because it is more attractive tax-wise, or to evade taxes is fallacious - - why take the overseas risk if overall tax incidence is higher than at home?

- Proposed legislation urges that undistributed foreign earnings be made subject to U.S. tax and credit against U.S. income tax for local income taxes paid by foreign affiliates be eliminated, all on the theory that foreign investment somehow is subsidized in the way of lower overall taxes. This proposal would of course produce double taxation contrary to international principles and treaties.

- In the case of UCC this would have meant in 1970 that about 79% of all foreign income before

tax would have been paid out as tax. Obviously, return on UCC overseas investment under these conditions would be far from commensurate with the risk. Certainly no new investment would be made by UCC under such tax conditions. Rather, divestiture would be indicated, with consequent adverse effect on exports and export-associated jobs as well as balance of payments of the U.S.

- If these tax measures as proposed in the Hartke/Burke bill and other similar legislation pending before Congress had been in effect in 1970, UCC's tax burden would have been increased by \$27,600,000. Enactment of this type of legislation would most certainly injure seriously UCC's entire international position, and would have a consequent adverse effect on our domestic investment capability, employment, exports, and earnings.

III. OPERATING ABROAD

Recent proposed legislation designed to make multinational companies either sharply restricted in scope, or completely isolationist, implies that American corporations invest overseas only in order to gain some tax edge, or to take advantage of cheap labor. For UCC it can be emphasized that, outside our regular growth pattern, new overseas investment is made only to protect against, reduce, or prevent the loss of a foreign market share which has been developed in the past by export from the U.S.

A. Foreign Manufacturing Complications

The capital resources of a U.S. corporation naturally have some limits. Most boards of directors, as is the case with UCC, prefer to allocate available capital funds first to domestic operations, after that to overseas. This is because of the major complications and risks that an overseas investment often faces, as compared with a domestic investment, such as the following:

1. Currency value fluctuations.
2. Inconvertibility of currency for dividends or debt payments to the American parent.
3. Blocked currencies.
4. Exchange controls.
5. Import quotas; import license requirements.
6. Expropriation or nationalization.
7. Different legal and tax systems.
8. Different accounting systems.
9. Lack of trained personnel.
10. Language and communications difficulties.
11. Generally higher risk in many environments outside the U.S.

In the case of UCC, for example, between 1961 and 1970 worldwide investment in plant and equipment, including the U.S. and foreign affiliates owned 50% or more by UCC, totalled \$3.2 billion. Of this total, 76% was committed to the domestic economy. The remainder, \$788 million over 10 years, represented overseas investment. However, the capital required for these foreign projects was largely raised overseas through local borrowing and depreciation. Only about 10.7% of the required overseas capital, or \$84 million, was financed by a net investment of dollars from the U.S. Because of overall capital supply limits, an order of magnitude of \$788 million of investment overseas would not have been made if it would have prevented the implementation of any feasible domestic project, or in any way unnecessarily threatened our export capability.

Also, dividends and other income brought in from 1961-70 from these foreign affiliates, totalling \$196 million, much more than offset the total funds (\$84 million) sent overseas from the U.S. for construction during this period.

B. Why Risk Overseas Investment?

After considering all of the problems and risks that multinational corporations accept in connection with overseas investment, one would expect people to ask "why" rather than to criticize companies for in effect "being there" and providing the products that people need, regardless of nationality. The "why" is that wherever demand for UCC products increases, we hope to be there in order to fulfill our worldwide objective of making our products available to the largest number of people at the lowest possible price.

If investing in foreign countries is fraught with so many difficulties and high risks, why then would an American company ever be interested in making any foreign investment? The decision to invest overseas is based mainly on two fundamental considerations - - will it provide the opportunity to maximize utilization of our facilities and resources including domestic personnel, and also at the same time provide a reasonable return on stockholder's investment commensurate with the risks involved?

The increase in foreign sales shown on Chart No. 1 is evidence of a growing worldwide need for product - - demand someone is going to supply. UCC management has looked upon new areas of

demand overseas as opportunities - - opportunities to make better use of its available resources, preferably through export, otherwise through foreign investment if export is not competitive. If worldwide demand exists, surely American corporations should seek to fill the need. This must lead eventually to foreign investment if necessary to retain markets developed originally through exportation which have become no longer feasible for economic or other reasons. As far as UCC is concerned, there is no intention or desire to risk investment overseas and install foreign plants at the expense of exports. It cannot be stated strongly enough - UCC prefers to export as long as that can be done competitively by exportation as opposed to overseas manufacture.

By briefly tracing how business in foreign countries begins, it is possible to follow how and why corporations invest overseas. In the case of UCC, demand for a product overseas has been often detected originally by unsolicited orders received in the U.S. These have been followed by arrangements with sales agents in the countries involved, and as demand increased, our marketing representatives have been sent overseas for the express purpose of increasing exports. Eventually, the market demand increases sufficiently to support a local production facility. As local competitive facilities eventually threaten and are established, it becomes increasingly difficult for exports from the U.S. to compete because of higher labor cost, freight, import duties, and other costs not borne by the local competitor, to say nothing of restrictions or barriers imposed by foreign governments. The American exporter is then left with only two alternatives: that is, to give up the market so arduously and expensively developed by export effort, or to install a plant within the market to meet the competition or avoid the external restrictions.

Finally, UCC allocates available capital (mainly generated locally abroad) to foreign projects and accepts the higher risk in order to earn an acceptable return on the investment for its shareholders. As long as jobs are not exported, it is certainly beneficial to the employees, the stockholders, and the U.S. economy for an American corporation to have the world as a potential market rather than being limited primarily to the domestic market. Apparently in some quarters it is not understood that in this day and age a global market can not be served through exportation alone.

IV. THE ROLE OF PROFIT

The primary motivation of American corporate investment, whether in the United States or abroad, necessarily is to earn a profit. Reasonable profit is completely and fundamentally essential to our democratic private enterprise system -- it is in effect the "grease" that makes the wheels of industry turn. Without profit new investment would cease and eventual closing down of industry would result. Every year there are thousands of enterprises that go out of business, the chief reason for these closures being lack of profit. The result is that jobs are lost, and taxes are no longer generated to support government functions and programs.

The role of profit in the American private enterprise system is currently not as well understood as it might be. This unfortunate circumstance is partly the fault of the business community itself. It has abdicated its responsibilities in this regard to the demagoguery of others to the point where many citizens, particularly the young people, now are convinced that profits are bad.

In a speech delivered in January of 1972, James T. Lynn, Under Secretary of Commerce, made some pertinent observations about the level of understanding of profits in this country: "The American public is not only misinformed about the level of profits but a substantial number of our people don't even know what the word profit means and think that profits are somehow a bad or undesirable thing." Mr. Lynn went on to say: "Let them (the people) know that our system is strong and capable of great achievement. But let them know too that the system is fragile -- that it cannot endure unlimited abuse."

Mr. Lynn went on to say that in a recently completed survey conducted by Opinion Research Corporation which attempted to determine what people believe to be the level of business profits, the researchers asked the following question: "Just as a rough guess, what percent of profit on each dollar of sales do you think the average manufacturer makes after taxes?"

The answer was that the average estimate of manufacturer's profit on each dollar of sales was 28%.

In actuality, Mr. Lynn pointed out, "The true answer to that question is that in 1970 the average manufacturer earned about 4¢ profit, after taxes, on every dollar of sales. This is down from more than 5¢ per dollar of sales in 1965."

Later in his speech Mr. Lynn referred to a recent union newspaper headline which read: "Profits, Stocks Up; Jobs Suffer." Some further details of the article were explained by Mr. Lynn and then he stated: "What the article does not explain is that 1970 was a drought year, with profits as a percent of GNP at their lowest level in 25 years. But the implications of the union story are clear: Profits are going up at the expense of jobs. As you and I know, this is hogwash! But that's what we're up against!"

These astounding and also alarming results of this survey point up the real problem in educating the public not only about the level of corporation profits, but also the role of profit in our economy. The reduction from the 1965 level of 5¢ represents roughly a 20% decline in the level of profits in 1970.

The table below shows Gross National Product (GNP) and Corporate Profits Before Taxes, for the period 1960 to 1970. It will be noted that Corporate Profit at 7.7% of GNP for 1970 is 33% below the high of 1965.

Year	GNP \$ (Billions)	Corporate Profits Before Tax	
		\$	%GNP
1960	503.7	49.7	9.9
1961	520.1	50.3	9.7
1962	560.3	55.4	9.9
1963	590.5	59.4	10.1
1964	632.4	66.8	10.6
1965	684.9	77.8	11.4
1966	749.9	84.2	11.2
1967	793.9	79.8	10.1
1968	864.2	87.6	10.1
1969	929.1	84.2	9.1
1970	974.1	75.4	7.7

With reference to UCC particularly, net profit per share in 1971 was \$2.61, or 5.2% on total sales value. Of this, UCC's international operations contributed 74¢ per share, or 28% of the total. This was, of course, a very significant contribution to our earnings, and certainly helped to support our domestic operations.

Probably the easiest way to reflect on the significance of this contribution is to speculate what the situation would have been for 1971 if UCC had not had this income from overseas.

First, it would have been necessary to cut the dividend payment of \$2.00 per share, since the domestic operations contribution totalled only \$1.87 per share. This would be a most serious consideration from many standpoints, perhaps the most adverse being that our ability to borrow or

raise capital would be reduced, thereby limiting new domestic investment and hence domestic employment. Aside from the obvious effect on shareholders, the elimination of the foreign contribution to earnings would simply mean less funds available to put into new plant and equipment in this country upon which new jobs depend. Over the years it has been our policy to see that at least half, on the average, of total earnings of affiliated overseas companies are paid out as dividends.

Surely there can be no argument that profits, even those earned overseas, are essential to the U.S. economy. Only through profitability can there be sound increased compensation for employees, improved return to investors, and retained earnings for expansion of jobs, business, and the economy as a whole.

V. EXPORT vs. DOMESTIC EMPLOYMENT

As has been shown in Chart No. 1, UCC's exports have had a greater proportional increase since 1951 than the sales value of foreign production, having increased 6.7 times as compared with 5.0 times. However, while this relationship is strongly indicative of the fact that foreign investment stimulates export, it might be argued that the export growth rate would have been higher than it actually was if there had been no expansion of foreign production in the period 1951-1970. Both theses can be supported by a number of qualitative arguments that are being cited and defended widely by business, organized labor, and legislators.

To us in UCC, the soundest way through which this "export of jobs" question can really be answered is by studying in detail the marketing, competitive, price, and plant construction trends overseas year by year for a variety of our most representative products, leading to an actual quantitative estimate of what our export sales would have approximated in each year from 1951 through 1970 if there had been no growth at all in UCC's foreign production. Under these circumstances the following conditions would necessarily have obtained in varying degree, and

our quantitative analysis has been based upon detailed assessment of them:

a) Partial replacement of actual growth in raw material and intermediate exports by otherwise higher export of finished products.

b) Use of less aggressive foreign sales agents rather than associated manufacturing company marketing organizations that would not otherwise have been developed.

c) Influence of competitive local installations that would otherwise have become established.

d) Tariff barriers and other government restrictions, such as border closing to protect local manufacture.

e) Evident major "jumps" in export that took place when a UCC foreign plant came "on stream" or UCC acquired a foreign company, and which otherwise would never have taken place.

f) Decreased export potential of certain products due to non-competitive prices.

g) Reduced exports of accessory products which can be made only when complementing a locally manufactured product line.

h) Exports made possible only through local knowledge that a UCC plant was being constructed, thereby "preparing" the market for eventual local production.

A. "Pull" on Exports by Foreign Manufacturing

UCC International Marketing Managers were asked to reconstruct their probable export experience taking all the foregoing into consideration upon the hypothetical assumption that there had been no growth in our foreign production after 1951. From these detailed estimates, a total theoretical or probable export figure of \$163,000,000 for 1970 was obtained. This compares with the actual total export figure for 1970 of \$253,000,000.

In this study, results of which are analyzed later in this Report, the four largest major product groups of UCC were covered in detail for 1951-70, accounting for about 80% of our total exports. By these product groups, the reduction of export that would have resulted in 1970 if our foreign investment had remained static since 1951, comes out as follows:

<u>Product Group</u>	<u>Reduction in Exports (Millions of \$)</u>
*A < B	\$37
C	8
D	17
E	4
Sub-Total	66
All Other Exports	24
Total	\$90

* Product Group A, representing UCC's total position in a single industry, is also broken down into its two major components, B and C, and in the study these are further broken down into sub-groups such as B1, B2, C1, etc.

This volume of otherwise lost exports in 1970, at \$90,000,000, is 36% of total actual exports of \$253,000,000.

These lower probable or theoretical export figures assuming no growth in our foreign production have been calculated for each year since 1951, and have been plotted on the Charts included herewith. Adding up the lower export figures for each year, it is found that the total is \$517,000,000 less than total actual exports for the period 1951-70. In other words, our detailed analysis indicates that the growth of UCC foreign production during this period was responsible for "pulling" more than half a billion dollars of export business that otherwise could never have been obtained.

B. Effect on UCC Employment

What has this volume of extra exports meant in terms of UCC employment? In an address before the Foreign Policy Association on February 16, 1972, the Honorable Andrew F. Brimmer, one of the governors of the Federal Reserve System, referred to estimates calculated by the Bureau of Labor Statistics (BLS) in the U.S. Department of Labor. According to the BLS approach, approximately 69,000 jobs are associated with each \$1 billion of U.S. exports. Other estimates vary from 60,000 to 70,000 jobs per \$1 billion of exports. The BLS study is based on a 1 to 1 ratio of primary export employment to indirect export employment; that is, for every job related directly to exports there is also a supporting job in another industry which is reliant on these exports.

Taking the more conservative figure of 60,000 employees per \$1 billion of exports, our 1970 exports at \$253 million would be accounting for approximately 15,000 export-related jobs (both primary and indirect). If we consider only the primary jobs, this would then mean approximately 7,500 primary export-related jobs. In our judgment such an estimate may be high, taking into consideration the continuous nature of many of our operations which are probably somewhat below average in terms of labor intensity. Accordingly, it is felt that UCC's primary export-related jobs more closely approximate 10% of its U.S. work force of 53,000, or roughly 5,300 people. In view of the fact that UCC exports in 1970 were about 11.5% of total sales, it is believed that this figure of 10% represents a conservative estimate.

So – if our exports in 1970 had been lower by \$90,000,000, or 36%, than actual exports, owing to absence of the “pull” exerted by UCC foreign production, it would follow that the 5,300 primary UCC jobs produced by export would have been reduced by 36% to about 3,400. In other words, growth of our foreign production since 1951 is responsible for at least 1,900 jobs in UCC’s domestic organization that would not otherwise have existed had our foreign production not been expanded as it actually was from 1951-70.

To double check this figure an alternate approach has been used. If UCC’s total domestic production for 1970 were reduced by \$90,000,000 of exports, this would have represented a 4% reduction in the sales value produced in our domestic plants. Applying this relationship to total UCC domestic employment would represent a reduction of roughly 2,100 jobs. In other words, it seems to be indicated that the growth of UCC’s foreign production from 1951 through 1970 has resulted in our present payroll being about 2,000

people larger than would otherwise have been the case.

The fact that UCC’s exports have made an increasingly important contribution to our level of domestic employment can also be illustrated by the fact that in 1951 UCC’s export sales accounted for only 5% of domestic production, while in 1970 this figure had increased to 11%. Further, the annual growth rate of exports was 10.3% between 1951 and 1970, while during this same twenty year period domestic sales grew at an annual rate of 5.7%.

Consideration of these various criteria leads to the conclusion that our foreign investments have definitely contributed to providing jobs in the U.S. Further, UCC has not laid off employees in the U.S. because of its foreign investments. There is no doubt, therefore, that UCC’s investments overseas have not represented exportation of jobs in the U.S. We think this is being part of the solution, not of the problem.

VI. TAXATION

Discussion of profits leads quite naturally to an analysis of taxes, particularly income taxes, since in this country a substantial part of the corporate sales dollar goes to a U.S. taxing agency.

In the area of taxation, multinational corporations are being charged with tax avoidance. Currently, it is being suggested that:

1. The present U.S. tax system favors foreign investment over domestic.
2. If the U.S. tax laws were changed to tax undistributed foreign earnings and to eliminate the right to credit foreign taxes paid against domestic taxes, U.S. overseas investment by multinationals would cease.
3. If the U.S. tax laws were so changed, it would force U.S. multinationals to invest more in the U.S.

These three variations of an essentially similar theme fail to understand or recognize several factors. In addition, they are based on presumptions that are definitely not valid.

The key invalid assumption is that one of the primary motivations for foreign investment by American multinational companies is tax avoidance. There is also the corollary implication that little or no foreign taxes are being paid.

A. Taxes Paid by UCC

The most straightforward way to rectify these invalid assumptions is to deal with specific facts. UCC’s share of the consolidated Net Income Before Tax of all the international affiliates in which we had a 50% or larger interest amounted to \$373,000,000 for the five year period 1966-1970. Of this total our share of the income taxes paid locally to foreign governments amounted to \$174,000,000 for the same five year period, or an effective rate of income tax of 47%. In addition, these international affiliates paid out \$22,000,000 on behalf of UCC in withholding taxes to foreign governments. Added together this makes a total tax impact on UCC for the five year period amounting to \$196,000,000 with respect to these foreign operations. These total foreign tax payments were equivalent to 52.5% of UCC’s share

of total foreign affiliated company pre-tax earnings for the 1966-1970 period. Since this is somewhat higher than the 48% U.S. statutory corporate rate, it is difficult to see how our foreign operations can be looked upon as designed primarily for tax avoidance, or motivated in any way by U.S. tax laws supposedly making it "attractive" to invest overseas. In fact, if paying taxes is one of the signs of good citizenship, obviously UCC qualifies on a worldwide basis.

By way of comparison, between 1966 and 1970 UCC paid \$328 million in U.S. Federal income taxes. Further, UCC paid to other Federal agencies and to the various states of the United States in which it operates an additional \$290 million in taxes (income, sales, property, social security taxes, etc.), accounting for total U.S. taxes of \$618,000,000 during this five year period. In 1970 UCC filed almost 7,500 separate tax forms in the United States alone.

Again in this instance it is considered that UCC is part of a solution - - our tax payments, as those of others, go toward the support of school systems, for social programs, highway improvements, etc. In many American communities the taxes levied on corporations represent their largest source of tax revenue.

For the single year 1970, UCC's share of income before tax in foreign operations owned more than 50%* amounted to \$91,500,000, of which \$44,300,000, or 48%, was paid out to foreign governments for income and withholding taxes where applicable. Had the tax provisions of the Hartke/Burke bill been in effect in 1970, UCC would have paid an additional \$27,600,000 of U.S. tax as a result of these foreign operations (see Appendix Section II for details). This would have brought UCC's overall tax bill for its share in all these foreign operations, paid to foreign governments and the U.S., to \$71,900,000, or 79% of its share in income before tax of these controlled foreign operations - - a virtually confiscatory overall tax rate.

Using the same detailed approach, it is further estimated that these proposed changes to the U.S. tax system would result in increased taxes to UCC of \$40 million per year by 1975. Legislation

*Hartke/Burke bill would apply only to controlled foreign corporations.

containing tax provisions similar to Hartke/Burke has also been introduced by other members of both Houses of Congress.

All of this proposed legislation would eliminate the foreign tax credit which is being branded as a tax loophole. So too is the fact that income of a foreign subsidiary is not taxed in the U.S. until such income is received in the form of a dividend (the so-called tax deferral loophole).

B. Foreign Tax Credit

The principles behind granting a tax credit for income taxes paid to foreign countries goes back almost 60 years, around the time when the U.S. first instituted income tax laws. One of the clearest explanations of the need for foreign tax credits was made by Senator Thruston B. Morton during a debate in the Senate in 1961. Senator Morton included in his remarks before the Senate the following summary: "This provision (the foreign tax credit) was enacted by Congress in 1918, five years after enactment of the income tax itself, specifically to correct an inequity - - not to create one. The original inequity had been overlooked under the relatively low rates of the 1913 act. With the increase in corporate taxes in both the United States and Europe due to World War I, however, it soon became evident that the combined effect of taxes imposed on American taxpayers by both foreign governments and the United States could amount in some cases to virtual confiscation of earnings.

"Congress readily recognized the inequity of a situation in which the same income was taxed twice and separately by two governments, neither considering the taxes imposed by the other. And so Congress established the principle that the foreign government has the primary right to tax, that the country in which the business was conducted and the income earned would levy its tax, and the United States would impose whatever additional taxes were necessary to equal the prevailing tax rates in this country. The provision was thus conceived as a move directly to assure equity - - to make certain that the American firm operating abroad paid precisely the same total tax rate as a business in this country.

"The merit of such a foreign tax credit has long been recognized not only in the United States, but abroad. Some foreign countries, aware of the benefits to the homeland of successful operations

by their business firms in other countries, do not tax income earned abroad at all. In fact, among the developed countries which do impose such a tax, almost all permit a foreign tax credit similar to our's. And this principle has long been recognized in all the 21 tax treaties between the United States and foreign countries."

Senator Morton went on to say: "So let us understand this proposal for what it is, and is not. Repeal of the foreign tax credit would not remove a special privilege, as often claimed, but would impose a unique and special penalty. And the inevitable result of this severe discrimination against American enterprise abroad would be to lead the United States toward ruinous economic isolation."*

Now, over ten years later, these fundamental observations are still valid and true. If foreign tax credit were eliminated under Hartke/Burke, for example, the added U.S. tax penalty on UCC as a shareholder in its controlled foreign affiliates would have been \$14,500,000 in 1970 (see Appendix Section II).

Under such onerous conditions, it would not be possible for UCC to compete through a foreign affiliate with its local competitors, who would be paying in the neighborhood of only a 50% effective tax rate, maximum. In addition to a much lower return on the equity of the shareholders, which would either force divestiture or at least preclude further investment, such a foreign affiliate would find it extremely difficult to compete on a day-to-day basis because of the latitude in pricing available to its local competitors. In fact, the effect in the long run might well be to eliminate UCC business ventures in foreign countries.

The former Assistant Secretary of the Treasury, Mr. Stanley S. Surrey, testified before the Senate Foreign Relations Committee that the imposition of two taxes, through elimination of

the foreign tax credit, would create an overall tax burden that would be so great that international investment would virtually cease. This was in October, 1967, on the occasion of his appearance at hearings before the Senate Foreign Relations Committee with respect to the proposed U.S. - Brazil income tax treaty, during which he stated: "American investment would not proceed at all without the foreign tax credit because then, as the Chairman pointed out, two taxes would be imposed and the overall burden of two taxes would be so great that international investment would practically cease."

C. Partial Deferral of U.S. Tax

Similar historical circumstances surround the principle of deferring imposition of any additional tax payable in the U.S. until the net income earned by a foreign affiliate is actually remitted to the U.S. shareholder. Not taxing foreign income until received is a long-standing principle applied the world over. Fundamentally, present U.S. law recognizes the basic principle that income must be received in the taxing country by the shareholder as a normal requirement to paying income tax.

The fundamental basis of taxation heretofore recognized in the U.S., and in most other countries, is that a corporation is looked upon as a separate "person" as distinct from its shareholders. A U.S. corporation normally is subject to tax on its profits only when these are actually developed. Furthermore, the shareholder pays tax on his dividends only when received, and pays no additional tax on profits retained in the corporation for expansion or other use. There is no country today in which the undistributed earnings of a foreign-operating affiliate are taxed -- in fact, many countries do not tax at all the earnings of an overseas subsidiary of a domestic parent, whether distributed or not. To change this fundamental principle of taxation, as proposed in the Hartke/Burke bill, would place all American international corporations at even more of a disadvantage vis-a-vis foreign competitors.

Obviously, although U.S. tax on unremitted profits held by a foreign affiliate for re-investment might temporarily be financed by borrowing in the U.S. on the part of the parent corporation, in the long run dividends have to be received, from the practical standpoint, in order to provide the funds from which U.S. tax can be paid.

* Congressional Record: Speech of Hon. Thruston B. Morton of Kentucky in the Senate of the United States; Friday, September 15, 1961. Underlining for emphasis added by UCC.

If, in addition to elimination of foreign tax credit, U.S. income tax were levied on the earnings of our foreign affiliates even though there had been no distribution or remittance of these earnings, UCC would have had an increased tax liability in 1970 of about \$13,100,000 for payment of additional U.S. tax on foreign earnings not remitted as dividend (see Appendix Section II).

Finally, the reaction of foreign governments to such U.S. taxation of foreign earnings with a

consequent mandated remission of such earnings would most likely be quite adverse. The extra-territorial application of these proposed changes in U.S. tax law could be construed as interference in the internal workings of corporations organized within their own country. To the extent that such governments would resent this interference, they might well impose stricter remittance or exchange controls to thwart this accelerated migration of money from their economies.

VII. BALANCE OF PAYMENTS CONTRIBUTION

A. UCC's Net Balance of Payments

Analysis of the available data indicates that the dollars UCC receives from overseas from all sources have always substantially exceeded total dollars that UCC sends overseas. For example, in 1970 the value of our exports plus returns from foreign affiliates was \$236 million higher than the value of imports plus direct foreign investment outflow. Likewise, for the decade of the 1960's, the total net contribution made by UCC to our country's balance of payments position was approximately \$1 billion.

B. Exports and Imports

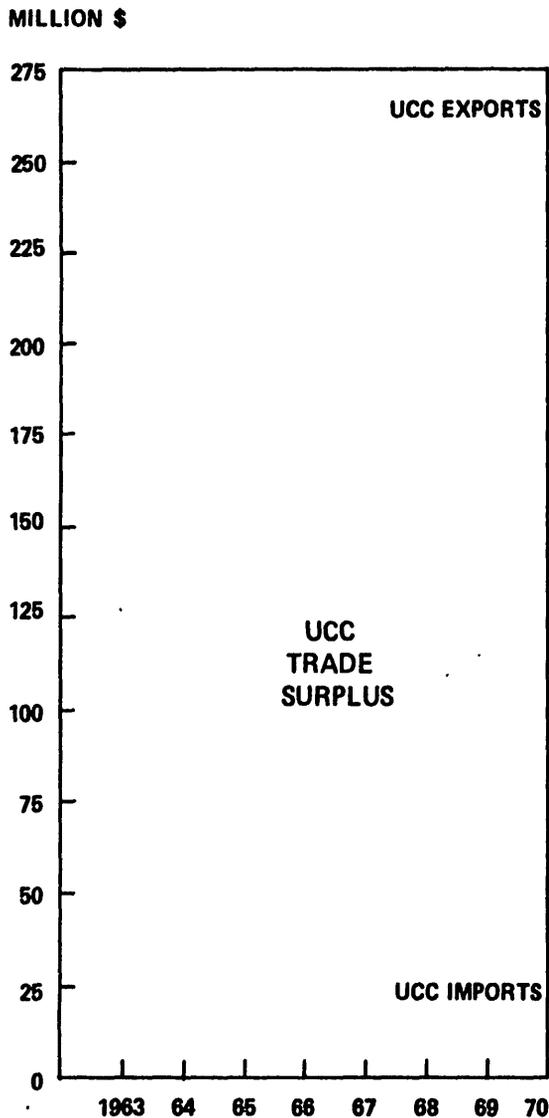
More than half (57%) of UCC's \$253,000,000 exports in 1970 went to or through our foreign affiliated companies. The analysis of UCC international experience over the last twenty years strongly confirms the conclusion that the existence of UCC's affiliated foreign organizations is one of the major reasons that our exports have increased almost seven fold in the last twenty years - - from \$38,000,000 in 1951 to \$253,000,000 in 1970. These strong affiliations have been significant in promoting UCC exports, out-performing growth in world exports which grew five times between 1951 and 1970. It seems obvious that it took a great deal of human effort (jobs) to realize this currently high level of exports.

Essentially all of UCC's imports are natural resource raw materials which cannot be obtained economically in the U.S. and are basic to a number of our more important businesses. The total dollar volume of these imports relative to our total overall business is quite minimal. For example, in 1970 these amounted to \$41 million, or less than 4% of total domestic purchases. The effect of these imports is really beneficial to our domestic employment, since if we did not have these imported raw materials, the domestic jobs required in UCC for their processing into finished products could not long exist.

The next chart (see over) displays UCC's net merchandise trade experience since 1963 (data prior to this period are not available). The shaded area indicates the positive contribution to the U.S. balance of payments; that is, it represents the amount UCC's exports from the U.S. have exceeded its imports. This contribution to the U.S. balance of payments has been consistently favorable. In 1970, it amounted to a net inflow of \$211,000,000.

C. Investment Outflow

The next major element in this UCC balance of payments analysis is the amount of funds sent overseas by UCC for expanded investment in foreign subsidiaries. In 1970 this amounted to



approximately \$8.7 million, and for the past ten years it amounted in total to about \$84 million.

In the last decade our foreign affiliates have invested a total of about \$788 million in construction expenditures in overseas plants. The funds for this expansion came from several sources - - local borrowings from the foreign country, equity issues in the foreign country, retained earnings, and depreciation charges in the foreign affiliated company.

Recently, there has been a good bit of concern about the flight of U.S. capital to foreign shores. The contention is that this is money that would have been better invested in the United

States. Actually the U.S. chemical industry was overinvested during this period as indicated by the fact that according to a McGraw-Hill survey, capacity utilization varied from 76% to a high of only 85% between 1960 and 1970.

In the case of UCC, it is interesting to note that of total funds invested by foreign affiliates in the decade of the '60s, less than 11% represented direct investment of dollars from the U.S. It can be safely stated that UCC's domestic investment program was not in any way curtailed by the funds it sent overseas.

An analysis of worldwide construction expenditures during the 1961-1970 period clearly demonstrates one direction in which UCC has favorably affected the American economy and added to the industrial base of the country. During this period total construction expenditures worldwide by UCC and its foreign affiliates were \$3.2 billion. Of this total, direct investment sent from the U.S. amounted to only 2.6%.

D. Return Inflow from Overseas

UCC makes investments overseas for the purpose of protecting its position in foreign markets. Part of the profits earned by affiliated foreign companies must necessarily be reinvested in the foreign businesses in order to keep them viable. Without such reinvestment in new plant and equipment these facilities would soon become obsolete. The remainder of the profit is remitted to shareholders as dividends, and such payments have tended over the years to average about half of total net profits of foreign affiliates.

Based on the circumstances at the time, a portion of these dividends to UCC from overseas companies may be either invested in new plant or equipment in our domestic business or distributed as a dividend to our shareholders. In one way or another such dividends, together with service fees and royalties, work back into the domestic economy and help provide some of the needed capital for increased domestic investment which, of course, is essential to developing increased employment.

Service fees and royalties are payments which UCC receives for the continuing use of its services, technology and know-how, and in 1970 these amounted to more than \$10 million, mainly from

affiliated companies. As these fees are returned to the United States they are credited to the divisional profit center responsible for this technology and know-how and help to defray the expense of new research and development efforts. Obviously, if UCC did not have such income, it would be forced to cut back its overall Research and Development program. UCC does not normally make its technology available abroad to other than controlled affiliates as long as it is proprietary and similar technology is not available from other sources.

Under these circumstances, UCC must take strong issue with Section 602 of the Hartke/Burke bill which could result under certain conditions in loss of U.S. patent rights of any patent holder who

makes such rights available for production abroad. The practical effect of this provision in many instances would be to completely rule out investment overseas where necessary to be competitive, without in any way benefiting the export position of a corporation like UCC.

It should perhaps be emphasized that the net returns to UCC from overseas after taxes in the form of dividends, service fees, and royalties have always exceeded the outflow of funds for investment by UCC in foreign affiliates. For example, in the year 1970, the return to UCC from overseas affiliates exceeded dollar outflow for new foreign investment by \$19.9 million. Also, for the five-year period 1966-70, the total excess of returns from overseas over direct investment sent abroad by UCC amounted to \$71 million.

VIII. THE UCC STUDY FOREIGN MANUFACTURE vs. EXPORTS

A. Background

Since this study examines UCC overseas experience in the decades of the 1950's and 1960's, a brief review of some of the important events that occurred during this period will provide some perspective and background to the analysis.

Much has been written about the fact that the U.S., following the end of the Second World War, sought to aid in rebuilding the industrial capacities of the countries that had been destroyed. The U.S. Government, during this post-war period, strongly encouraged American industry to participate in this rehabilitation program by making private capital investments in both Japan and Europe. It should also be recalled that during this period the U.S. was also the major exporting supplier to the world, a condition that almost by definition was destined to be changed.

The entire rehabilitation program was of course quite successful, and by the mid-1950's the

most modern production units available had been installed in Europe and Japan, replacing the older, obsolete facilities that had been destroyed. Thus the U.S. Government, by enlisting the cooperation of American industry, was very much a part of laying the foundation for the strong Japanese and Western European economies that we know and compete with today.

During the late 1950's, another important historical event began to take shape. As the countries of Western Europe became increasingly self-sufficient, they turned to one of their long-time dreams - - a unified economy for Western Europe. In 1958 they developed the foundation for what is today known as the European Economic Community (EEC) or Common Market, and what is expected eventually to become the "United States of Europe." In spite of many difficulties and impediments the EEC has proven to be a successful and prosperous economic union in a relatively short period of time.

The formation of the EEC was an important development, particularly in any analysis of U.S. exports and foreign investment during the 1960's. Lately some groups in the U.S. are implying that the EEC with its common external tariff has been a trade diverting non-tariff barrier in and of itself. Unquestionably some of the preferential agreements which the EEC has recently negotiated with other countries appear to be violations of the General Agreement on Tariffs and Trade. However, the original formation of the six countries forming the EEC and the more recent enlargement was really a natural geographic evolution, an economic reality for which the time had come. The surprising thing may be that it was so long in coming in Europe.

There is no doubt that multinational corporations such as UCC invested in the EEC to be able to protect the markets developed through export. The alternative was to experience a growing non-competitiveness and loss of U.S. exports as local European competition took over more of this expanded market, within its protective tariff walls.

It should be pointed out that during the period of the 1960's, other regional trading blocs were being formed - - for example, the European Free Trade Association (EFTA), the Latin American Free Trade Association (LAFTA), and the Central American Common Market (CACM). None of these regional economic groupings accomplished the high degree of unification realized in the EEC, yet each in its own way has had an important impact on international trade and investment in recent years.

Most of the current discussions and analyses concerning the multinational corporation use as their base period of evaluation the decade of the 1960's. This was an extraordinary decade from the standpoint of economic activity. For example, annual combined world GNP more than doubled from a level of \$1.5 trillion in 1960 to \$3.2 trillion in 1970. The level of economic activity in the world in 1970 was almost five times greater than it was only 20 years earlier (\$0.7 trillion in 1950). Between 1960 and 1970 the annual level of world exports increased almost 2½ times - - from \$130 billion in 1960 to \$310 billion in 1970. Again, the 1970 level of exports was approximately five times greater than in 1950 (\$62 billion).

This almost volcanic growth in economic activity in the world is virtually breathtaking when viewed in terms of the investment in production facilities, the shipping and distribution networks, and the great amount of human input required to accomplish such dramatic changes. This is the economic background of the 1960's. Without a question this was the most economically active decade in the history of man to date. It is a decade in which multinational corporations made a very substantial and positive contribution not only to the well-being of the American economy, but also to the economies of other countries. In the case of UCC, exports during the decade increased by 2.1 times, despite the fact that it was necessary to increase foreign manufacture by 2.5 times in order to hold previously developed foreign markets, which would otherwise have been lost owing to the new regional trading blocs.

B. Mechanics of the Study

The foregoing economic background is intended as a framework for proper understanding of UCC's international business since 1951. Both the export sales experience and sales value of overseas manufacture of UCC major product groupings were closely analyzed to determine and pinpoint correlative trends. Data were solicited and obtained from foreign affiliated companies in order to help develop the comparative results shown on the Charts included in this Section VIII.

In some instances, the period covered is somewhat less than 20 years because of inability to locate all data for the earlier years broken down by individual product groups and geographical areas. The analytical comments accompanying these Charts are intended to provide further insight concerning the relationship of exports to their counterpart foreign operations.

Where appropriate, specific sub-product groupings were further evaluated within these major product areas to develop a better understanding of the relationship between exports and foreign manufacture. Sales scrolls and computer print-outs covering many years were reviewed in detail to develop this historical experience. Thus it was possible to assemble historical data covering an average of 80% of UCC's

exports over the 1951-1970 period. This provides, in our opinion, an analytical sample of sufficient breadth to substantiate the conclusions and observations that have been derived from this detailed analysis.

C. Results of the Study

UCC's analysis of the relationship between foreign investment and UCC's exports of the major product groups studied reveals several different results or effects. These have been classified in this Report into the following major categories:

1. General correlation between foreign investment and U.S. exports.
2. The "pull" effect of foreign manufacturing on U.S. exports of intermediates.
3. The "pull" effect of foreign manufacturing on complementary products.
4. The presence of an extensive foreign organization.
5. The stimulation of proprietary product exports.
6. The consequences of foreign government policies.
7. The adverse effect on U.S. exports when no foreign investment is made.
8. Preference to export from the U.S.
9. Exports to areas with foreign manufacturing facilities, in contrast with areas not having such facilities.

Each one of these categories is discussed on the following pages, along with a chart showing typical results graphically for the category. Numerous charts indicating similar experience, either in a different country or in a different product group, are included in the Appendix. As might be well expected, several of these charts reflect more than one of the above category of results. In such instances, they have been placed in the category that describes the major result. Color scheme used for the curves on the Charts is mainly as follows:

Black - Total UCC Exports.
 Brown - Total Foreign Manufacturing Sales Value.
 Blue - Finished Product Exports.
 Red - Exports of Intermediates.
 Green - Exports to Areas without Manufacturing.

1. General Correlation Between Foreign Investment and U.S. Exports

UCC's total international sales experience over the last 20 years is depicted on Chart No. 1 which is again shown (see Page 18).

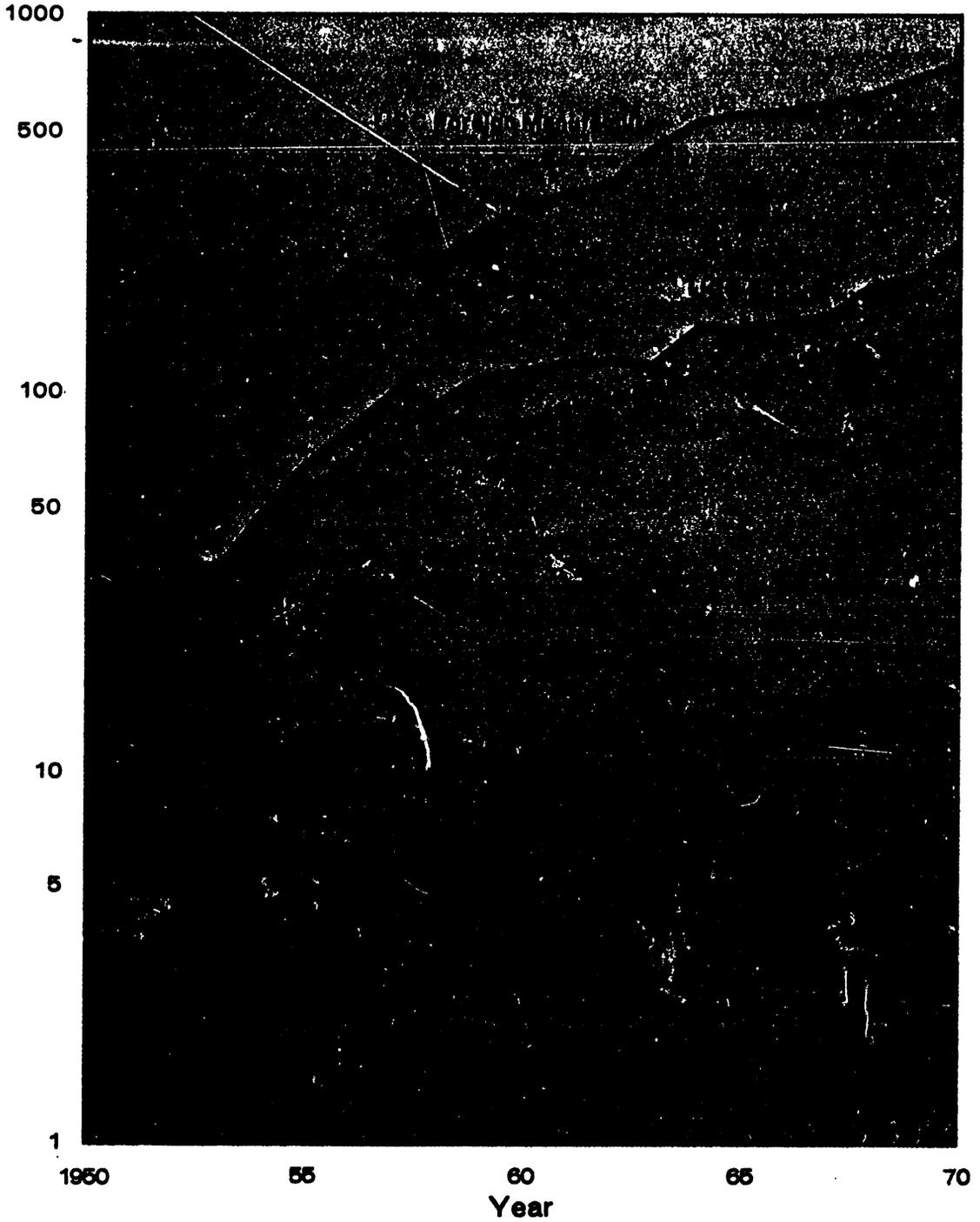
Displayed on this Chart are UCC's total foreign sales, reflecting all exports and sales value of all foreign manufacturing. It can be seen that there is more than a direct relationship between growth in foreign manufacture and U. S. exports. The growth of U. S. exports from UCC has actually exceeded that of foreign manufacturing sales by our affiliates - - exports increased 6.7 times between 1951 and 1970 while foreign manufacturing increased 5.0 times.

The values for exports are based on dollars rather than on any volume measure such as pounds or gallons. Dollars provide the only consistent common denominator in this type of analysis. However, it should be mentioned again that because of serious erosion of U. S. prices, UCC's quantitative export volume is significantly greater than the dollar value curve. For example, our selling prices in 1970 were 23% below the level of 1957-1959 as a base period and export prices had a similar experience. In other words, UCC export volume has been growing at a faster rate than that depicted by the dollar curve, and to a certain extent this would be true for foreign manufactured volume.

Were the proposition valid that foreign investment represents exportation of jobs, then it would be expected that as foreign investment increases U. S. exports would decrease. Obviously, such a proposition is not valid based on UCC experience. In fact, the exact opposite is the case - - as foreign investment increases, so too do the exports of UCC. Bearing in mind that UCC 1970 selling prices were 23% below the 1957-1959 level and therefore the volume of material exported is higher than indicated by the dollar value, it seems obvious that domestic employment had to benefit.

Total UCC Foreign Sales

Million \$



If there had been no expansion of foreign manufacturing over this period, it is calculated that the trend of UCC exports would have followed the broken-line curve on the chart and arrived in 1970 at a level about \$90 million less than actual experience.

In addition, two other examples of this direct correlation are shown with interpretations in the Appendix as Charts No. 10 and 11.

2. The "Pull" Effect of Foreign Manufacturing on U.S. Exports of Intermediates

Chart No. 2 (see Page 20), indicating the international experience of Product Group D on a worldwide basis, is an excellent example of the favorable "pull" effect on "intermediates" - - that is, raw or worked materials imported by a foreign affiliate for processing abroad into finished product.

The direct relationship between foreign manufacturing and U.S. exports of Product Group D can readily be seen on this chart, supporting the overall correlation conclusion evident from Chart No. 1. Virtually every peak and valley in the trend of foreign manufactured sales of this Product Group is reflected in the export performance, but with a slight lag on the export side demonstrating that it takes time for the "pull" effect to become operative.

This classic example once again emphasizes the importance of foreign operations to U.S. exports and the "pull" effect a foreign manufacturing operation exerts on exports. The high level and continued growth of finished product exports shown on Chart No. 2 is the result of demand by foreign customers for products that are not produced in the local plant but are needed to round out the product line offered for sale by the local marketing organization.

In the 1964 to 1969 period, it can be seen that finished product exports of Group D began to level off as the foreign local plants became more self-sufficient and varied in their production capabilities. However, interestingly enough, this decline in finished product exports during this period immediately began to be offset by sharply increased exports of intermediates needed for foreign production of Product Group D. Export of intermediates rose from the early 1960's plateau of about \$3 million to well in excess of \$13 million

by 1970. These exports of intermediates could not have been realized if we had not had foreign manufacturing facilities. If UCC had not made the necessary foreign investment, local foreign competition would have met the demand for finished product and would have had no reason to purchase intermediates from UCC.

Four additional Charts in the Appendix, No. 12, 13, 14, and 15, also demonstrate this same "pull" effect on intermediates for Product Groups B2 and D in several different regional areas, accompanied by interpretative explanations.

3. The "Pull" Effect of Foreign Manufacturing on Complementary Products

Chart No. 3, covering the total foreign sales of Product Group E (see Page 21), provides a graphic representation of finished product exports from the U. S., which are "pulled" to the foreign affiliate to round out or complement the local product line, as distinct from intermediates for further local processing. The "pull" effect of foreign investment on export takes on several forms. In the previous category we observed the favorable effect on intermediate exports from the U.S. that are necessary to provide raw and worked material supply for the foreign plant.

Usually, when a foreign investment is made, the manufacturing unit constructed is kept relatively simple. Also, the products manufactured in such a unit are confined to the simpler, uncomplicated types. Consequently, as sales of these products are made to local customers, demand eventually tends to develop by extension for more advanced or sophisticated types or grades that are not produced locally. These more advanced products are then supplied by exports from the U. S.

Also, in Chart No. 3, it can be seen that exports of Product Group E were "in the doldrums" from 1955 through 1961, with no growth apparent. However, after foreign manufacture became well established in 1960, exports literally "exploded", reaching a level in 1970 about 5 times that of 1960. No intermediates were involved in this particular case - - expansion of exports was entirely in accessory or collateral grades or types in the same product group, "pulled" by the local manufacturing operation and

Product Group D Total UCC Foreign Sales

Million \$

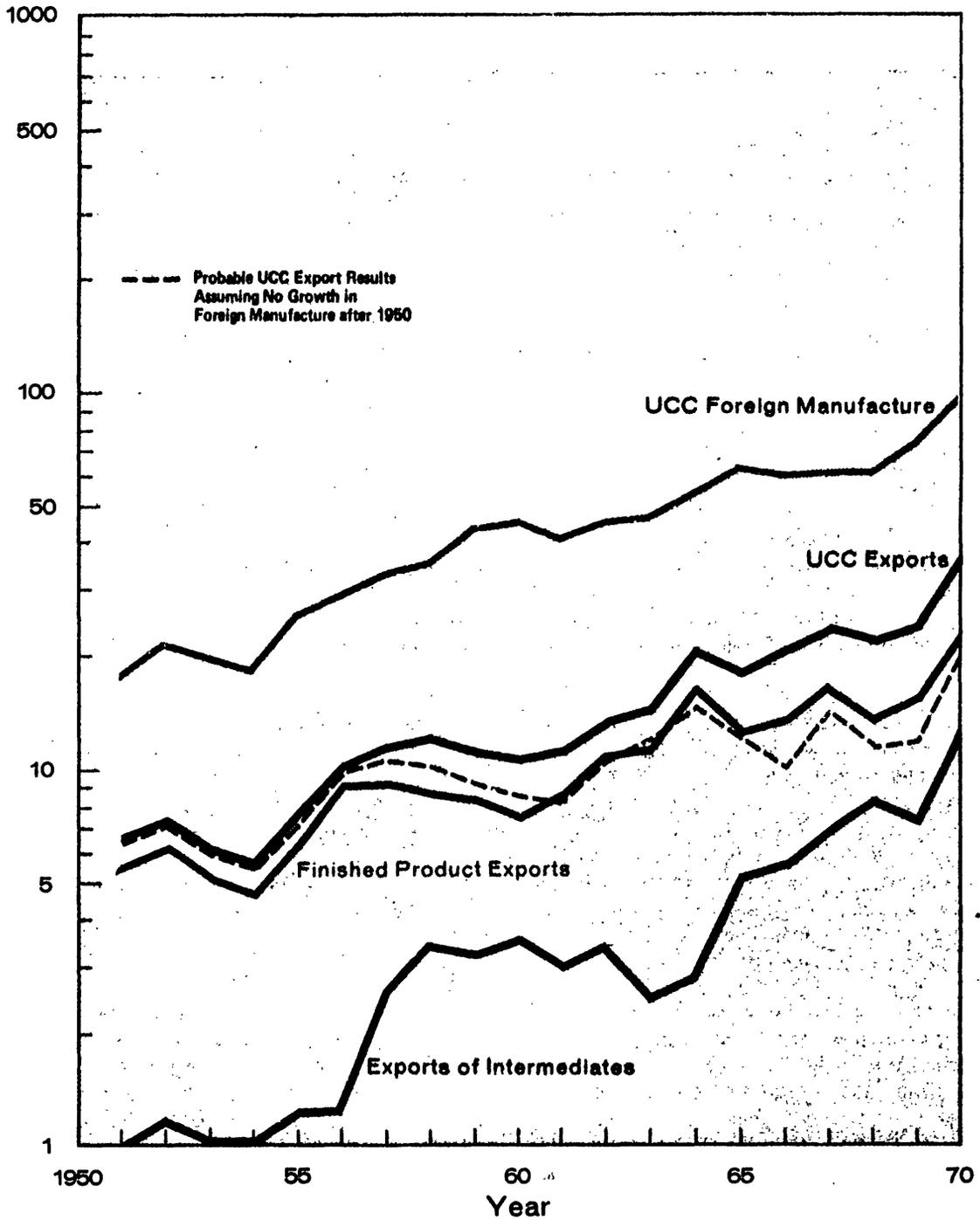
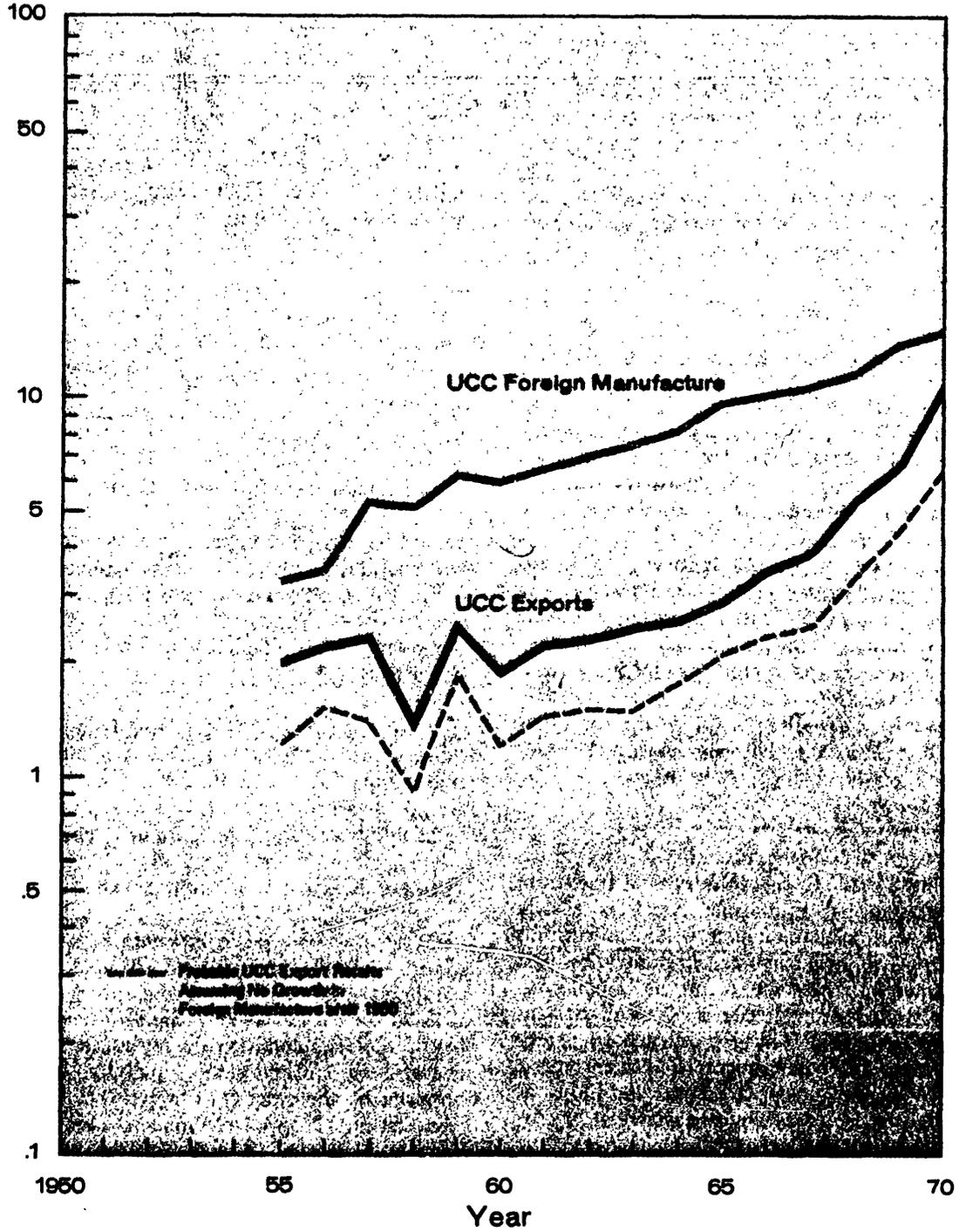


CHART NO. 3

Product Group E Total UCC Foreign Sales

Million \$



organization set up originally only to manufacture and sell standard types and grades.

Obviously these additional exports could never have been realized if the basic manufacturing units and sales organizations were not present in the foreign countries involved. Sales of both the basic and advanced products would certainly have been otherwise pre-empted by local foreign competition, and UCC exports of Product Group E could have been expected to be lower by about \$5 million, as shown by the broken-line on the Chart.

Several other examples of the "pull" effect on accessory or complementary product exports are given in the Appendix in Charts No. 16, 17, 18, and 19.

4. Presence of an Extensive Foreign Organization

Chart No. 4, Product Group A - - UCC Australian Sales (see opposite), is an excellent example of the third type of "pull" effect; namely, that of "presence" or well developed organizational representation in a country.

This particular example of the "pull" effect differs from the previous category in that these increased exports do not necessarily represent complementation of the local product line. Rather, they represent exports of products that are realized because UCC has a marketing organization calling on customers to sell not only the products manufactured locally but also whatever other corporate products might be in demand by the local customer.

This fact of "presence" of a strong UCC organization in the foreign country as distinct from representation by an outside agent, is usually feasible only in conjunction with a significant investment in a local manufacturing operation. It is an extremely important factor in helping to increase exports from the U. S. Once investment has been made in a foreign country the sense of permanence and commitment to that market is respected by the foreign customers and the U. S. company is accepted as a reliable source of supply.

Prior to and temporarily after UCC's 1957 investment in Australia, its exports of Product Group A were, in essence, on a plateau for many years. Before the investment our export sales of Group A to Australia were handled by a local

independent agent. The benefits of having a local manufacturing unit and a marketing and distribution organization attached thereto can be seen in the rapid growth in these exports which began in 1960 as the local affiliated organization's efforts began to replace that of the agent.

It can be seen from the Chart that growth of UCC exports of Product Group A has correlated closely with that of local manufacture. There is certainly no question that exports would have continued close to the 1950-60 level of \$450,000 indefinitely if the manufacturing investment in Australia had not been made.

Other examples of the effect of organization "presence" on various product groups are shown in Charts No. 20, 21, 22, 23, and 24 in the Appendix.

5. Stimulation of Proprietary Exports

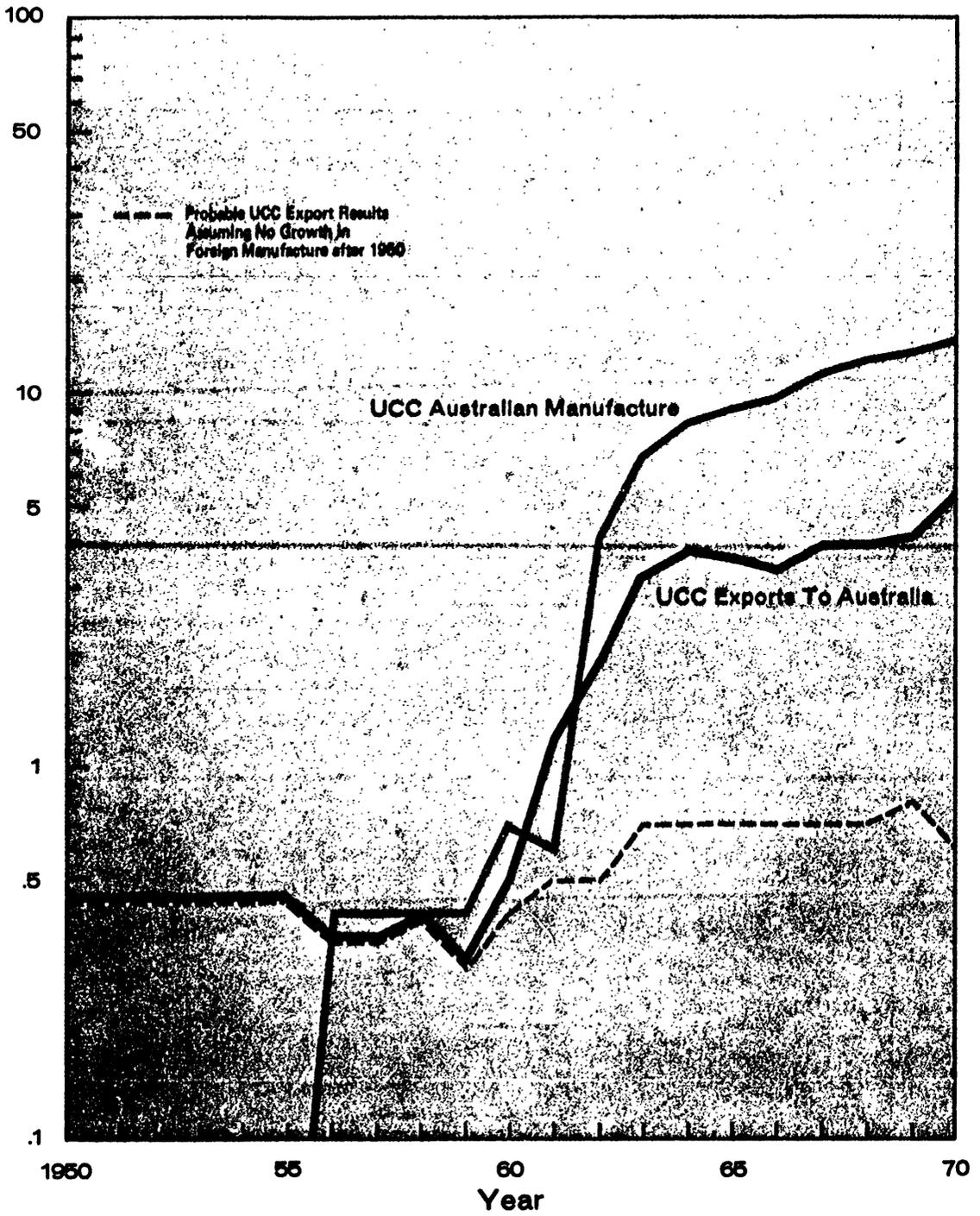
Chart No. 5 compares the exports of the major Product Group B to a subgrouping which is designated as "Product Group B3 - - Exports to Continental Europe." These are the more "Proprietary Products" of the overall Product Group (see Page 24).

The so-called "Proprietary Products" are those in which, for one reason or another, UCC enjoys a marked competitive advantage and which are not presently manufactured in Europe. It will certainly be our policy to continue to export these products from domestic plants as long as it is economically and competitively possible.

The point of the comparison between total exports of Product Group B and of the "Proprietary Products", as a subgrouping of Group B, is to show that when a company such as UCC has a definite competitive advantage, then its exports rise much more rapidly than would normally be the case. On Chart No. 5, it will be seen that the "Proprietary Products" experienced a dramatic expansion of exports as depicted by the orange-colored curve, which reached a level in 1970 about 4 times that which was obtained in 1961. On the other hand, total exports of Product Group B to Europe between 1960 and 1970 roughly only doubled.

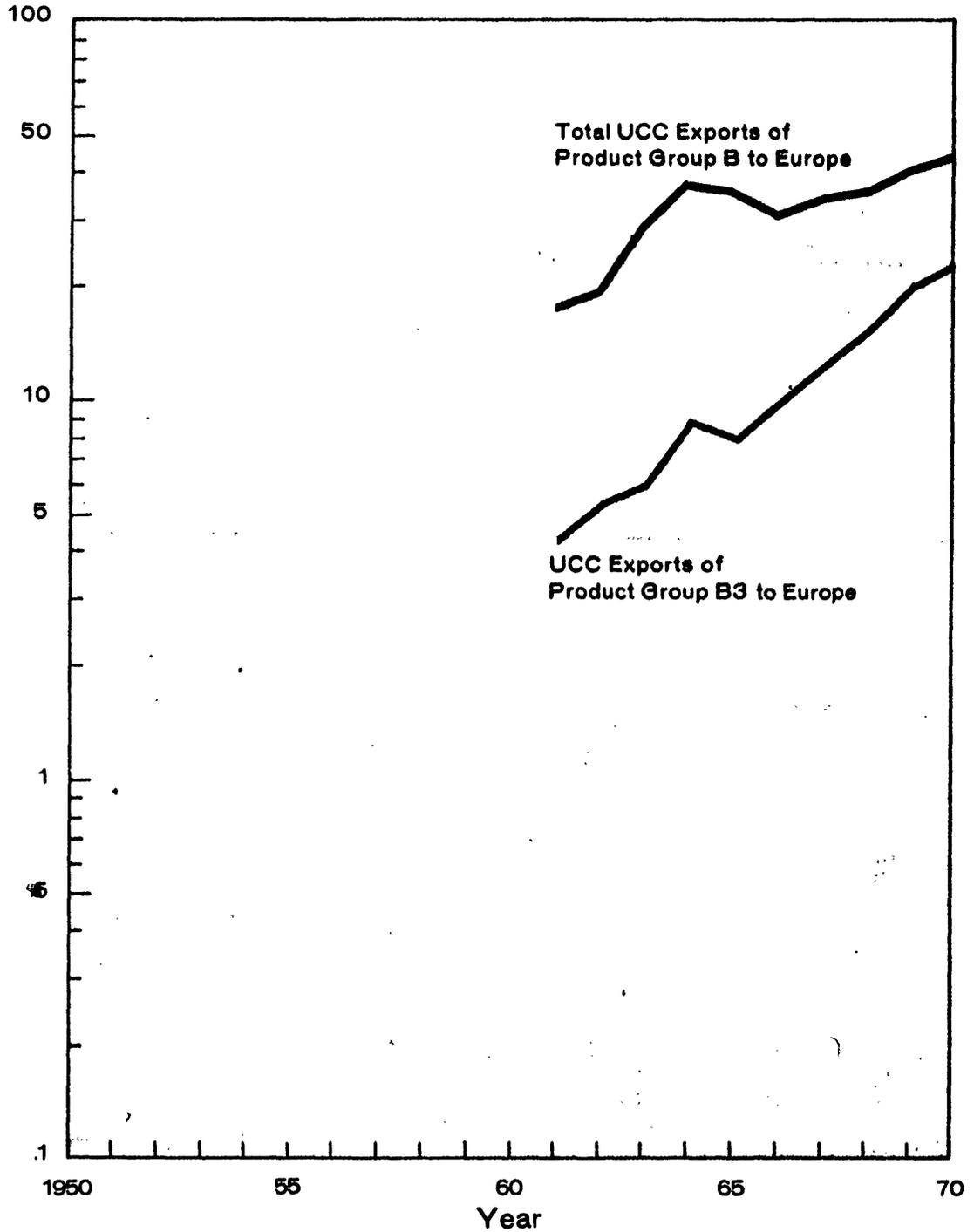
Product Group A UCC Australian Sales

Million \$



Product Group B3 UCC Export Sales to Continental Europe

Million \$



Again, the existence of a well-developed marketing and distribution system abroad helps to expand rapidly the export sales of "Proprietary Products", particularly since these benefits are superimposed upon an existing competitive advantage. Hence, exports can be rapidly increased when there is a "plus" from the standpoint of competitive advantage, either through lower cost, superior quality, or patent protection, and also a strong foreign merchandising organization to exploit these advantages on an export basis.

In the Appendix, Charts No. 25 and 26 also show graphically the comparison between export of "Proprietary Products" subgroupings and total export of the product group to two areas other than Europe.

6. Consequences of Foreign Government Policies

Actions taken by foreign governments either to close borders or promote local manufacturing can generally be expected to affect adversely the export of finished product to that country. However, if under these conditions the American company moves rapidly to install a local manufacturing operation, the benefits of "pull" may still be developed.

A classic example of this is the experience of UCC in Mexico, where in 1957 the government took the position that there must be local production of Product Group D. Until that time UCC had been supplying through export a substantial part of the market, as shown on Chart No. 6-A (see next page). Since there were numerous proposals to the Mexican Government for authorization of a plant investment, it became essential for UCC to do the same if share of the market developed through years of export effort was not to be completely lost.

As it happened, UCC was awarded certification for the local plant and proceeded to install such a facility. Chart No. 6-A shows that, as might be expected, finished product exports were completely eliminated within 18 months after local production began. However, because of the fact that the new plant had to be supplied with intermediates imported from UCC in the U.S., and also because the finished production of the UCC Mexican affiliate was now supplying the entire market, our total exports continued to rise, almost in proportion to the growth of the manufactured value in Mexico.

Certainly this chart demonstrates that if UCC had not installed the local plant to produce this particular product, there would have been no UCC sales of this product in Mexico at all. It is also interesting to note that although export of finished product reduced almost to zero in 1960, it suddenly increased again in 1965 to a substantial level, and is apparently going to continue on this basis as local production continues to rise - - another example of the "pull" effect of foreign investment on export.

Action of this type by foreign governments, does not always work out quite as favorably as was the case for UCC with Product Group D in Mexico, although exports eventually seem to recover. Chart No. 6-B (see Page 27) shows the effect on export sales of similar action by another government. Here, for Product Group C, since the Japanese Government insisted that there should be local production, it was becoming obvious that UCC's substantial exports in 1960 to Japan would be eventually eliminated. Hence, if our market share were to be protected, it would be necessary for UCC to install a manufacturing operation.

This was done in 1962, and local manufacture by the UCC affiliate rose rapidly to the substantial level of about \$30 million. Consequently, our exports to Japan of Product Group C declined from the high of about \$7 million in 1961, but these recovered beginning in 1965 and have returned to an average level of approximately \$4 million. There is no doubt that if UCC had not made the manufacturing investment in Japan, exports today would be substantially less. In fact, as shown by the broken-line curve on Chart 6-B, exports would have been significantly lower from 1959 through 1970 if UCC had not had the "pull" effect of its affiliated Japanese manufacturing activity.

The effect of similar examples of government action is shown on Charts No. 27, 28, and 29 which will be found with interpretations in the Appendix.

7. Adverse Effect on U.S. Exports When No Foreign Investment is Made

With respect to "Product Group B4 - Exports to Continental Europe", Chart No. 7 (see Page 28) shows dramatically what can happen to U.S.

Product Group D UCC Mexican Sales

Million \$

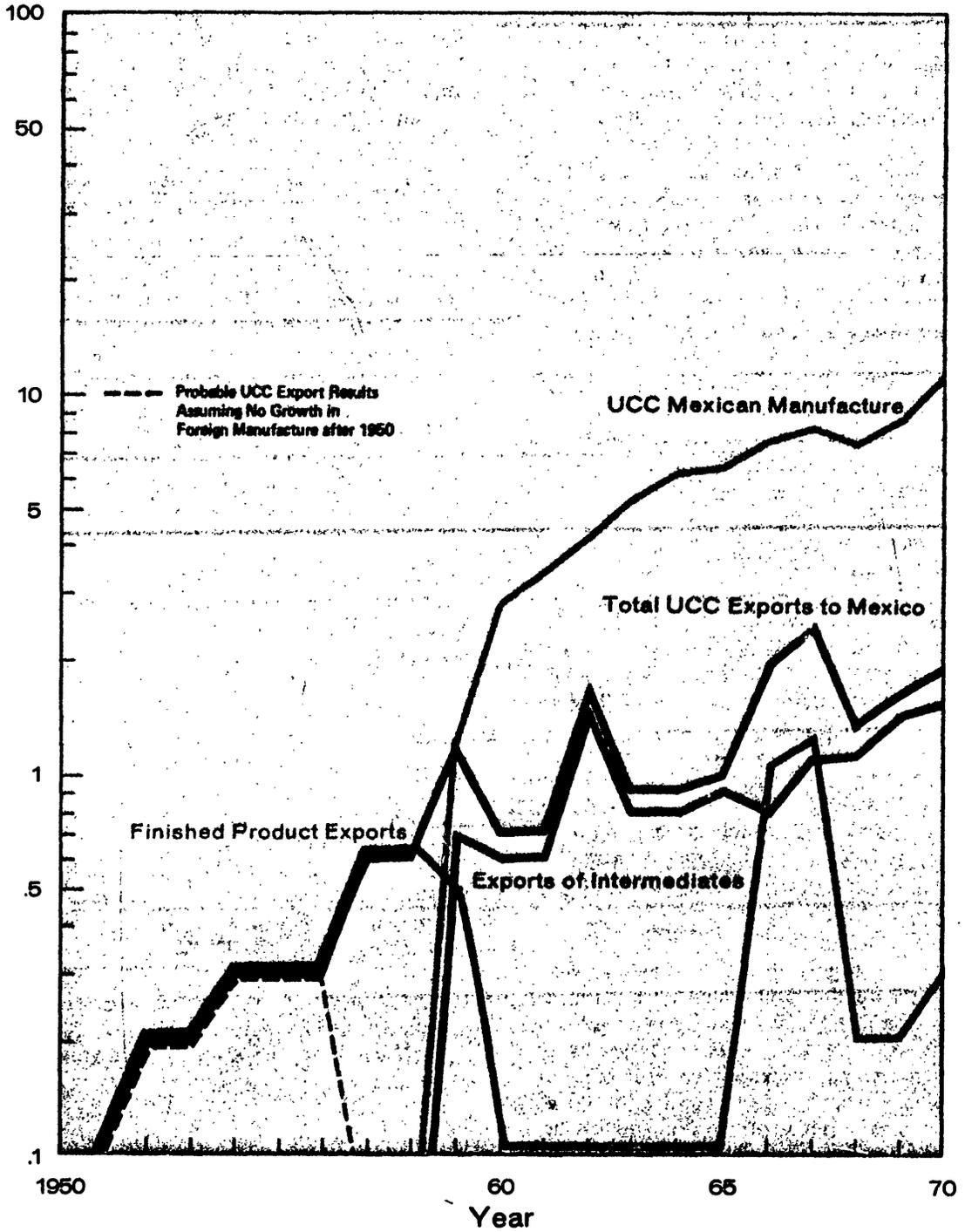
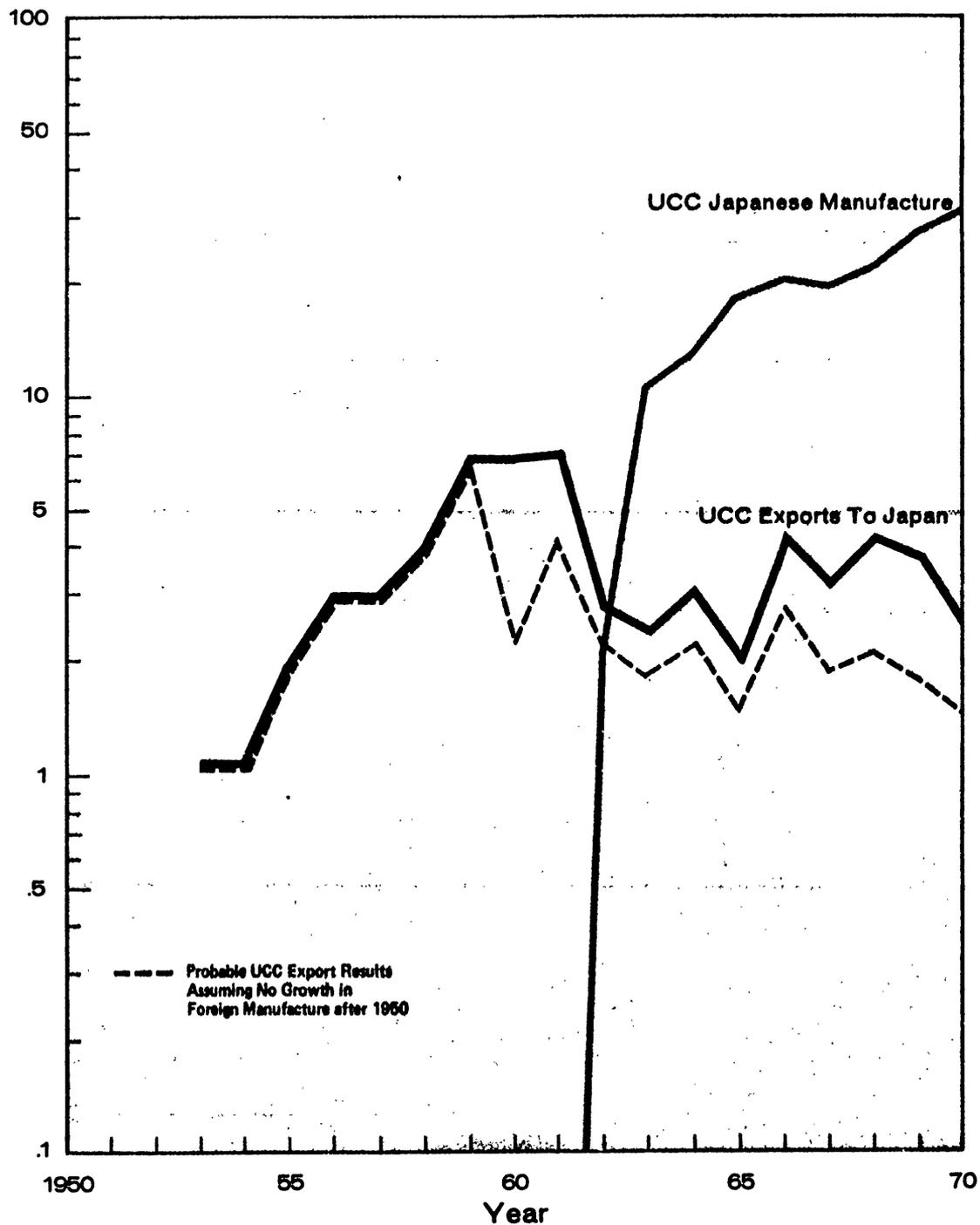


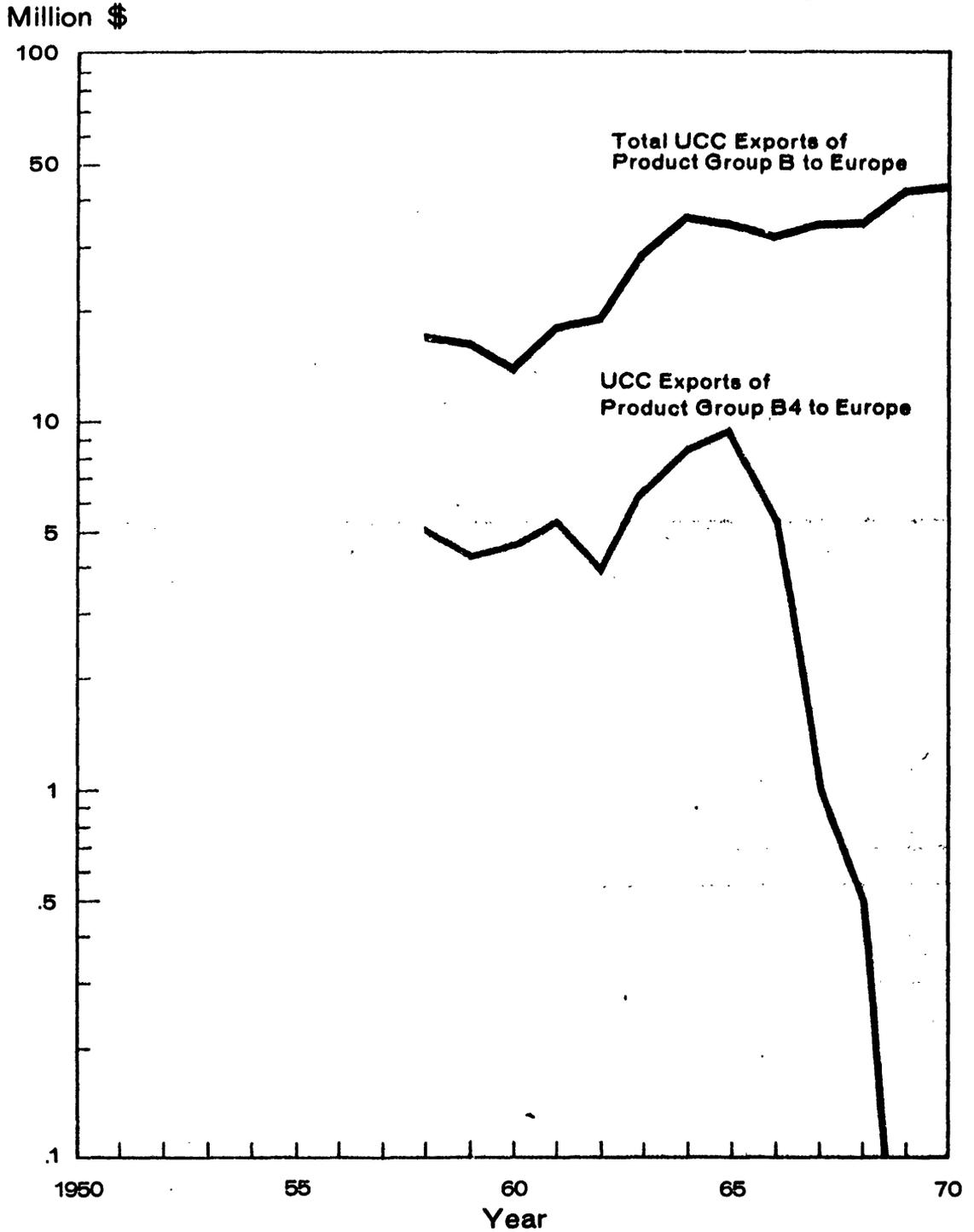
CHART NO. 6-B

Product Group C UCC Japanese Sales

Million \$



Product Group B4 UCC Export Sales to Continental Europe



exports when the decision is made not to protect an export-developed market by building a foreign manufacturing facility. For a variety of reasons UCC decided not to build a manufacturing unit to produce this particular product in Europe. However, a local foreign competitor did build such a facility. As can be seen from the Chart, UCC's export sales went from a high of \$9.5 million in 1965 to zero in 1969, and of course the growth of total export sales of the overall Product Group B was seriously affected.

This is a negative way of illustrating the favorable "pull effect" that foreign investment has on U.S. exports. It has been frequently stated in this Report that the alternative to foreign investment is withdrawal from the market. This case history provides a graphic example. Failure to set up a local producing facility simply results, in a case such as this, in the market being taken over exclusively by local manufacturers.

Charts No. 30 and 31 in the Appendix for Product Group B4 and B5 in Australia indicate similar experiences.

8. Preference to Export From the U.S.

This category, and Chart No. 8 (Page 30) supporting it, is included to show that UCC's basic strategy is to maximize participation in foreign markets through export from the United States to the greatest extent possible. U.S. exports of Product Group B have continued over the years to exceed the value of our foreign manufacture, and in 1970 were roughly three times larger. More importantly, these are not sales of a minor product group -- the total exports displayed on this Chart represent roughly 50% of total UCC exports. The point here is that UCC has become involved in overseas manufacture of this product group only

where forced to do so, and, strikingly enough, the trend of total exports has continued at approximately the same rate as the growth of our foreign manufacture. It is most doubtful that if foreign manufacture had not been undertaken, total current UCC exports of Product Group B could have been as high as they currently are.

Similar examples are included in the Appendix with explanation as Charts No. 32 and 33.

9. Exports to Areas with Foreign Manufacturing vs. Areas without UCC Production

Chart No. 9 (see Page 31) differentiates between those exports of Product Group A made to areas where UCC manufactures these products locally and to those areas of the world where UCC does not. Since 1953, the overall growth rates for exports to both areas are not vastly different, although in the last few years since 1966, exports of Group A to areas in which it is also manufactured show an annual growth rate of 9%, as compared with 6% for all other areas.

If indeed foreign investments represented an exporting of productive capacity (and U.S. jobs), then it would seem logical that our exports of Product Group A to those areas where UCC produces it locally would show a sharp decline, and conversely would show a higher growth rate to countries where it is not manufactured by UCC. As the Chart indicates, this is not at all the case. In fact, our exports of Group A to countries where we manufacture have shown a healthy growth and have consistently been at a level about three times greater than UCC exports of Group A to other parts of the world.

Charts No. 34, 35, and 36, in the Appendix generally indicate similar experience in the cases of all the major product groups covered.

Product Group B Total UCC Foreign Sales

Million \$

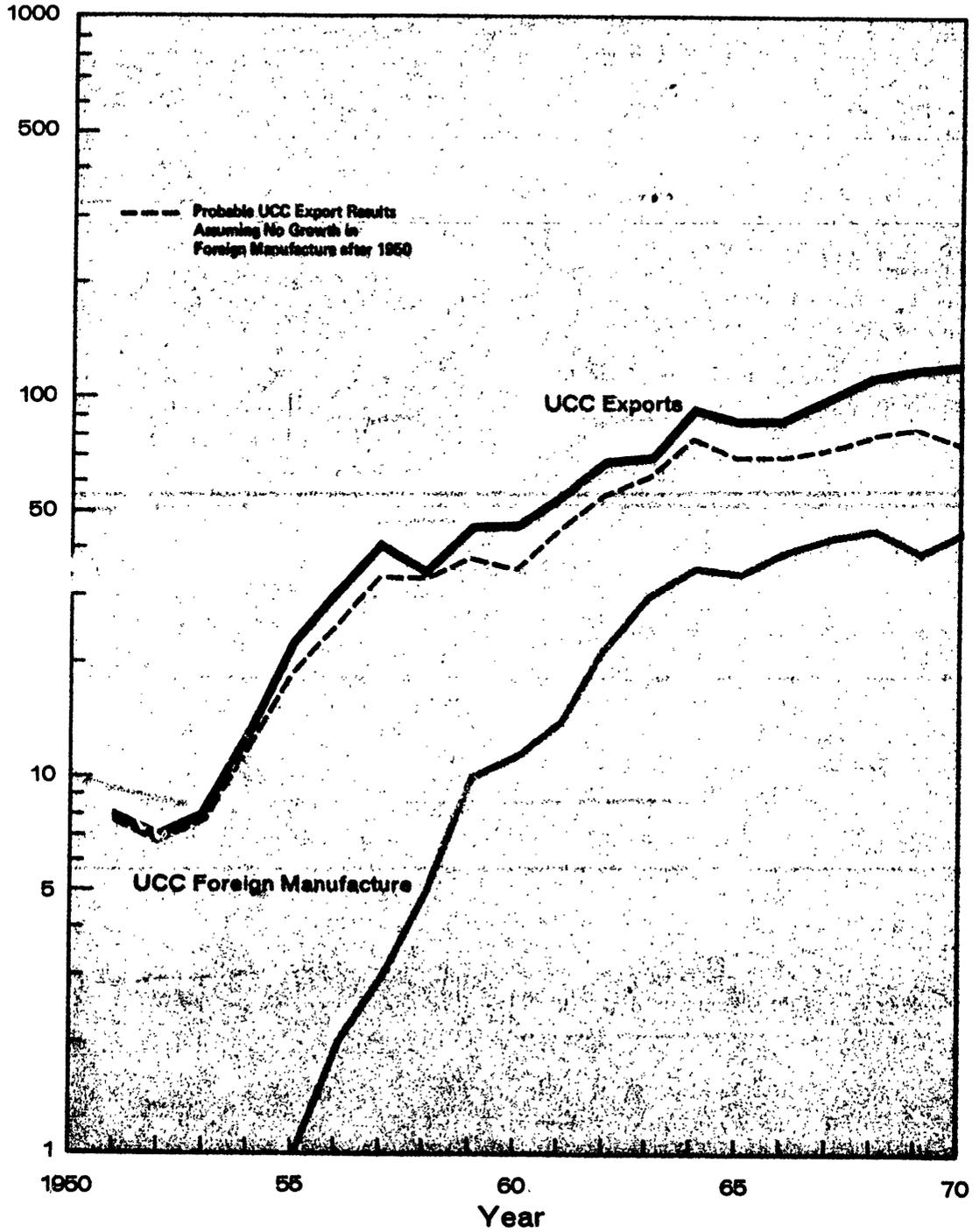
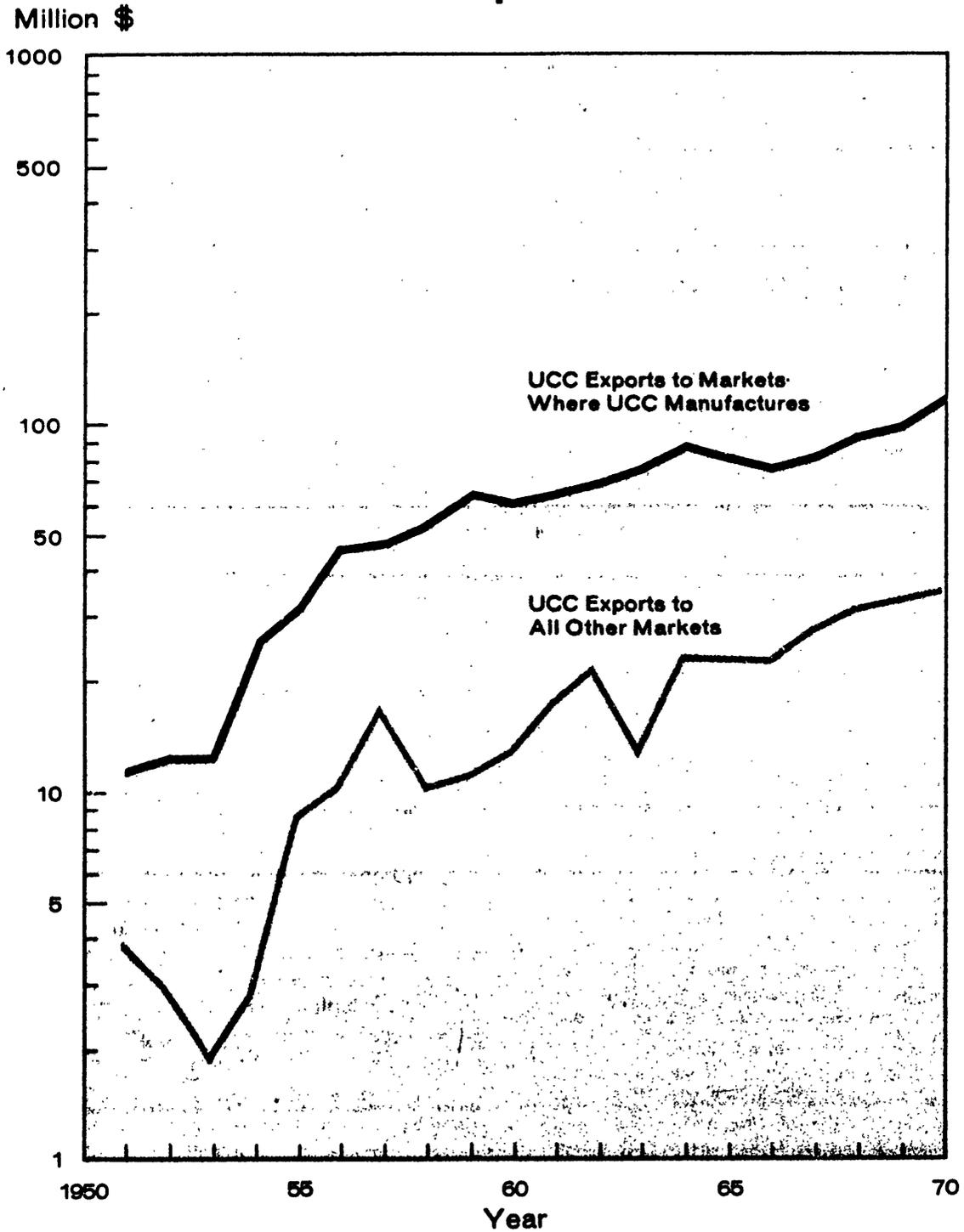


CHART NO. 9

Product Group A UCC Export Sales



IX CONCLUDING OBSERVATIONS

1. In condensed fashion this Report analyzes major aspects of the international experience of UCC since 1951. In looking at this 20 year period we have concentrated on trying to provide a better understanding of foreign investment and its beneficial impact on the domestic economy. As stated previously, we believe that the information and data contained herein prove conclusively that UCC's foreign manufacturing activities, rather than "exporting jobs", have stimulated exports in a major way and consequently have in effect produced domestic jobs (1,900) that otherwise could never have existed.

2. One of the difficulties in developing a Report of this type is that many important intangibles tend to be overlooked. For example, we have not discussed that UCC has built schools, hospitals, and medical centers in developing countries in which we operate. UCC has also instituted educational and management training programs for its employees to help them improve their positions. Frequently these projects help improve the infrastructure of a foreign country.

3. Although it is somewhat of an overused term, we feel that over the years we have become a "good corporate citizen" of the countries in which we operate, which of course include particularly the United States. In addition to respecting the laws of the countries in which we have plants, UCC also does all possible to adapt to the social customs and cultures of all these lands.

4. There is a great need in the future for private investment in the developing countries. Presently nationalistic pride in many such countries gives the impression that private foreign investment is not welcome. It is hoped that this attitude will change and multinational corporations such as UCC will be able to continue to assist in the growth and development of these emerging economies. Undoubtedly, some of the harsh restraints on multinationals that are being considered in some of the legislative proposals before Congress would inflict the greatest loss in the long term upon the developing nations of the world, which certainly would not augur well for extended world peace. These proposals, such as the

Hartke/Burke Bill through its restrictive tax and investment control proposals, would tend to stifle or eliminate American investment in the higher risk, developing countries.

5. After this analysis of UCC's international experience over the last 20 years, we are more convinced than ever that we are a part of the solution - - particularly if the problem is improving the standard of living of peoples in this country and throughout the world. It seems to us that one of the key factors in achieving peace and prosperity among all peoples is the development and maintenance of a strong economic base for each country. We, therefore, feel that in a small way UCC has over the years made a positive contribution to the economic productive base not only of the American economy but also the economies of other nations.

6. Further reflection on the current attacks on multinational corporations, after having reviewed UCC's commitment to the American economy, its motivation for foreign investment, and the favorable results of this study, leaves us somewhat bewildered. While there are undoubtedly some companies and even industries in the United States that need assistance with regard to impact of imports, we feel that some of the legislation that has been introduced into Congress represents an indefensible over-reaction to such problems.

Problems that may arise as a result of the effect of imports on U.S. employment should be examined as individual problems and solved with separate solutions. The "scatter-gun" approach of the Hartke/Burke type of legislation can only tend in the longer term to hurt more industries and workers than it would help.

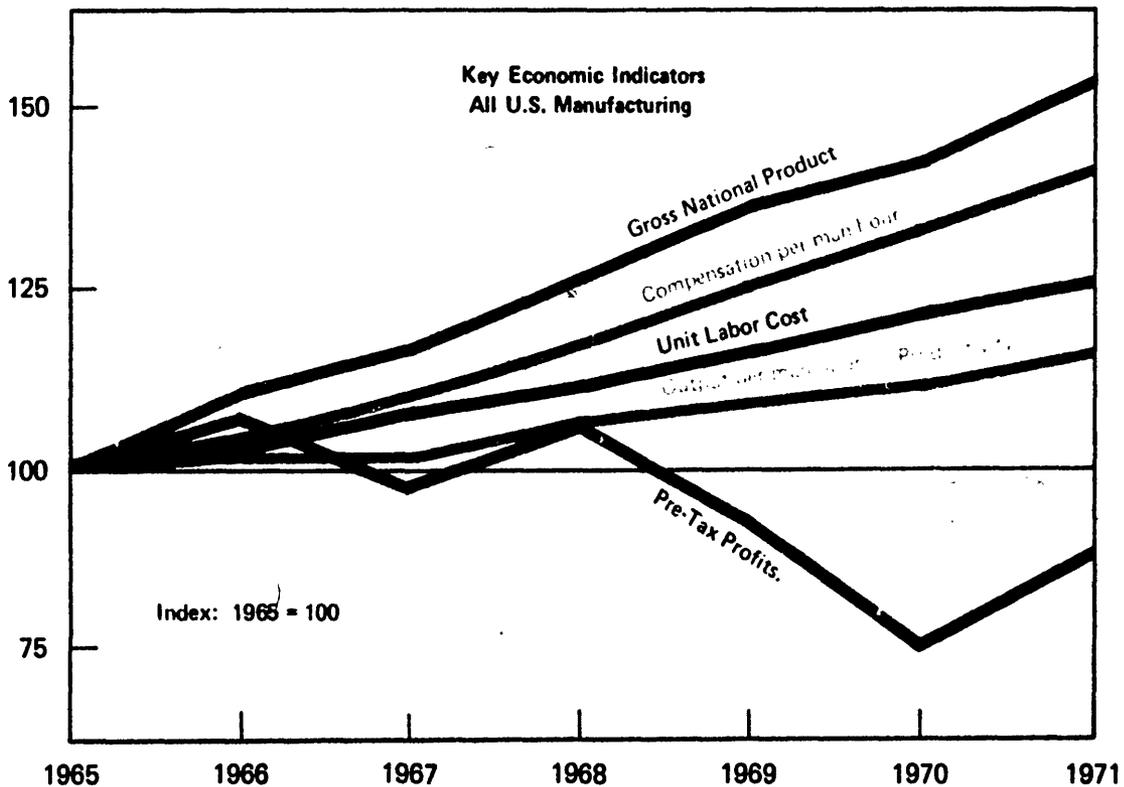
It would seem that a more reasonable approach to the problem of rising imports would be based on an improved adjustment assistance program and extension of the voluntary agreements that have recently been negotiated to limit U.S. imports of certain products. In this way each industry problem could be dealt with, as it should be, on an individual problem basis.

7. It is particularly difficult to understand the position of organized labor. Frequently charges are heard about the effect of "cheap foreign labor" on the U.S. economy and domestic employment. Since the U.S. has the highest labor rates in the world, virtually by definition all other countries will necessarily have lower or "cheaper" labor rates. Realistically, however, it is difficult to see how this adverse relationship between U.S. wage levels and that of other countries will be changed by restricting trade and returning to isolationism. One thing is certain - - American controlling investment and presence in foreign manufacturing operations tend gradually to press up local wage rates and fringe benefits, if only because of our more enlightened and liberal policies of employee relations. An almost certain way of perpetuating "cheap foreign labor" is to remove the American

investment presence from foreign countries.

8. The problem appears to us to be one of not only absolute wage rates but also productivity and purchasing power. If, as in recent years, American labor continues to extract wage increases far in excess of any gains in productivity, then there is no end in sight to inflation and to our loss in competitive capability in international markets, which in turn means less exports and fewer domestic jobs. As can be seen on the next Chart, compensation per man hour in the U.S. has continually exceeded gains in productivity by large amounts since 1965. On the other hand, pre-tax profits in 1971 are about 20% below the 1966 high. Obviously, profit should not be made the villain for the decline in U.S. competitiveness in world trade.

Index



Sources: U.S. Tariff Commission, *Competiveness of U.S. Industry*; May 1972.
 U.S. Department of Commerce, *Survey of Current Business*; April 1972.
 U.S. Department of Commerce, *Business Statistics*; 1971.

9. After digesting the results of the UCC study, which we expect would be rather typical of the international experience of many other U.S. multinational corporations, it is believed that the labor-supported trade and tax reform legislation currently in Congress represents both a form of isolation and diversion of attention from the key problem of inflation, engendered mainly from productivity expansion not keeping up with wage increases. It is hoped that such legislation will not be enacted since the U.S. is at an extremely critical point in its competitive and balance of payments position in world trade and is seriously in need of assistance in improving these positions. Any legislation that would tend to decrease the competitive strength abroad of U.S. industry

would be injurious and most regrettable. Also, the imposition of import quotas would force retaliation by other countries, with an obvious adverse effect on U.S. exports and domestic related employment.

10. It should be obvious to most thinking people that the tremendous expansion of U.S. economic involvement on a global basis since the end of World War II has contributed in a major way to our own economic growth and the standard of living of the world as a whole. To return at this stage to the philosophy of Smoot-Hawley would in our opinion be the most regressive step which U.S. international policy could take at this time.

APPENDIX

**APPENDIX
Section I****UCC's Operation Under Section 807 of the Tariff
Schedule of the United States**

As indicated in the text of this Report, UCC has normally not followed the policy of establishing production facilities in foreign countries with the intention of exporting product back to the United States. In the many years of existence of UCC, there has been only one minor exception to this policy - a small electronics assembly plant in Mexico. Total investment in this operation is only \$250,000.

During the 1960's the worldwide electronics business became increasingly competitive. In fact, even the Japanese electronic firms, which have dominated the electronics business, have found that to remain competitive it was necessary to move some of their electronics assembly and production offshore to lower cost locations, rather than to continue to carry out these operations in Japan. The major European electronics firms have also been forced to follow a similar course of action in order to reduce their production costs. Thus it can be seen that the electronics industry has been intensely competitive and the economics of the industry have required adaptation to these competitive pressures in order to survive.

In 1969, in the face of such extreme and increasing competition from the Far East, the decision had to be made to set up a Mexican assembly operation for a small electronic component in order to avoid being forced to withdraw completely from this product line in the U.S. The high cost of assembling at U.S. wage rates had rendered the entire operation uneconomic and completely uncompetitive with foreign producers. Instead of exporting domestic jobs, approximately 150 domestic jobs have been saved by the installation of this Mexican assembly plant. Also, no employees in the U.S. had to be laid off as a result of this Mexican operation. In fact, we were able to maintain and somewhat expand the entire business as a result of the lowered assembly costs made possible by the Mexican operating element.

As will be understood, the jobs that were saved involved more highly trained personnel who perform in the U.S. the more complicated tasks of manufacturing and testing the component parts of this electronics operation. If UCC had not resorted to assembly in Mexico at lower cost, it would have been necessary to give up manufacture of this particular product line completely, and all 150 jobs related to its production in the U.S. would have necessarily been eliminated.

APPENDIX
Section II

Analysis of Tax Impact of Hartke/Burke Bill on UCC

The proposed Hartke/Burke Bill contains two sections that would modify the Internal Revenue Code - - Sections 102 and 103. The purpose of this analysis is to show the detail of how these Sections would have increased UCC's U.S. taxes by \$27,644,060 if they had been in effect in 1970.

In the computations below, UCC includes operations of Union Carbide Corporation and its domestic subsidiary companies reported in its consolidated U.S. Federal tax return, together with the earnings of foreign corporations owned more than 50%. Earnings of foreign affiliates owned 50% or less by UCC have been excluded, since tax provisions of Hartke/Burke would apply only to "controlled foreign corporations".

A. Section 102 of the Bill provides that earnings and profits of Controlled Foreign Corporations (CFC) must be included in the Gross Taxable Income of the parent corporation for each taxable year whether or not a distribution of earnings is made to the parent corporation. (Under present tax regulations earnings of foreign corporations are taxed in the U.S. generally only after a dividend distribution has been sent to the parent corporation in the U.S.) In 1970 Section 102 would have increased UCC's U.S. taxes by \$13,095,229, as computed below:

1. In 1970 UCC's share of the pretax earnings of its CFCs was . . .	\$78,281,022
2. The foreign taxes paid by the CFCs on these pretax earnings were . . .	31,212,669
3. Therefore UCC's share of after tax earnings of its CFCs was . . .	47,068,353
4. However, to determine the net impact of Section 102 it is necessary to remove from this \$47,068,353 the income on which UCC had already been taxed under current U. S. tax regulations. This income represented taxable CFC foreign dividend income that was paid to UCC, or under the tax regulations was deemed to have been paid. In 1970, this amounted to . . .	19,786,625
5. Therefore the net additional taxable income under Section 102 would amount to . . .	27,281,728
6. Applying the U. S. tax rate of 48% against this amount in No. 5 (with no foreign tax credits under Section 103) would have resulted in an additional U. S. tax on UCC in 1970 of . . .	\$13,095,229

(continued on next page)

B. Section 103 of the Bill provides that all Foreign Tax Credits would be eliminated. Consequently, foreign taxes paid would therefore be available only as a deduction from taxable income. Accordingly, the net impact on UCC of Section 103 of the Bill for 1970 would have been \$14,548,831 in additional U.S. tax as shown in the computation below.

1. In 1970 UCC had total Foreign Tax Credits of . . .	\$26,571,578
2. Adjustments, at the present 48% U.S. Tax rate, required due to:	
a. Foreign Withholding Taxes of \$5,267,118 imposed directly on UCC on remittances from overseas allowed as a deduction rather than a credit	\$2,528,217
b. Foreign Tax Credits of \$8,324,688 assessed directly on UCC's branch operations overseas also would be allowed as a deduction rather than a credit	3,995,850
c. Foreign Tax Credits would no longer be permitted, therefore, the present requirement that net dividends from foreign corporations must be increased by \$9,372,251 to place them on a "before foreign tax" basis (commonly called "Gross Up") would not be required	<u>4,498,680</u>
	<u>11,022,747</u>
3. Subtracting the \$11,022,747 from the total 1970 Foreign Tax Credit, the net additional U. S. tax on UCC would have been. . .	\$14,548,831

C. Combined effect of Sections 102 and 103 of the Bill (A-6 plus B-3) would have resulted in UCC being subject to additional U.S. taxes totalling \$27,600,000 in 1970 if the Hartke/Burke Bill had then been in effect.

**APPENDIX
Section III****Additional Detailed Analyses
Supporting
Results of UCC Study**

The balance of this Report consists of 27 additional charts, supporting and complementing the conclusions derived from the main charts dealt with in Section VIII-C. Each chart is accompanied by an explanation or interpretation facing it on the left-hand, opposite page.

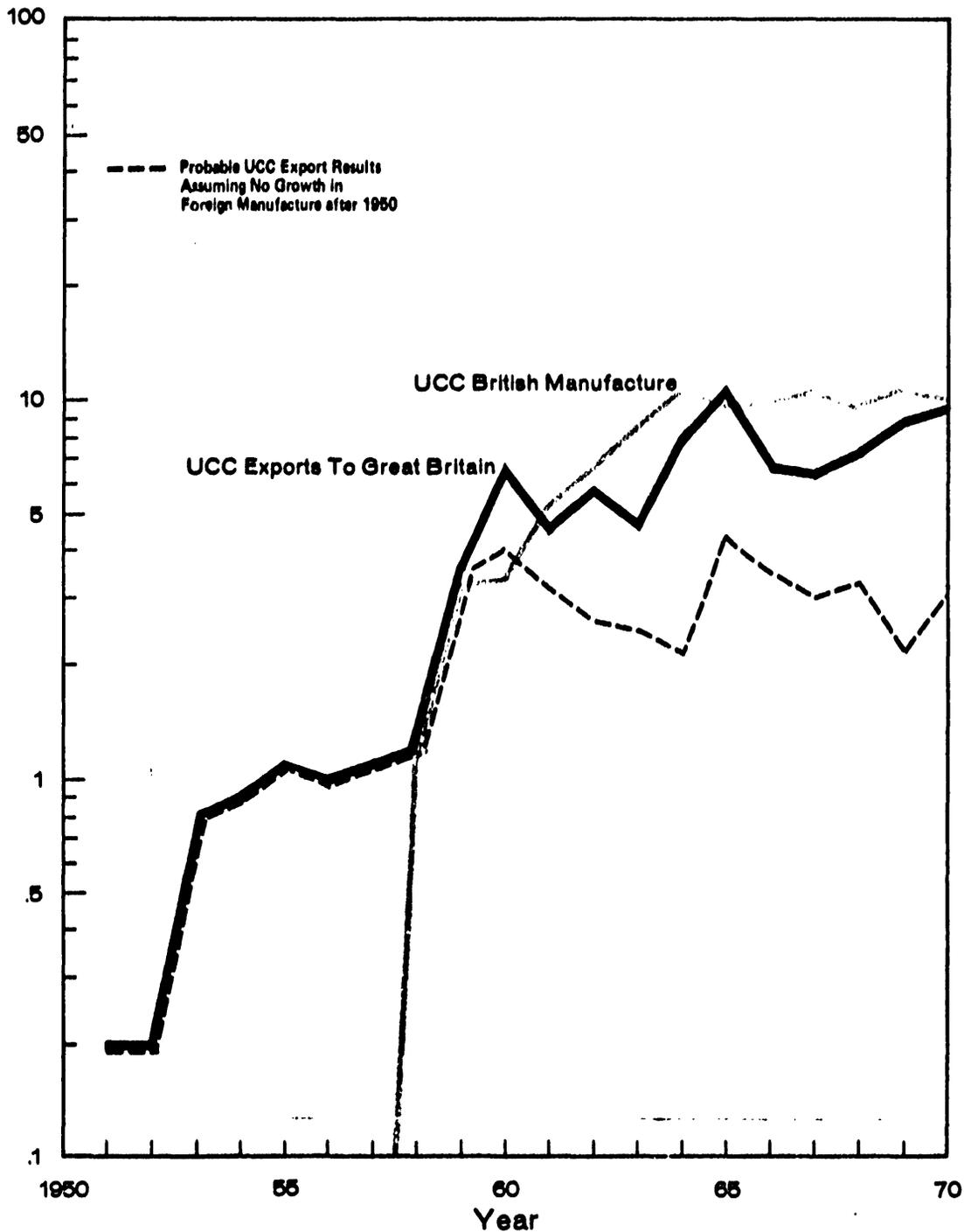
Product Group B - - UCC British Sales**Chart No. 10**

Building a facility in the United Kingdom had an extremely favorable effect on the exports of this product group. Prior to this plant coming on-stream in 1958, UCC's exports, although showing a good growth rate from 1951 to 1958, were beginning to level off at the \$1 million per year level. Since this local manufacturing plant has been operating, U.S. exports have virtually mirrored the production levels of the plant and have risen to the \$10 million level.

Most of these exports from the U.S. are finished products. They represent products that are not produced by the local plant and yet are in demand to broaden the product line of this plant. There is no doubt that the presence of a local organization concerned with the marketing and distribution and technical service of not only local production but also exports from the U.S. has made a material contribution to this steady growth in exports. Without the influence of the local plant, the dashed line curve indicates that exports could not be expected to have exceeded about \$3 million in 1970, as compared with actual of about \$10 million.

Product Group B UCC British Sales

Million \$



Product Group D - - UCC Swedish Sales**Chart No. 11**

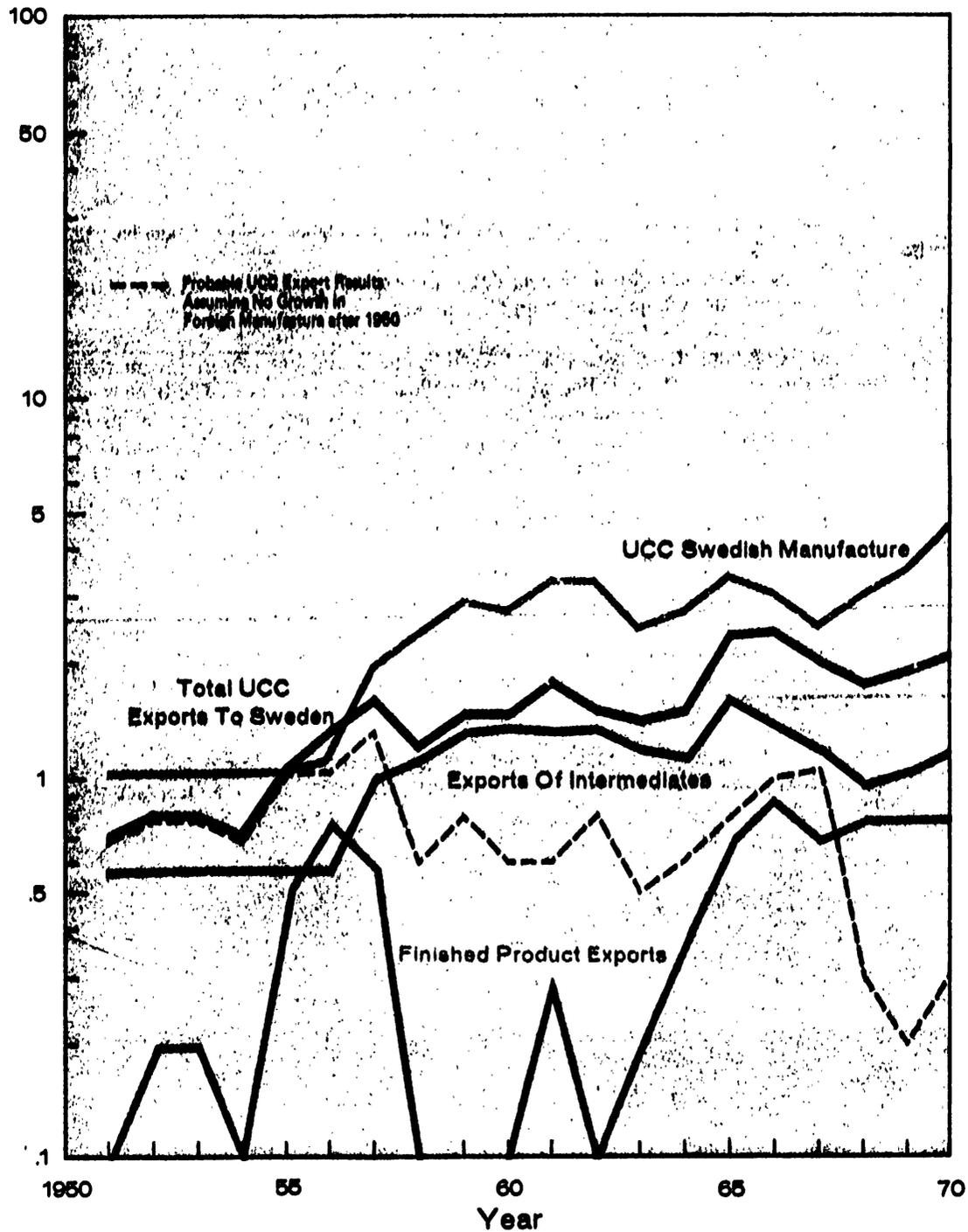
This is also a classic case which shows the general correlation between foreign investment and U.S. exports, as well as the relationship between the export of intermediates and value of foreign production. In other words, it supports the conclusions in Category No. 2 as well as those in No. 1 (Page 18).

As has been true with virtually all of UCC's foreign manufacturing investments, these have been made only when absolutely necessary in order to protect the market share previously developed by export. In the case of Product Group D in Sweden, the investment became necessary long before 1950, and it was limited solely to final finishing operations. This was possible because in Sweden it has always been feasible to obtain exchange for the importation of intermediates or semi-finished products. Under these circumstances it has never become necessary to integrate further backward, and UCC has accordingly not done so.

It can be seen from the Chart that total UCC exports to Sweden have generally followed the growth of UCC's Swedish manufacture. This of course has also been true of the exports of intermediates, which in some years have represented the major proportion of total exports. However, although finished product exports in the years from 1958 through 1963 were minimal, the "pull" of local manufacture finally began to assert itself beginning in 1964, and in 1970 finished product export was back up almost to the million dollar level.

Product Group D UCC Swedish Sales

Million \$



Product Group B2 - - UCC Continental European Sales**Chart No. 12**

This Chart also depicts in detail the exporting experience of one of the sub-product groups in the European market.

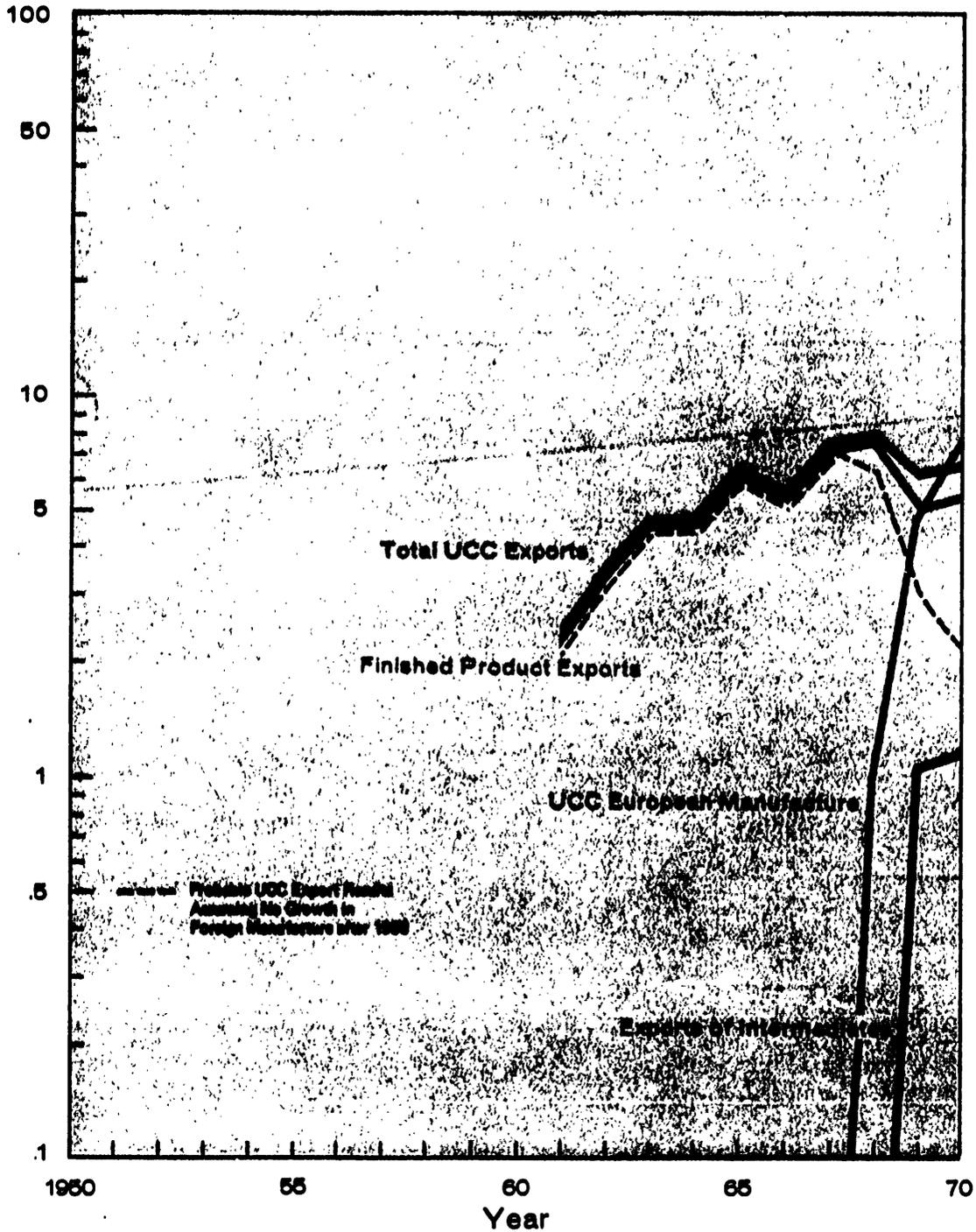
Again the classic case of establishing initial entry into the market through exports is indicated by the 1961-1965 experience. The decline in 1966 exports foreshadowed the increase in local competition. For defensive reasons, UCC concluded in 1966 that long-term participation in this market could only be continued by building a local manufacturing facility. The 1967-1968 increase is due to the build-up of local market demand in anticipation of the plant coming on-stream in 1968.

Prior to 1968, all exports from the U.S. had been finished products. As the plant came on-stream, many of these finished products were produced locally and there was a consequent decline in the export of finished products. However, there has been a dramatic increase in the export of intermediates which are used in this European facility to manufacture the finished products.

Quite understandably, none of these exports of intermediates would have been realized if the decision had not been made to build a local facility.

Product Group B2 UCC Continental European Sales

Million \$



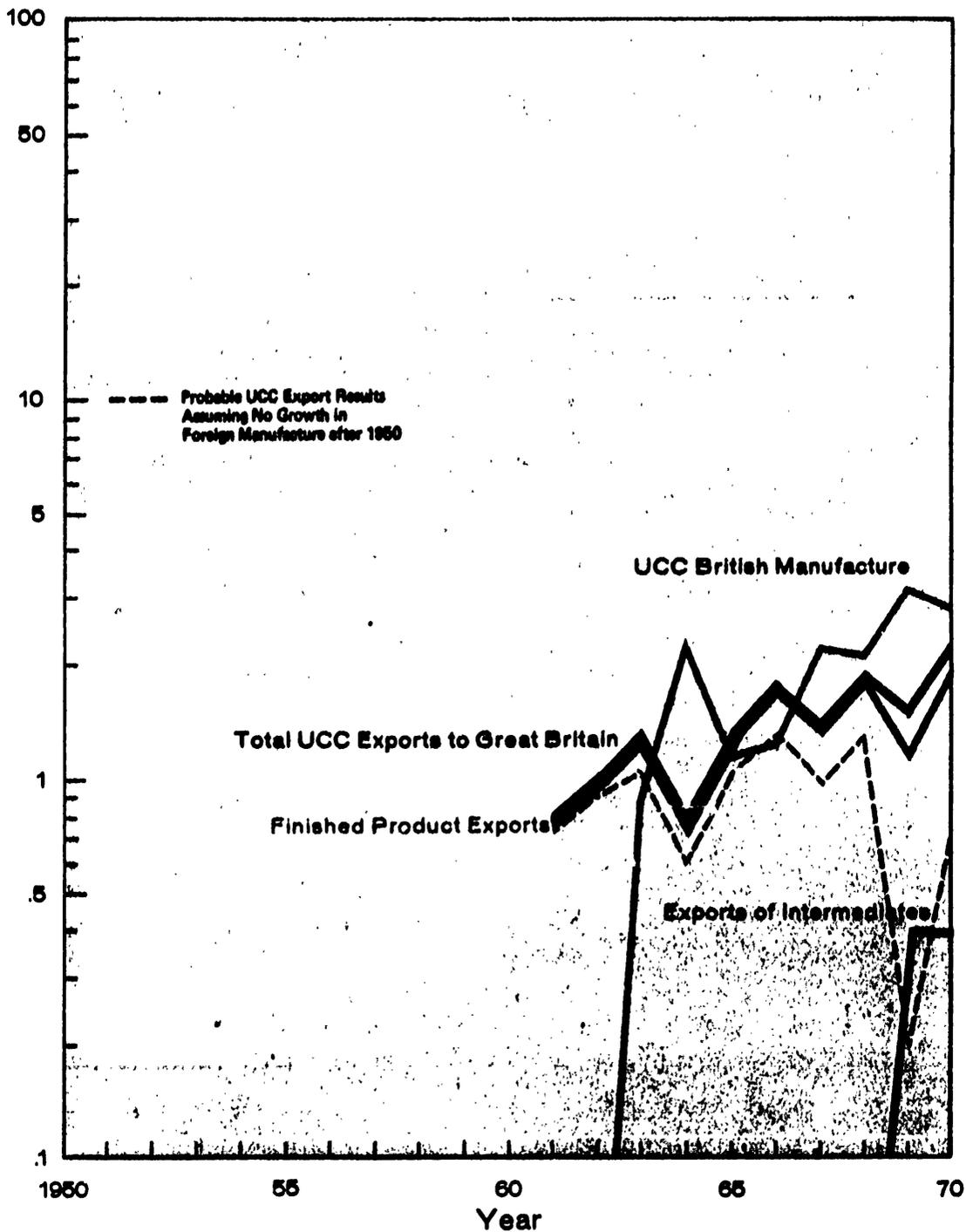
Product Group B2 - UCC British Sales**Chart No. 13**

Exports from the U.S. for this product grouping have also kept close pace with local production. Following the initial start-up of the first UCC plant in 1963 there was a decline in exports; however, this was short-lived and exports again began to grow and by 1966 they were more than twice the 1964 level.

In 1968, UCC's British manufacturing capacity was expanded in response to extreme price competition from local manufacturers. The large drop in finished exports in 1968-1969 was due to this price competition. As indicated by the dashed line, total UCC exports of this product group to the British market would have dropped precipitously if UCC had not expanded its local manufacturing capability. It would have been virtually impossible for exports from the U.S. to continue to be competitive in this market. Without building a plant, sales of intermediates could not have been made at all. Although sales of intermediates appeared to have leveled off in 1970, it is expected over the longer term that they will continue to represent an increasing proportion of UCC's exports to this market.

Product Group B2 UCC British Sales

Million \$



Product Group D - - UCC Continental European Sales**Chart No. 14**

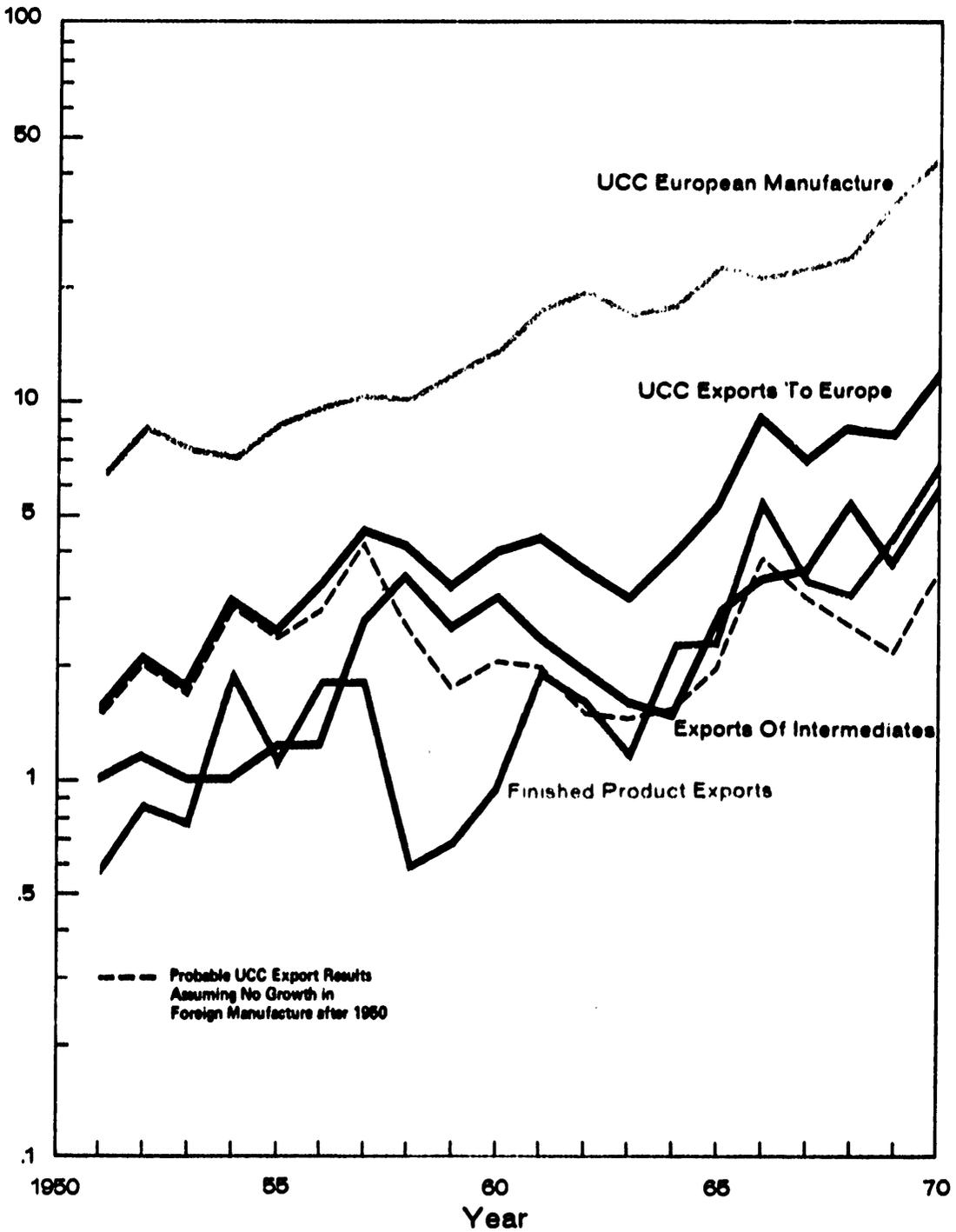
Here again, as local competition intensified, UCC's European manufacture had to be expanded to maintain its market participation. However, total exports of this main Product Group D still continued to expand at approximately the same growth rate, or at 9% in comparison with 8% for foreign manufacture. Strikingly enough, with the exception of one "down" period in 1958, finished product exports as well as export of intermediates continued to grow at a rate somewhat in excess of the growth rate of local foreign production.

It can be seen from the Chart that as European demand expanded in the 1963-64 period, both finished product and intermediate exports were "pulled" to this market to augment local production capability and both have continued at a very high level since that time. Rather than hindering U.S. exports, it is obvious from this Chart that UCC foreign manufacturing units in Europe have enhanced exports from the U.S.

CHART NO.14

Product Group D UCC Continental European Sales

Million \$



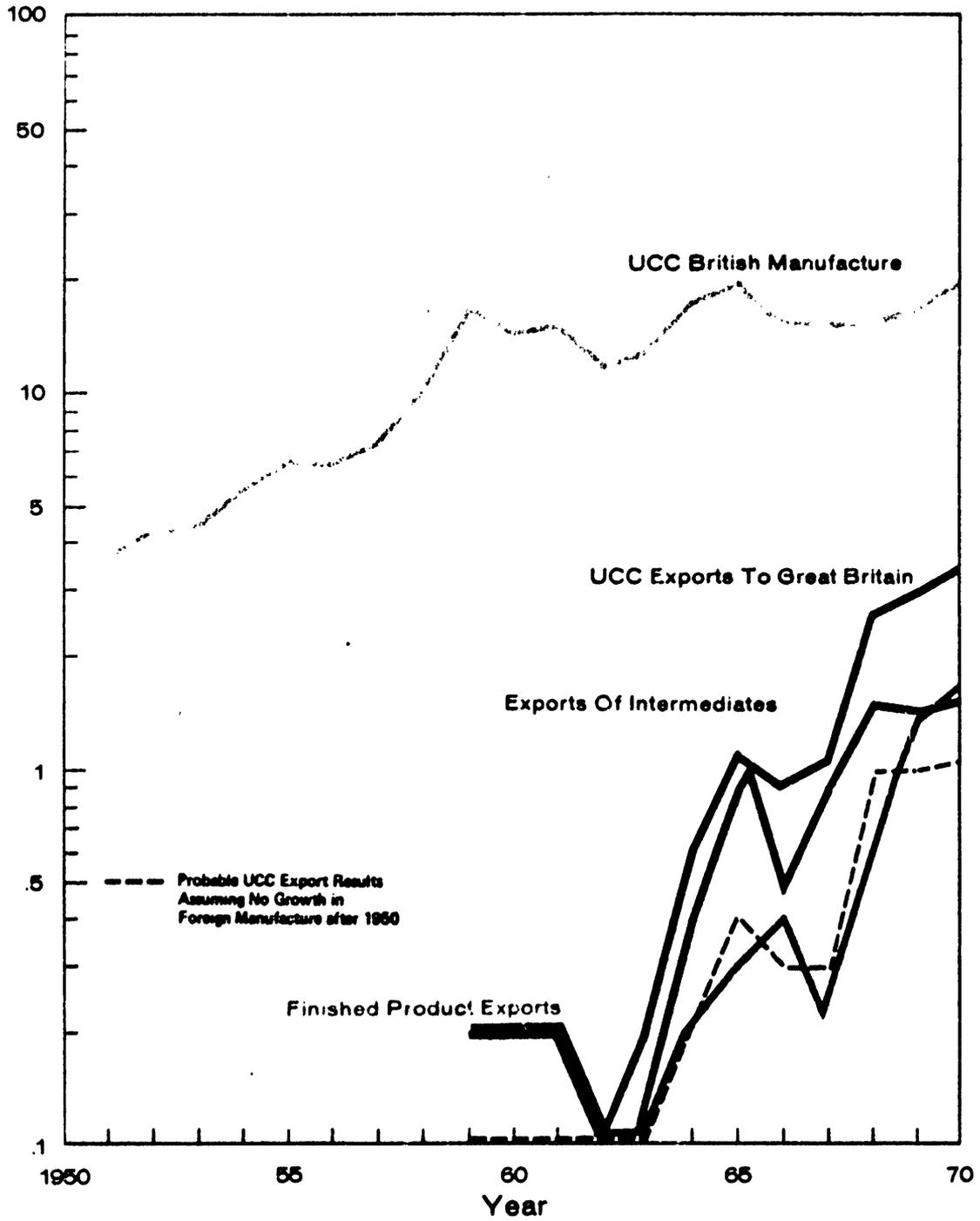
Product Group D - UCC British Sales**Chart No. 15**

In the decade of the 1950's, it was virtually impossible to export to England from the United States because of the foreign exchange shortage there together with relatively high tariffs. However, this condition began to alleviate in the early 1960's. The subsequent trend of exports, which grew very rapidly over a period of 5 years at a much faster rate than volume of local manufacture, indicates the strong "pull" that foreign investment exerts upon export of allied and intermediates products when not inhibited by other external restrictions. Also, as the British market became more sophisticated in its requirements, and began to demand product types that the local UCC facility and organization in England were not producing, export of finished product virtually "exploded" in the last few years.

In fact, as the dashed line indicates, it is estimated that our exports to this British market would be significantly lower at the present time. If we did not have the local manufacturing unit and marketing organization in Britain, we would not be experiencing the dramatic "pull" on both the export of intermediates and finished products from the U.S.

Product Group D UCC British Sales

Million \$



Product Group A - UCC Canadian Sales**Chart No. 16**

Between 1950 and 1955, exports of this product group to Canada were on a relatively low plateau under \$3.5 million. From 1954 to 1956, because local competition was threatening this export business, the decision had to be made to make a manufacturing investment in Canada.

Exports rose from \$3.2 million in 1952 to \$12.6 million in 1956. These were stimulated by local customers who would not have bought from us on an export basis without the knowledge that we were going to become a local producer. Thereafter, from 1956 until 1958, there was naturally a sizable reduction from this peak as the local facilities came into production. However, the level of export never went back down again to the plateau that had existed before the installation of the new investment. In fact, exports are now at a new plateau of \$10 million, as compared with the \$3 million level that had existed prior to the investment, which has to be due entirely to the "pull" effect of the manufacturing unit and its organization on accessory or complementary product types or grades not being produced locally by the affiliate.

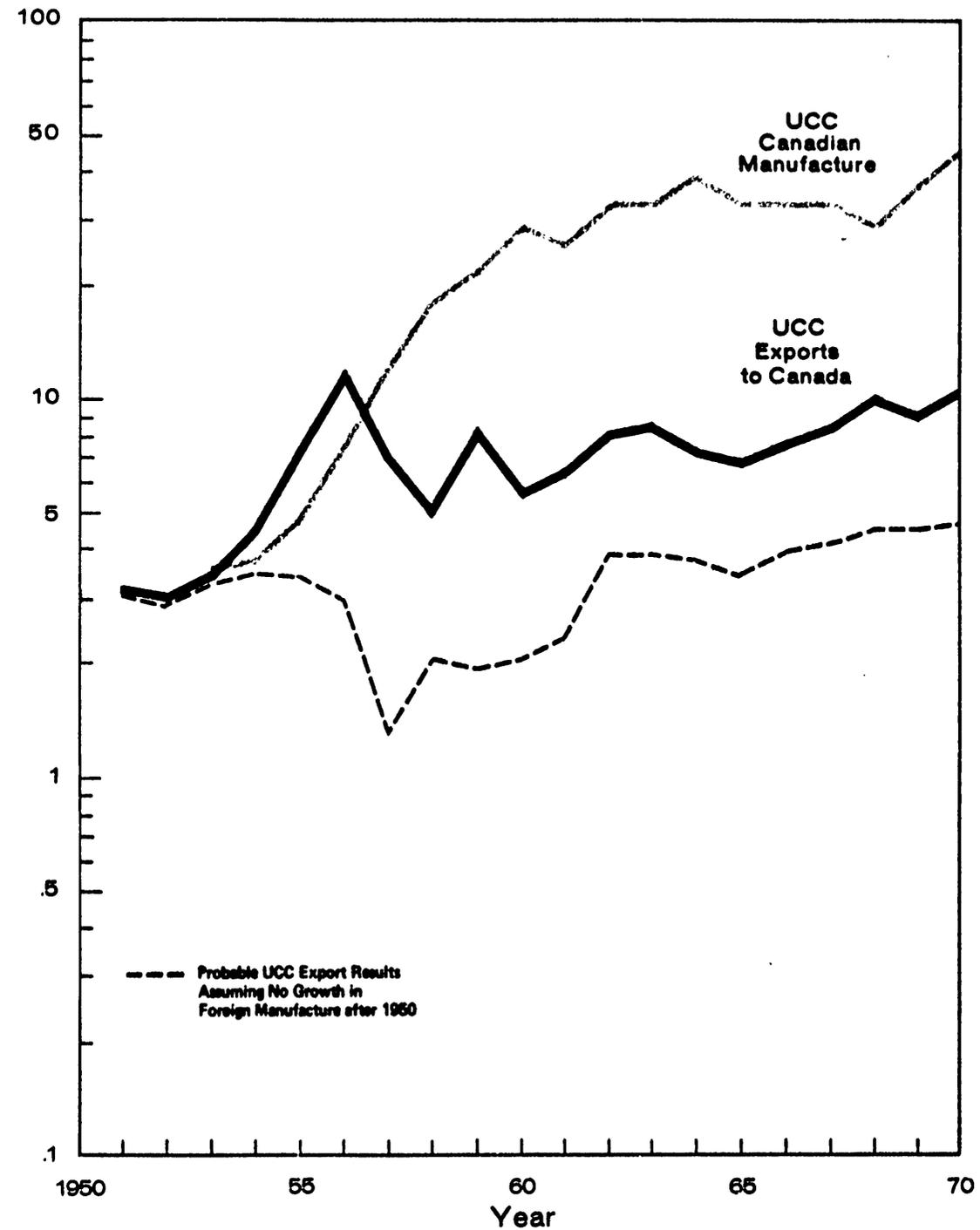
In view of the fact that major investments by competition were going to be made anyway in Canada during this overall period, partly because of pressure from and action by the Canadian Government, there is no question that our exports would have continued at a level under \$5 million if we had not made our Canadian investments. (There is an interesting quote shown below that was taken from a 1971 Canadian Study entitled, "The Multinational Firm, Foreign Investment, and Canadian Science Policy," by Arthur J. Cordell.)* Furthermore, it should be emphasized that none of this material produced in Canada has been brought back into the U.S. So, the net result in 1970 was that we had \$40 million of local production within our associated Canadian company, with all of the favorable implications of this from the standpoint of the Canadian economy, and over \$10 million in exports from the United States.

*"The Canadian tariff has been the major force in attracting direct investment over the year. Rising Canadian tariffs over the years made it almost inevitable that an increasingly significant amount of foreign direct investment would flow into Canada. Early Canadian policy makers saw this as the success of the tariff policies. Tariffs were designed to encourage production of goods in Canada. Little thought was apparently given to ownership; rather, growing aggregate production figures were cited as criteria of success." (Donald Creighton, CANADA'S FIRST CENTURY, MacMillan of Canada, Toronto 1970, p.76.)

CHART NO. 16

Product Group A UCC Canadian Sales

Million \$



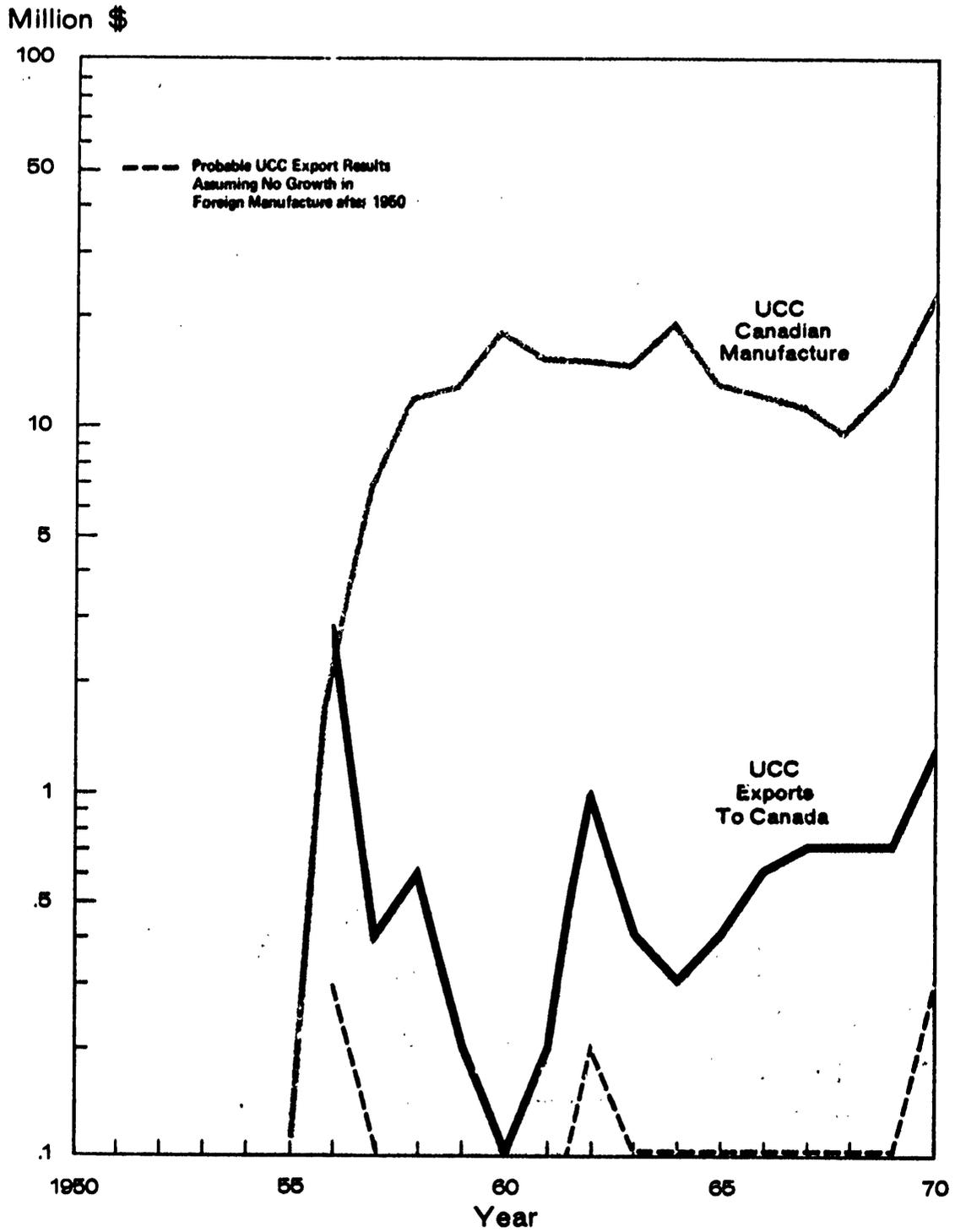
Product Group C1 - - UCC Canadian Sales**Chart No. 17**

This Chart shows the relationship between exports of a single product group, compared with volume of local production. It shows that beginning in 1956, when because of local competition UCC felt it necessary to bring a new plant on-stream in Canada, the volume of exports to Canada were at a high of \$2.8 million. When the new plant came on-stream in 1956 and increased production rapidly to \$17 million in 1960, the natural result was the precipitous decline in exports to almost nothing in 1960, as shown on the Chart.

However, at this point the added attraction of an intensive local operation, and the interest developed through concentrated marketing efforts in the more sophisticated types and grades of this product, began to make itself felt. Consequently, export of finished products of this type bounced back from practically nothing in 1960 to about \$1 million in 1962, with a growth rate since then of about 18%. This strong recovery of exports to Canada, notwithstanding the high relative level of local production, has been growing since 1964 at a considerably higher rate than local production, which has grown since 1960 at only 2% per year.

CHART NO. 17

Product Group C 1 UCC Canadian Sales



Product Group B1 - - UCC Continental European Sales**Chart No. 18**

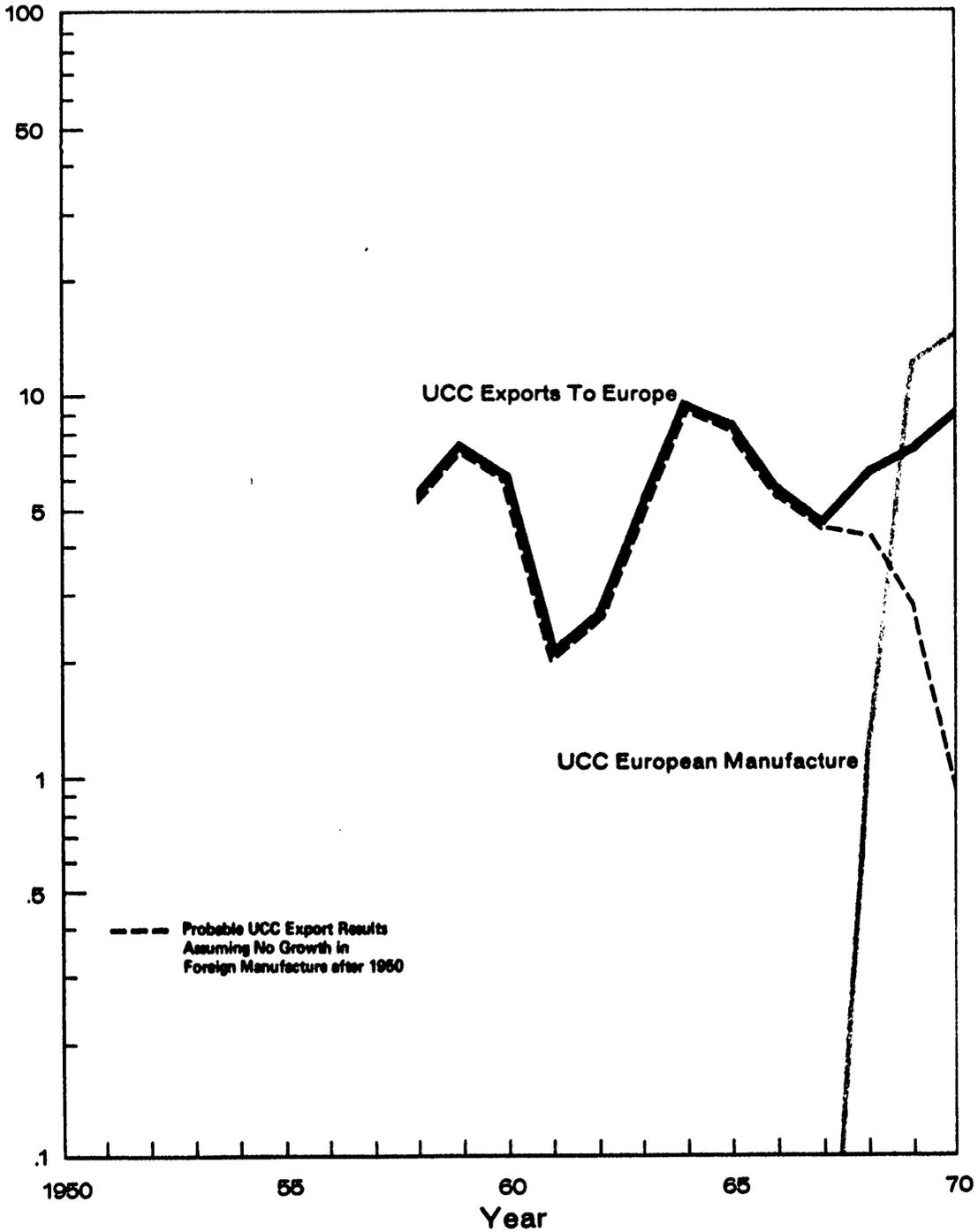
As can be seen from the chart, exports of Product Group B1 were at a respectably high level in 1958 and 1959. The emergence of local competition in 1960 resulted in a depression in price levels, which made it less profitable to export from the U.S. and forced a sharp reduction in UCC export volume. However, because this product group constitutes one of the basic building block materials in this particular industry, European demand began to increase temporarily beyond the capacity of local producers and for a time exports from the U.S. recovered significantly.

In 1964 exports again began to decline and it became obvious that in order to remain in this market on a long-term basis, it would be necessary to manufacture certain of this product group in Europe. The decision to build the foreign plant was made in 1966 and it came on-stream in 1968. The "pull effect" that a foreign manufacturing facility has on U.S. exports can be seen as exports again began to increase in 1967, and in 1970 approximated the previous high of 1964. These were exports of finished product required to round out the product line of the local plant. Obviously, if this plant had not been built, these sales would have gone to some other local manufacturer, and exports from the U.S. would have continued to decline well below the 1967 level, as shown by the dotted line on the Chart.

CHART NO. 18

Product Group B 1 UCC Continental European Sales

Million \$



Product Group B - UCC Japanese Sales**Chart No. 19**

Exports of this product group from 1957 to 1964 experienced a good growth rate of 18%. However, a local competitor began operations in that latter year and our exports dropped accordingly.

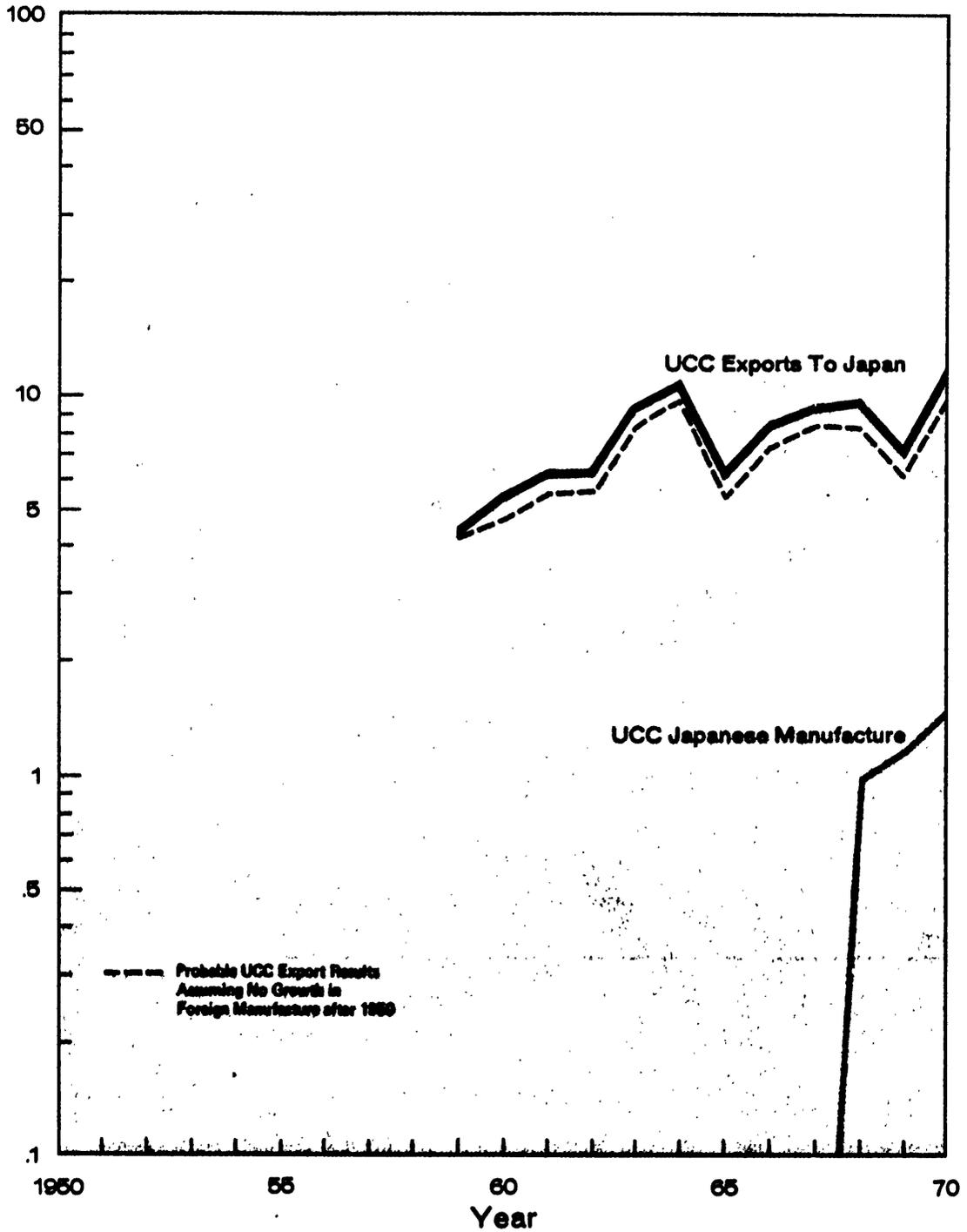
It was determined in 1967 that in order to continue to compete in such a distant market it would be necessary to manufacture some of the products locally. As can be noted from the Chart, UCC's exports increased in the period preceding local production, experienced a slight decline in 1969 as the local plant came up to capacity, and in 1970 were higher than the 1963 level.

Once again this demonstrates the value to U.S. exports that derives from having a local organization. Most of these exports are finished products that are not produced locally but complement the local product line.

CHART NO. 19

Product Group B UCC Japanese Sales

Million \$



Product Group B - UCC Canadian Sales**Chart No. 20**

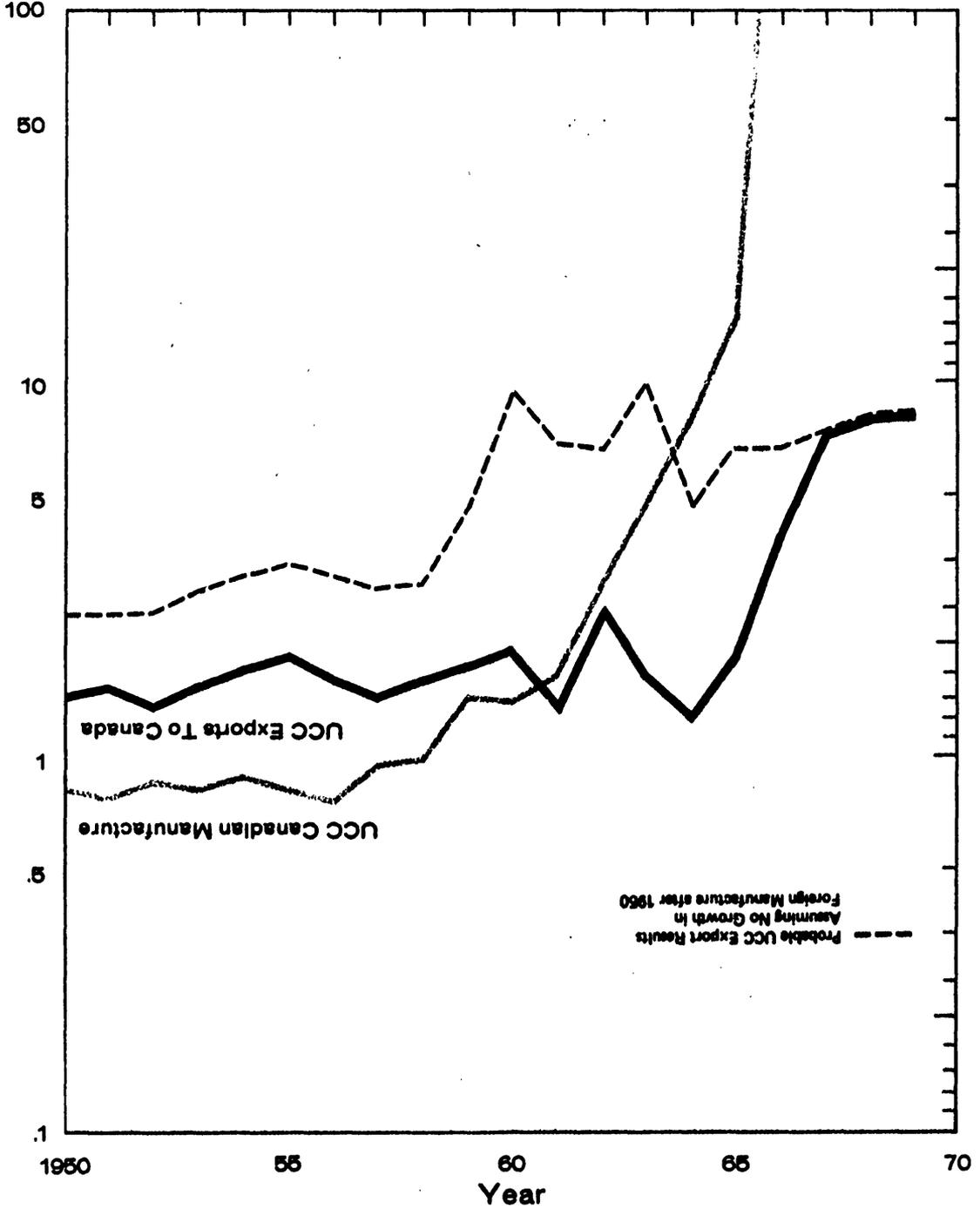
Here we see the classic pattern of exports proceeding along at a relatively constant level from 1950 to 1954. At this point, when the installation of a UCC Canadian plant was announced, an increased marketing effort for U.S. exports was made to build up the local demand for UCC products in anticipation of local capacity coming on. This brought the level of exports from about \$2.5 million in 1954 to \$8 million in 1956.

Naturally, as production locally grew from nothing to about \$4 million in 1958, exports dropped off from \$8 million to \$4 million. The striking thing, however, is that the decline in exports, as local production began to substitute, did not continue, but immediately started to move up again at a positive growth rate. This certainly would seem to prove that the installation of a manufacturing organization, with its acceptance by local customers and its more intensive marketing organization than can possibly be mounted when solely on an export basis, resulted in an improvement in the export position which never would have resulted without the local investment. As indicated by the dashed line, UCC's estimated exports would have been half of what they were in 1970, or at the 1958 level, if UCC had not had this local manufacturing facility to "pull" these finished products to this market.

CHART NO. 20

Product Group B UCC Canadian Sales

Million \$



Product Group C - - UCC Canadian Sales**Chart No. 21**

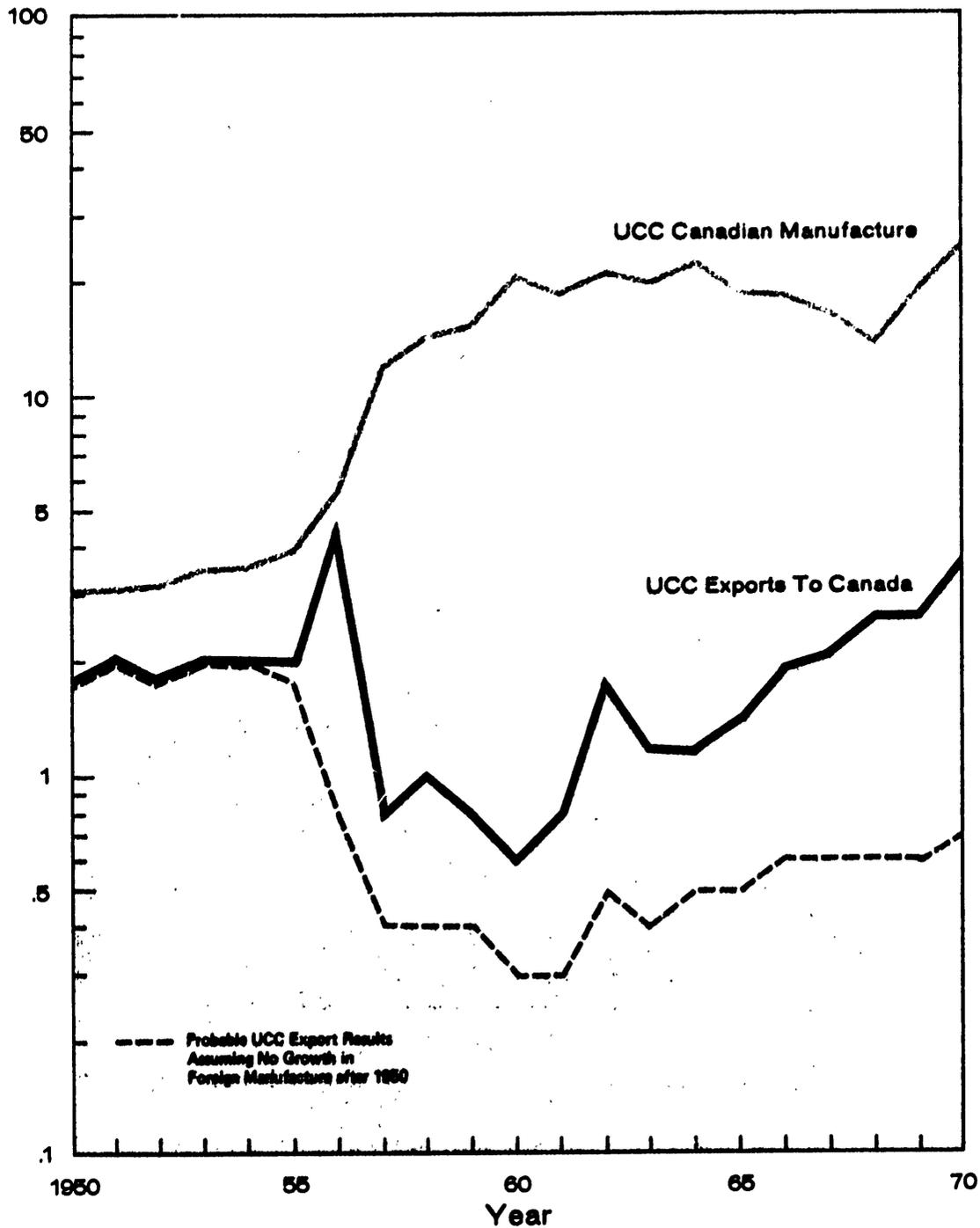
Beginning in 1950, UCC had only a relatively small manufacturing operation in Canada, with production of the order of magnitude of about \$3 million. At the same time we had total exports of Product Group C to Canada in the order of magnitude of \$2 million. Up until 1955, the volume of manufactured product rose to about \$4 million. The rate of growth of exports more or less paralleled this growth, with relatively sharp increase after 1955 when the decision was made to expand plant facilities in Canada and this became known to potential customers. The new plant came on-stream during 1955, with the result that total local manufacture in 1956 rose to \$6 million, with exports at a peak of \$4.6 million. Local manufacture rose rapidly to about \$15 million in 1958, whereas exports dropped sharply from a peak of \$4.6 million to a low of \$600,000 in 1960. This was to be expected, as the Canadian plant came up to full production. However, following this normal gestation period, as the "pull" of the local operation began to demonstrate itself, exports reversed beginning in 1960 and have risen thereafter at the significant growth rate of 19%. This compares with an average percentage growth rate for UCC's Canadian manufactured production since 1960 of only 1%.

Without this extensive local organization for manufacturing, marketing, and distribution of UCC's products, it is estimated, as shown by the dashed line, that UCC's exports would only be around \$500,000 rather than the \$4,000,000 realized in 1970.

CHART NO. 21

Product Group C UCC Canadian Sales

Million \$



Product Group A - - UCC Brazilian Sales**Chart No. 22**

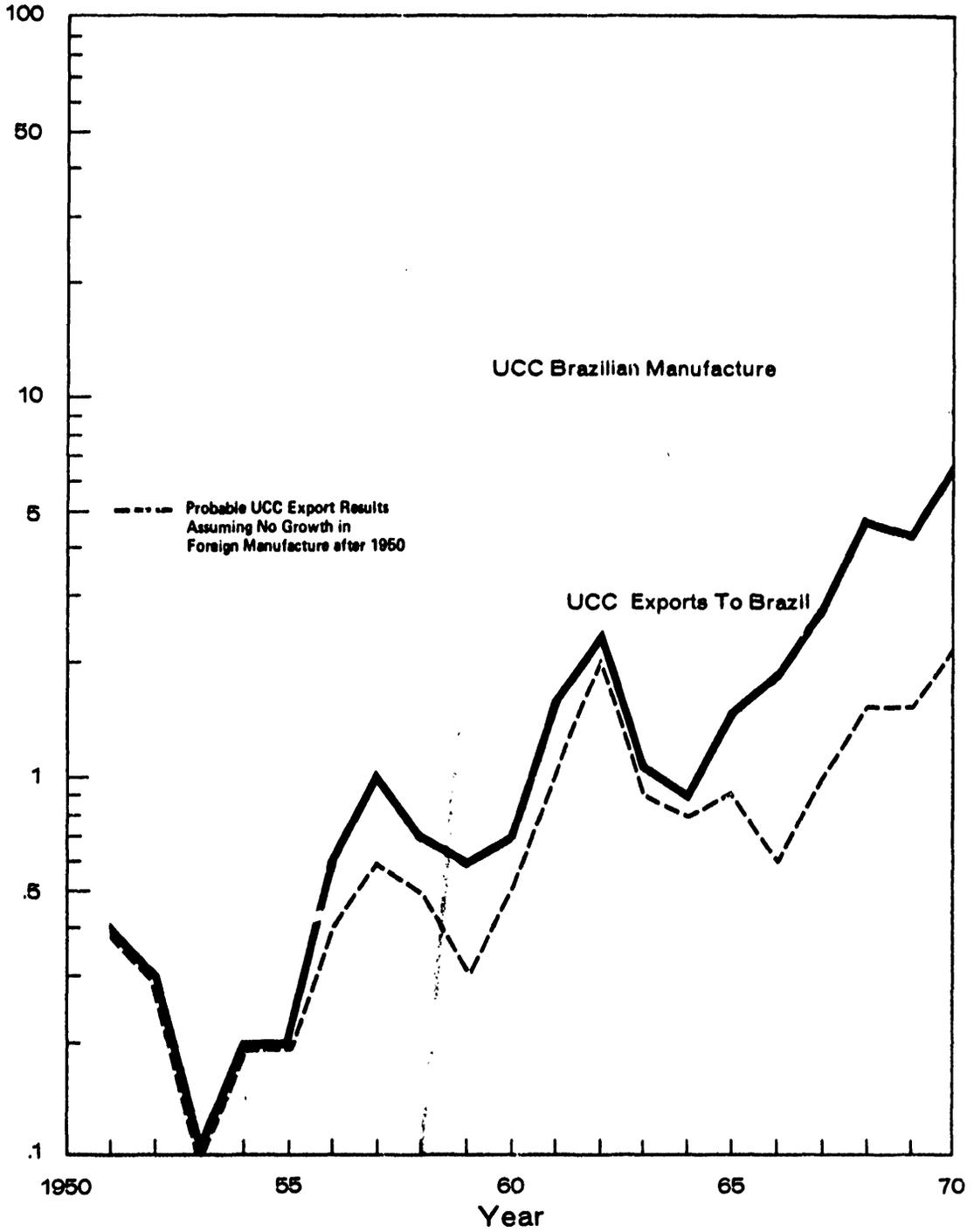
In Brazil the substantial increase in exports from the U.S. between 1953 and 1956 represented our initial entry into this rapidly growing market. This type of growth was possible because of our physical presence in Brazil where we had been manufacturing other product lines for several years. By taking advantage of this organization our marketing and distribution adjustment was minimized. It also provided us with the opportunity to evaluate the market potentials for Product Group A in Brazil. This analysis led us to the conclusion in 1956 that in order to participate in the Brazilian market over the longer term, it would be necessary to manufacture locally. This decision was largely influenced by the posture of the Brazilian Government, which wanted to minimize foreign exchange expenditures on imports.

As can be seen from the Chart, our overall exports to Brazil did not suffer from this decision to build locally. However, it should be pointed out that a large portion of the rapidly rising exports between 1964 and 1970 are made up of products that are not now directly related to our production facility in Brazil. Rather, they are made up of other sub-product groups within this overall Product Group A, which are more readily marketed as a result of the "pull" of our organization and plant in Brazil, including the fact that UCC has been accepted as a reliable local producer and supplier.

CHART NO. 22

Product Group A UCC Brazilian Sales

Million \$



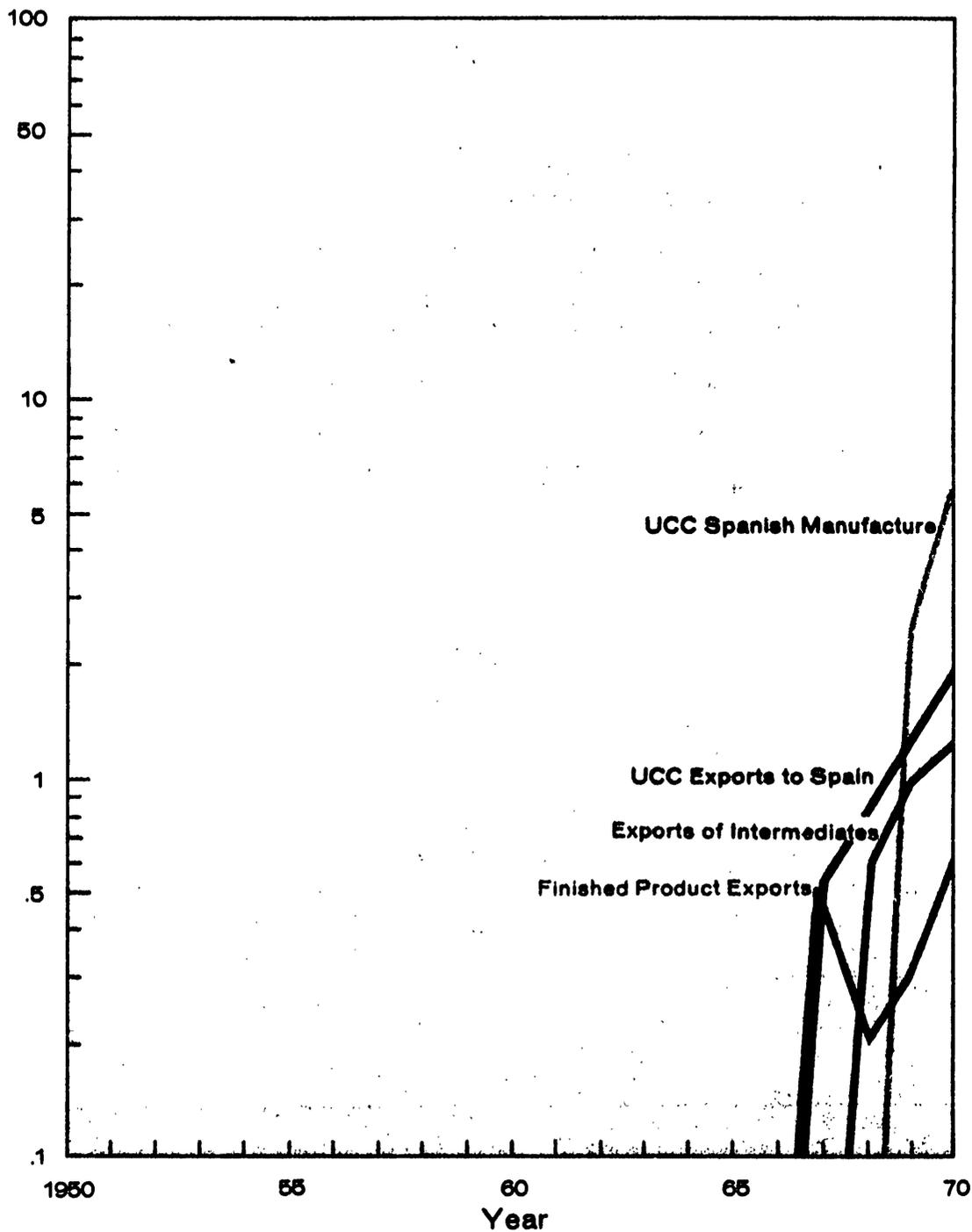
Product Group D - UCC Spanish Sales**Chart No. 23**

This Chart shows the classical case of immediate effect of a new plant investment in a country such as Spain. This plant investment was announced in 1966, and the plant came on-stream in 1969. It will be seen that prior to the announcement of the investment UCC had virtually no export business to Spain in this Product Group D.

It is striking that immediately after the announcement was made in 1966, total exports to Spain jumped in four years from virtually nothing to almost \$2 million. At the same time, in preparation for production and after the plant came on-stream, a considerable volume of intermediates was needed to support the plant which was supplied by export from the United States. After the plant went on-stream, despite the local production of finished product, the finished product exports from the United States are still relatively high in the neighborhood of \$1.5 million. Consequently, it can be seen that if we had not made this investment in Spain, we would have had no exports at all from the U.S. in this product group.

Product Group D UCC Spanish Sales

Million \$



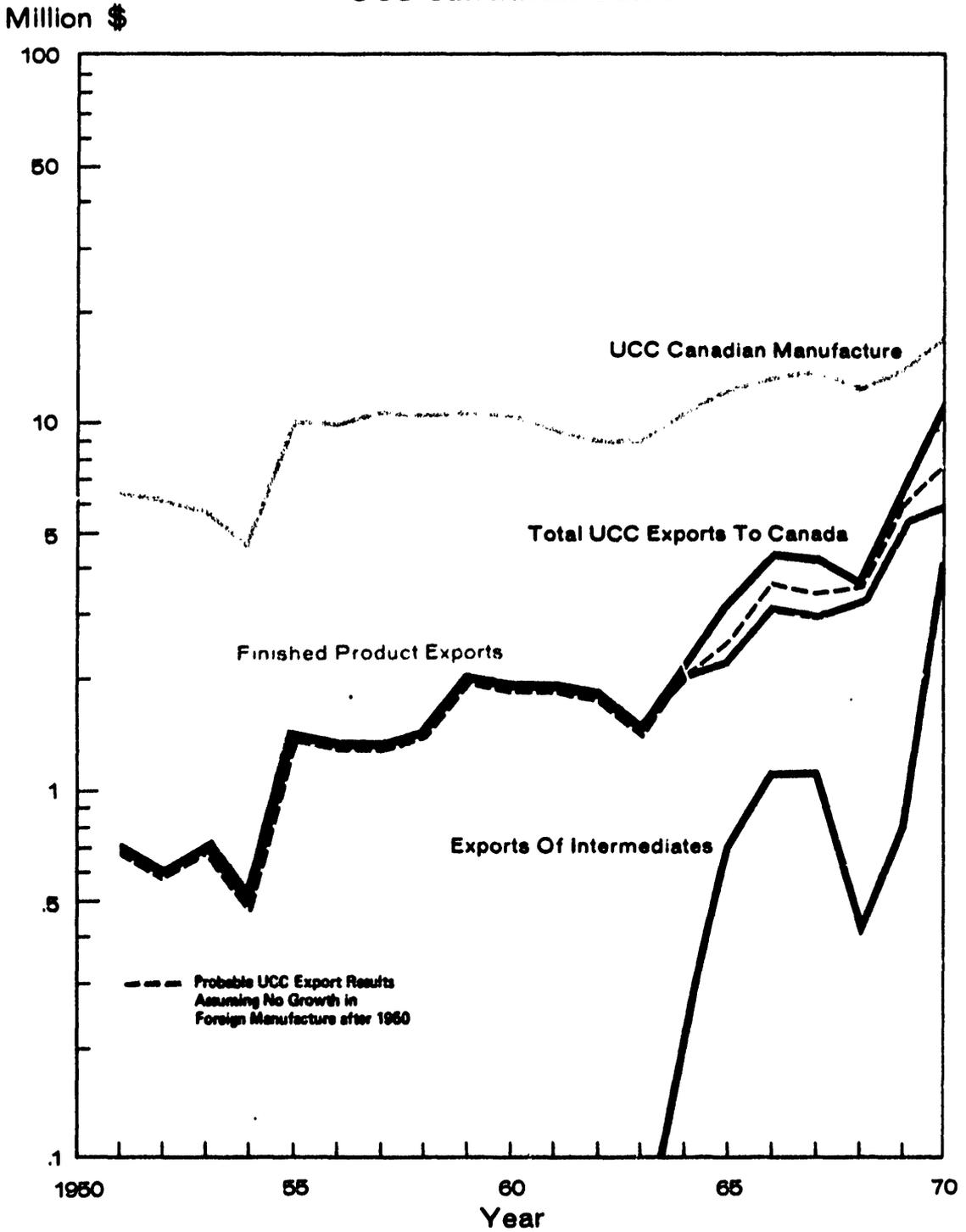
Product Group D - - UCC Canadian Sales**Chart No. 24**

The Canadian facility for this product group has been in existence for many years, long before 1951. It is striking to note that between 1951 and 1964 the upward trend of UCC exports to Canada for Product Group D has correlated very closely with the growth of our Canadian production.

From the standpoint of raw materials, with an originally adequate Canadian source of supply, the associated operation in Canada had naturally been forced to buy Canadian materials. However, the situation changed in 1964, and with Canadian material no longer being either adequate or satisfactory, it was necessary to begin importing intermediates from the United States.

As a result, UCC exports of this product group to Canada have risen to \$4 million for intermediates alone, as shown by the almost vertical rise of the intermediate curve between 1964 and 1970. This increase in total exports never could have been obtained if it had not been for the existence of the associated Canadian facility. UCC's export performance to Canada has been very favorable, not only because of the presence of the manufacturing operation that "pulls" the intermediates, but also because of the marketing organization that helps to "pull" finished product exports from the U.S.

Product Group D UCC Canadian Sales



Product Group B3 - - UCC Canadian Export Sales**Chart No. 25**

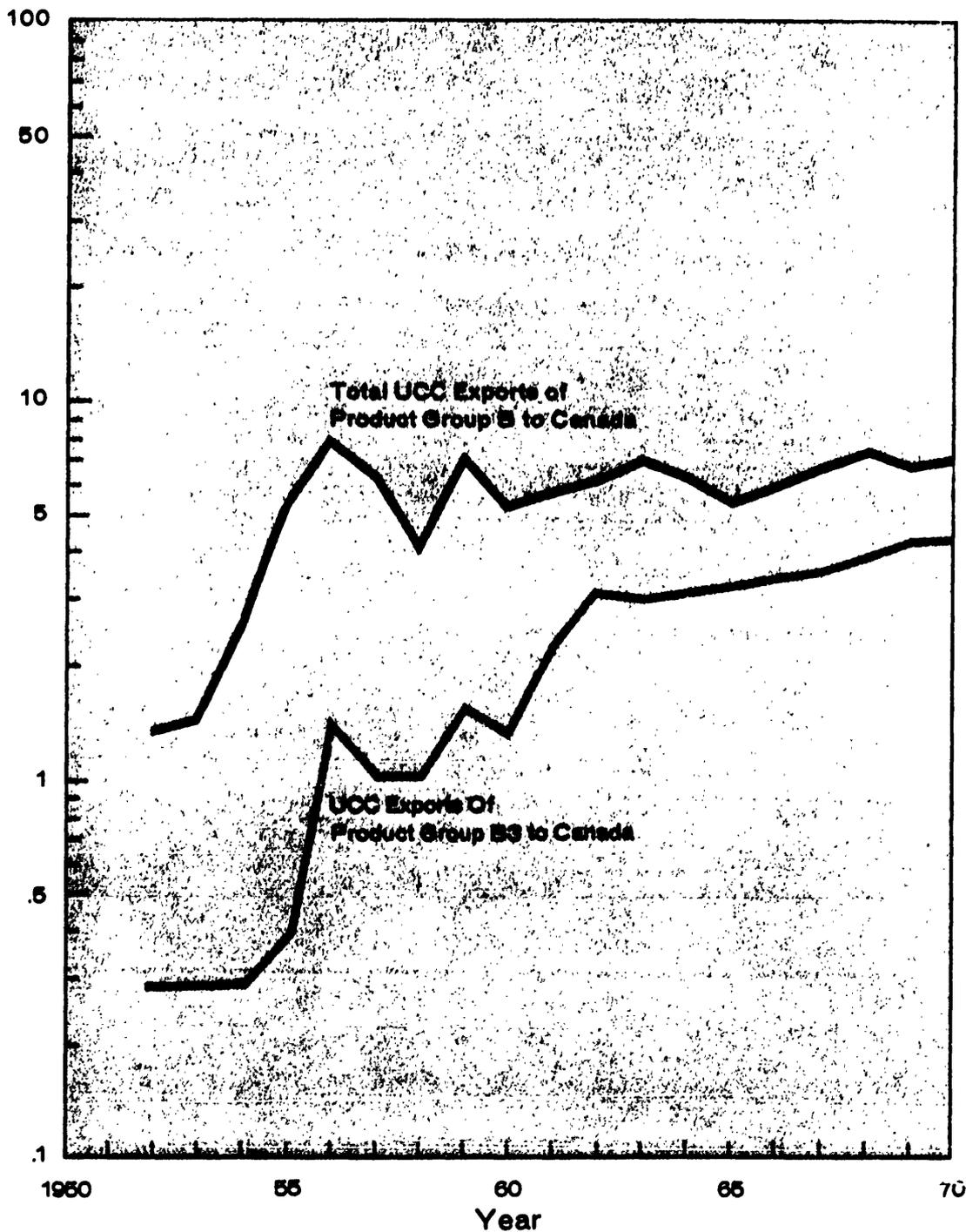
To show the beneficial effect of overseas investment upon UCC's exports, this Chart compares the pattern of export of what UCC terms "proprietary products," as compared with total value of this product group exported to Canada. When an investment has to be made overseas in order to avoid losing the market developed by exports, it is naturally to be expected that the more standard type of product going to be produced locally must "kill" the export of the same type of grade from the United States.

However, the existence or presence of the installation and organization for manufacture locally of the more standard or bulk type product will carry or "pull with it" through intensified marketing activity a major expansion of the more sophisticated or "proprietary" type or grade as local customers become more familiar with the overall product line. This is definitely indicated by the two curves in this particular Chart. From 1952 the growth rate of total exported product value to Canada was 21%. The export of "proprietary" products as distinct from bulk or commodity type products, increased at a rate of 29% from 1952 to 1960. Beginning in 1962 the export rate of growth of this total Product Group B to Canada slackened off to 1.5%. However, during this same period, growth of the "proprietary" element averaged the considerably higher rate of 5%.

These relationships certainly seem to indicate that, in UCC's business at least, a local manufacturing operation has a favorable effect on U.S. exports and particularly on the proprietary product type of exports.

Product Group B3 UCC Export Sales to Canada

Million \$



Product Group B3 - - UCC Export Sales to Japan**Chart No. 26**

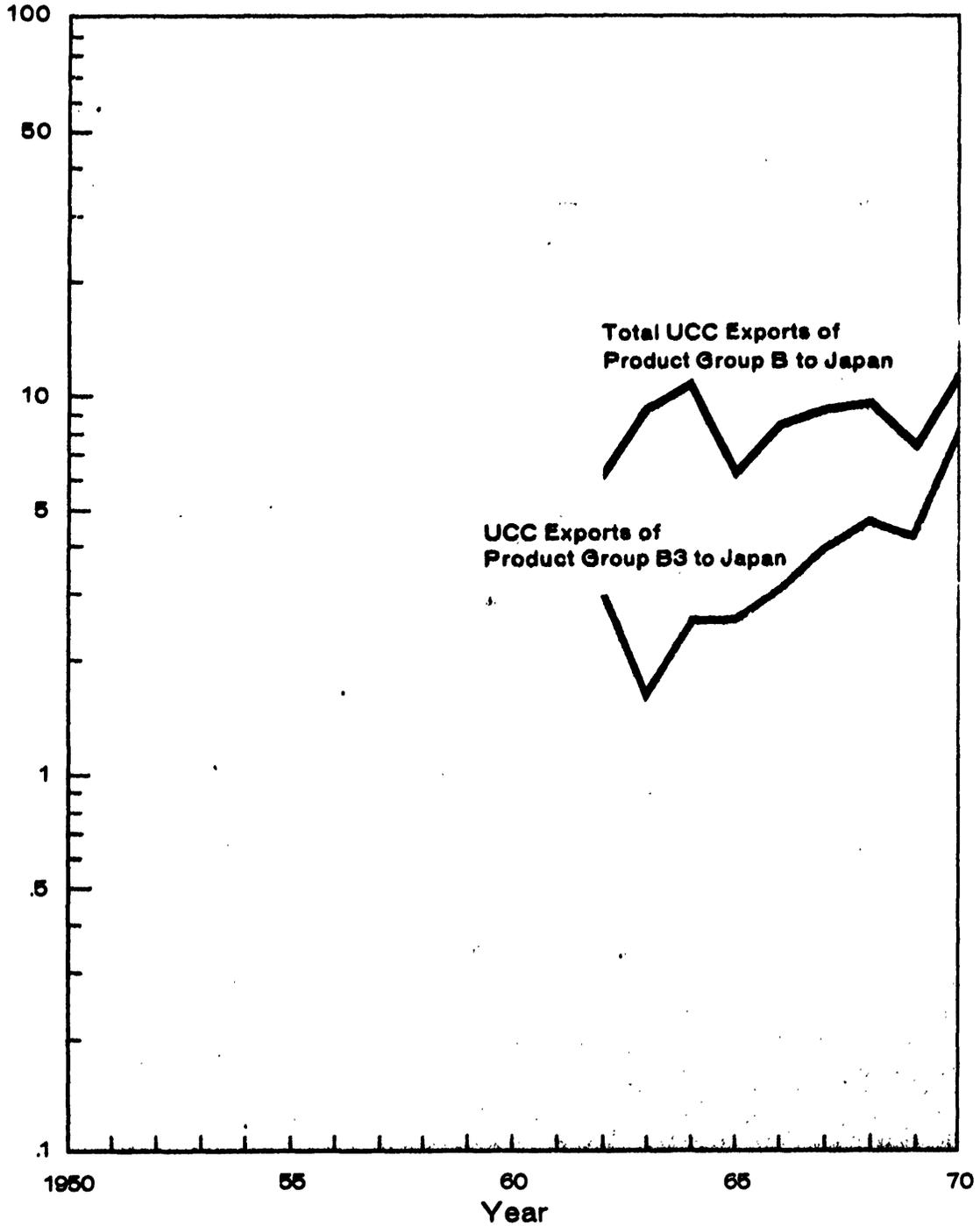
The exports of the major Product Group B are shown on this Chart to put into perspective the rapid growth rate of "proprietary product" exports (Product Group B3) to Japan.

These are products that, because of a present competitive advantage, are manufactured only in the United States. The demand for them is associated with the overall demand for the products of the major Group B. They are marketed, serviced, and distributed by the same organization in Japan. Without such a local organization it is unlikely that these exports would have realized such favorable growth - - that is, from \$1,700,000 in 1963 to \$7,900,000 in 1970, a growth rate of 20%. Again, UCC's preference to export from the U.S. as long as it is economically feasible is highlighted by these exports of proprietary products.

CHART NO. 26

Product Group B3 UCC Export Sales to Japan

Million \$



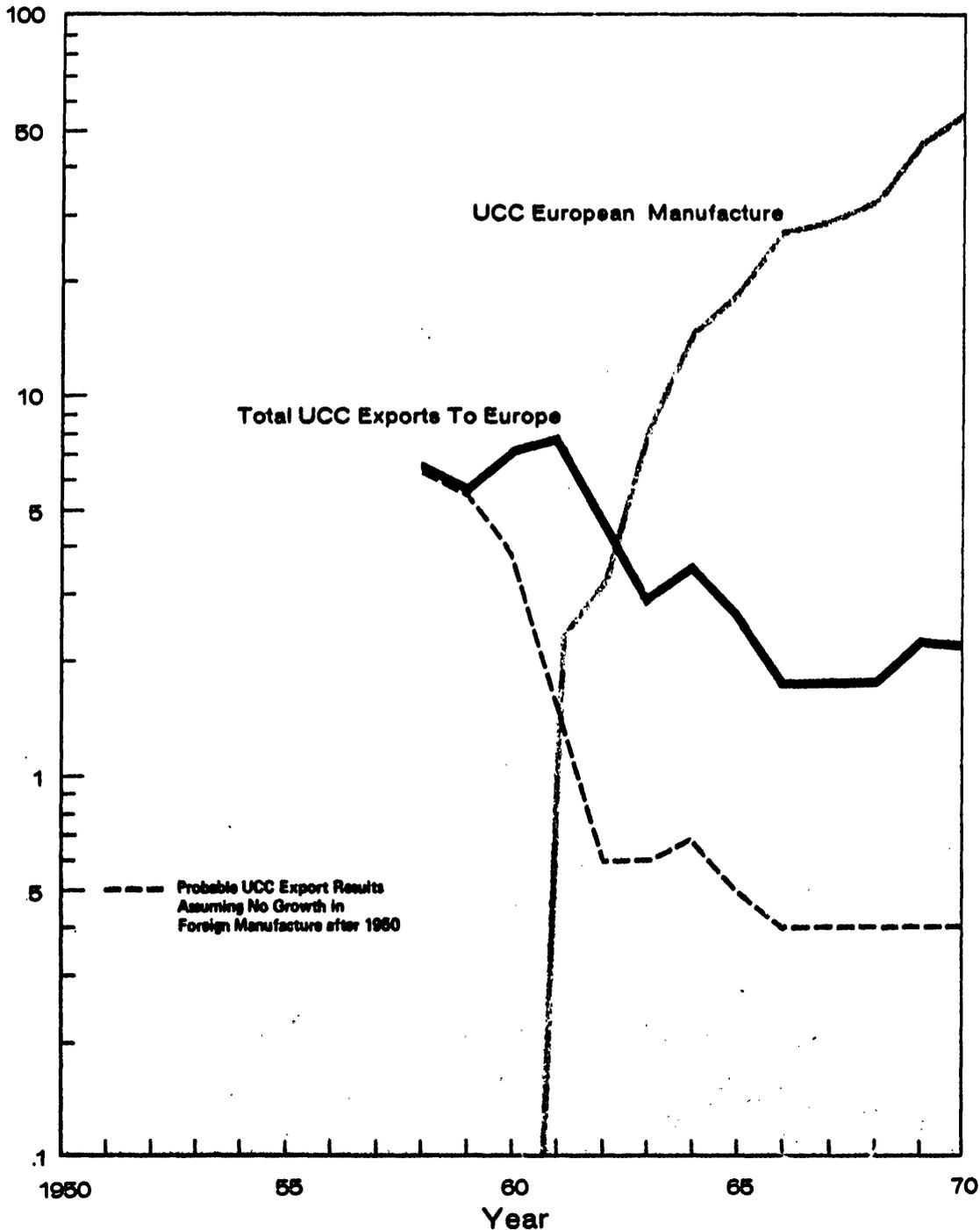
Product Group C1 - - UCC Continental European Sales**Chart No. 27**

At first glance at this Chart, it would appear that the building of a foreign manufacturing unit does indeed have an adverse effect on U.S. exports. However, there is one important factor that does not appear on the Chart. In 1962, under the international trading rules of the General Agreement on Tariffs and Trade (GATT), the European Economic Community took retaliatory action against this product group's exports from the U.S. because of an action that the U.S. took to limit imports of certain European products into the U.S. All exports of this product from the U.S. were subjected to a high retaliatory duty beginning in 1962. The severe, negative impact on U.S. exports can be seen on this Chart. This provides an excellent example of the adverse effect of retaliatory action against U.S. exports.

Based on UCC's overall experience, as indicated in these detailed Charts, we would have expected a certain increase "pull" in exports from the U.S. as has occurred in most other product lines when UCC installed a foreign plant. As it is, the exports that are being realized reflect a "pull" of the more advanced products that are not produced locally and can still be exported competitively from the U.S. in spite of the government's retaliatory duty. Even these exports would not be made, as the dashed line indicates, if we did not have a local organization in Europe manufacturing and marketing these products.

Product Group C 1 UCC Continental European Sales

Million \$



Product Group A - - UCC Mexican Sales**Chart No. 28**

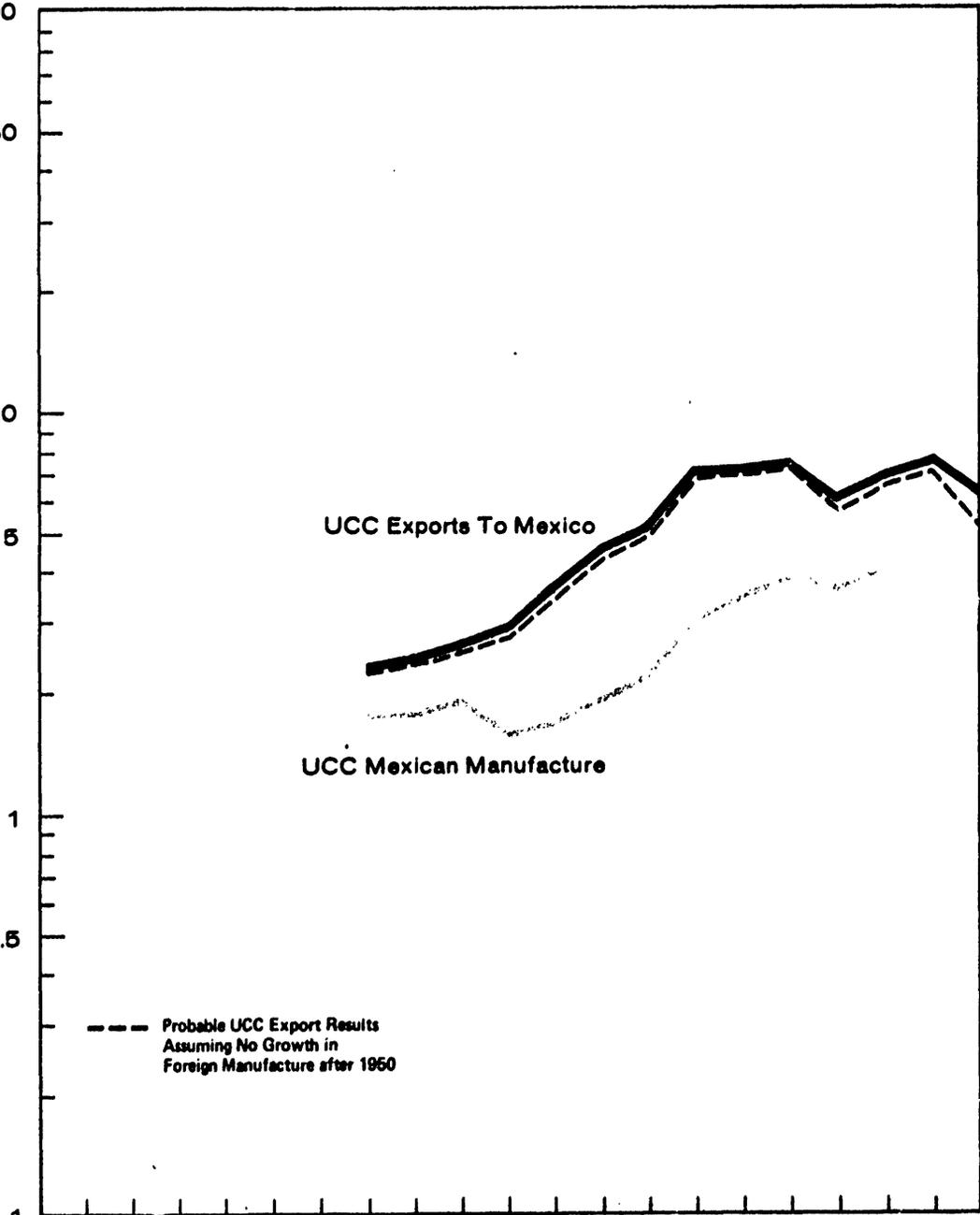
UCC's exports to Mexico of Product Group A presently are greater than the sales value of Product Group A manufactured in our affiliated Mexican plant. Up until the 1967-1968 period the growth rates for both exports and local manufacturing were quite good. However, since that time, as the chart indicates, there has been a decline in both exports and local manufacturing. There is a major reason for this decline. In 1967 the Mexican Government itself decided to build a government-owned plant to produce some of the products covered in the overall Product Group A category. As mentioned previously in this Report, Product Group A has two major components - - Product Group B and C. Accordingly, Chart No. 29 covering Product Group C1 Sales in Mexico details the effect on UCC's exports as the result of the Mexican Government action.

The major conclusion to be derived from this Chart is that exports to Mexico have correlated exactly with UCC Mexican production, and have maintained themselves at a higher absolute level despite the fact that the government plant came into production.

CHART NO. 28

Product Group A UCC Mexican Sales

Million \$



1950

55

60

65

70

Year

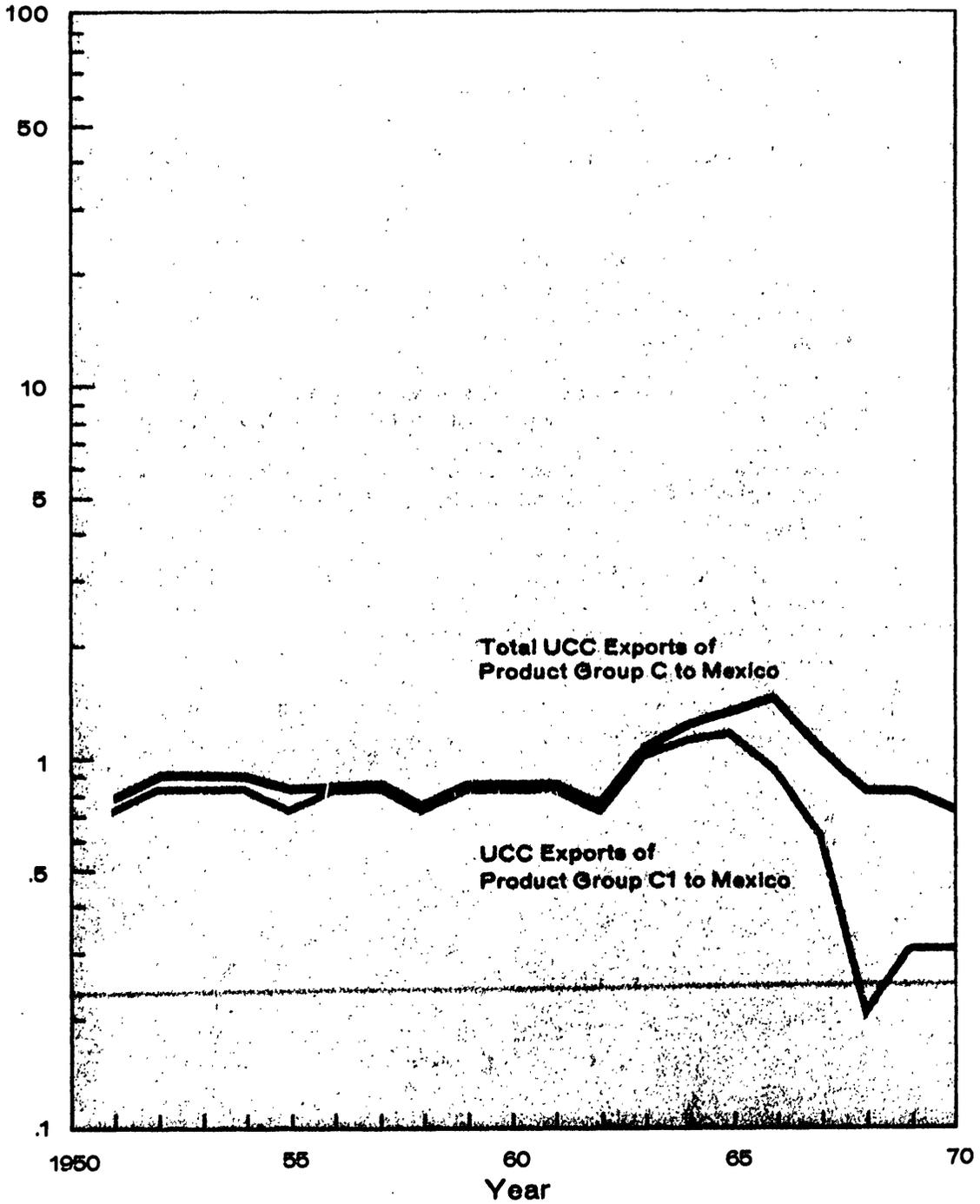
Product Group C1 - - UCC Mexican Sales**Chart No. 29**

This Chart depicts the export experience of Product Group C1 mentioned in the commentary on Chart No. 28. The precipitous drop in exports of product Group C1 was a direct result of the Mexican Government-owned plant having starting production in 1967.

As this Chart indicates, UCC had been experiencing a fairly constant level of exports of this product to Mexico; however, once the Mexican Government's plant began producing, the border was closed to imports (except as licensed by the Government).

Product Group C1 UCC Export Sales to Mexico

Million \$



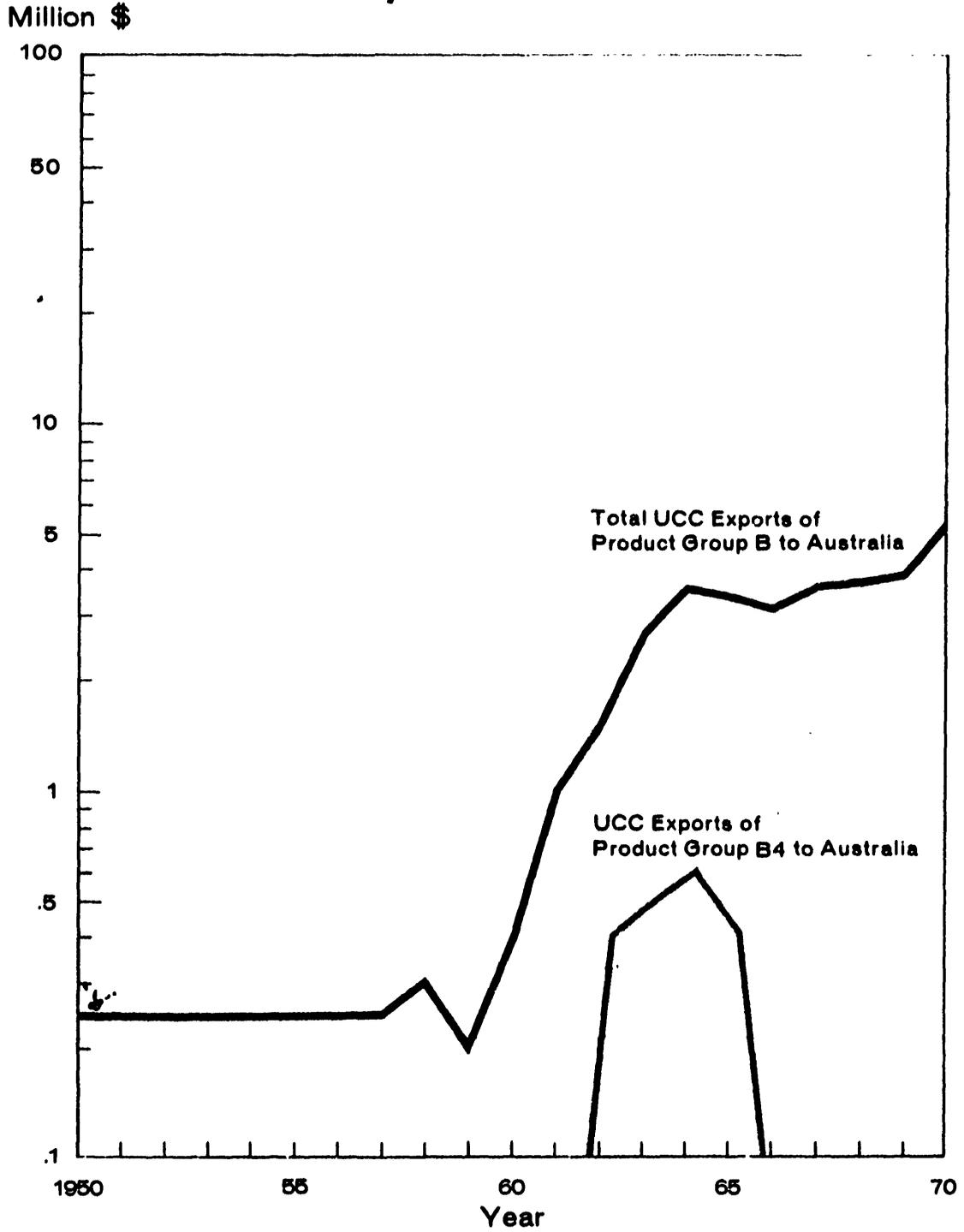
Product Group B4 - - UCC Australian Sales**Chart No. 30**

In order to further illustrate what happens to U.S. exports when the decision is made not to invest in a local manufacturing facility, two examples from UCC's experience in Australia are shown on Chart Nos. 30 and 31. The adverse effect of not building a local manufacturing plant is accentuated in a country with a protective tariff policy which Australia requires because of its limited population and market size.

UCC's exports of Product Group B expanded in a major way from 1959 to 1963, and the subgrouping B-4 was an important part of this expansion. However, one of UCC's major international competitors built a plant in Australia in 1964 for the production of Group B-4, and as can be seen on Chart No. 30, UCC's exports of Product Group B-4 dropped to zero within two years.

It is obvious from this experience that UCC should have installed facilities in Australia to produce Product Group B-4 and protect itself against the inroads of local competition. From Chart No. 30, the effect on total UCC exports of Product Group B since 1964 can be seen; actually, the growth rate of the overall product group has been almost completely dissipated since the installation of the competitive manufacturing operation in Product Group B-4.

Product Group B4 UCC Export Sales to Australia



Product Group B5 - - UCC Australian Sales**Chart No. 31**

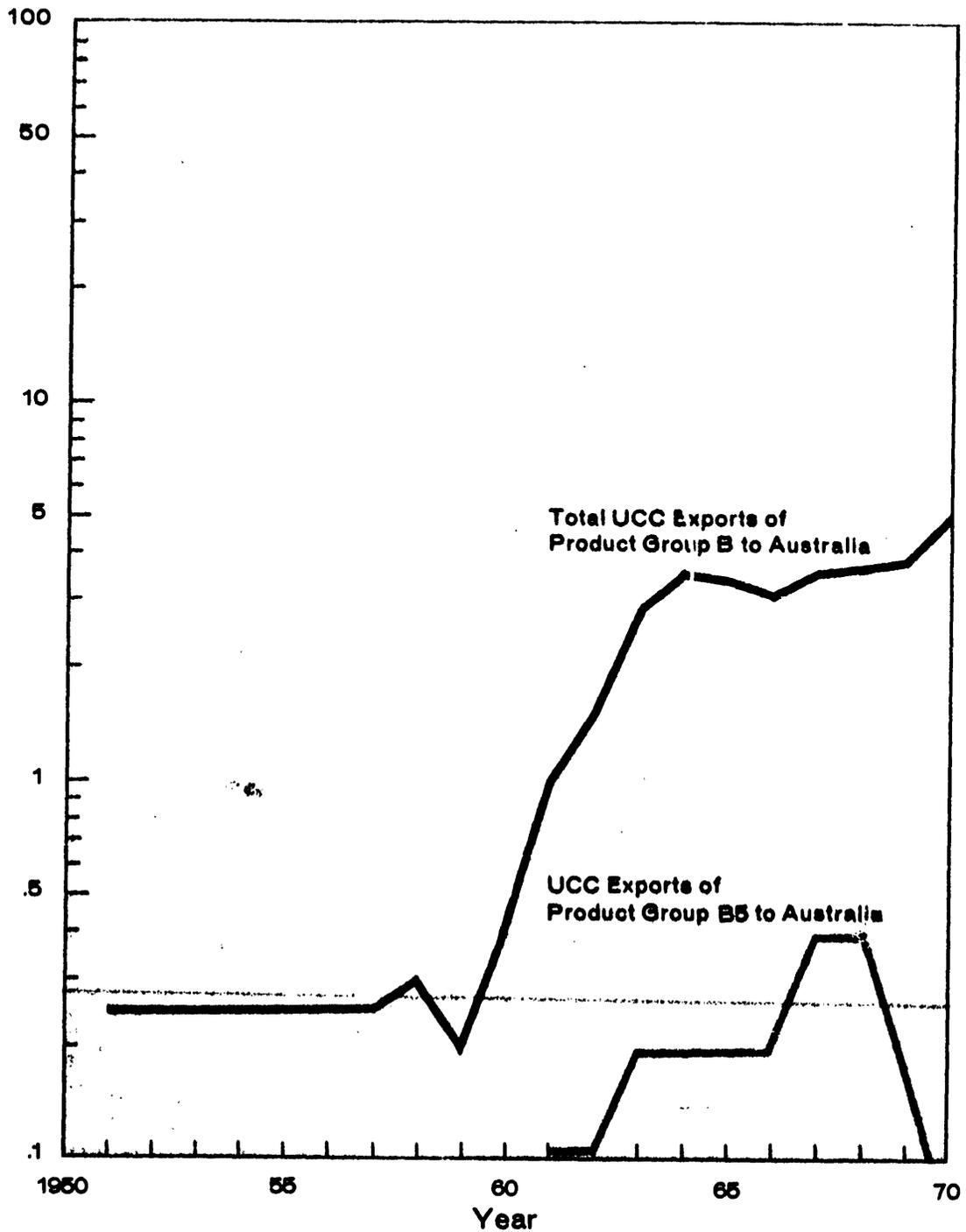
Chart No. 31 indicates that the sales of Product Group B5 were beginning to develop well during the period 1961-1967. However, in 1968 one of UCC's large foreign competitors decided to build a local manufacturing facility to produce this same product. As can be seen from the Chart, UCC's exports of Product Group B5 dropped to zero the next year.

It should be emphasized that to the extent that intermediates, or more advanced products, must be imported into Australia, they will undoubtedly be exported by our competitors to their affiliated company in Australia. Thus, because of UCC's failure to install the local plant, UCC lost not only the exportation of the specific product to be manufactured locally, but also lost the follow-on exports of intermediates required to supply the local plant.

CHART NO. 31

Product Group B5 UCC Export Sales to Australia

Million \$



Product Group A - - Total UCC Foreign Sales**Chart No. 32**

As stated in the Summary section of this Report, UCC prefers to export from the U.S. as long as it is economically feasible, building foreign manufacturing facilities only when necessary to protect a market or because of certain actions by foreign governments. The export curve in this Chart certainly is a graphic illustration of this preference. From 1953 to 1961, total exports exceeded total foreign manufacturing, although both were growing at about the same rate.

The large 1962 increase in foreign manufacturing sales value is largely the result of UCC's acquiring a 50% interest in a sizable European company. This was done only because it was necessary to integrate an English raw material production operation into the finished product area in order to meet competition in England from France and Italy which could not be met competitively by exports from the U.S. Without this essential acquisition, average growth rates of exports and foreign manufactured product would have continued about the same.

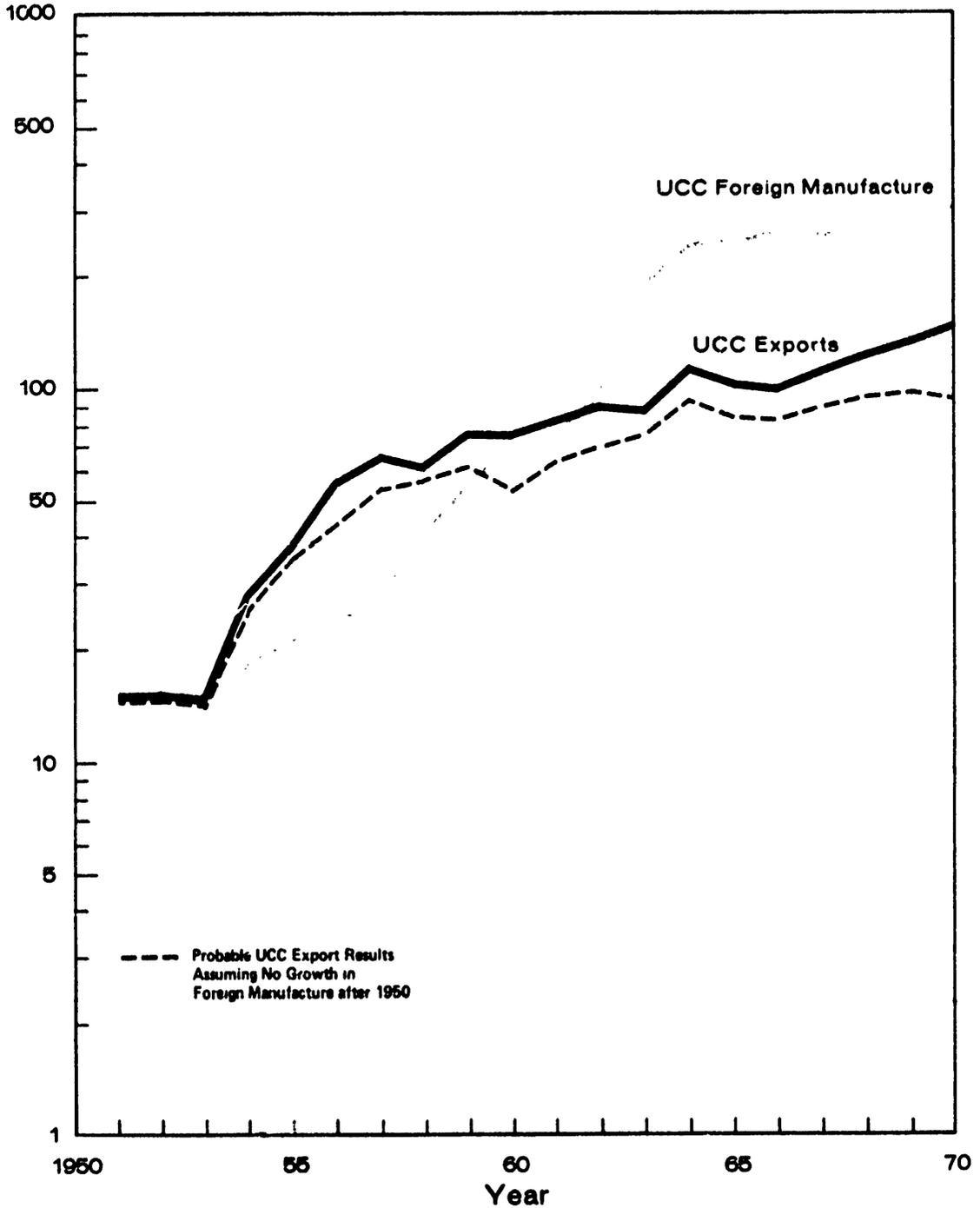
Questions are sometimes raised such as, "Why was it necessary for UCC to invest in foreign countries during this period?" "Wouldn't it have been better to build larger units in the U.S. and export to these countries?" On the surface it might seem so. However, many of these products were relatively low priced materials which were being produced by competition in large quantities overseas. The cost of ocean freight alone would in most cases have rendered U.S. exports of these products non-competitive. Another controlling factor has been delivery time required. Many customers prefer to minimize the amount of inventory they carry. Hence, they prefer to place an order and receive delivery within a few days rather than a few weeks, and therefore will naturally tend to favor a local source against importation whenever possible.

Under such conditions UCC had basically only two alternatives - - either to abandon participation in this business or build manufacturing facilities locally which would serve to be competitive with other local producers and at the same time constitute a base to "pull" accessory product exports from the U.S. In our judgment the latter course obviously has been the better long term decision. The continued growth, as can be seen from the Chart, in UCC's exports of Product Group A around the world fortify this judgment. In spite of necessary UCC foreign investment for Product Group A since 1951, its exports have grown at an annual rate of 12%, and after adjusting for effect of the 1962 acquisition, have roughly paralleled expansion of foreign manufacture.

CHART NO. 32

Product Group A Total UCC Foreign Sales

Million \$



Product Group A - UCC Continental European Sales**Chart No. 33**

As has been stated previously, it is UCC's preference to compete in foreign markets by way of exports from the U.S. However, as explained at length in this Report, frequently the only way to remain competitive is to build a foreign manufacturing facility. It is also evident that these foreign investments have had a salutary effect on U.S. exports. This Chart, which covers the exports of a large group of interrelated product types, bears out this conclusion.

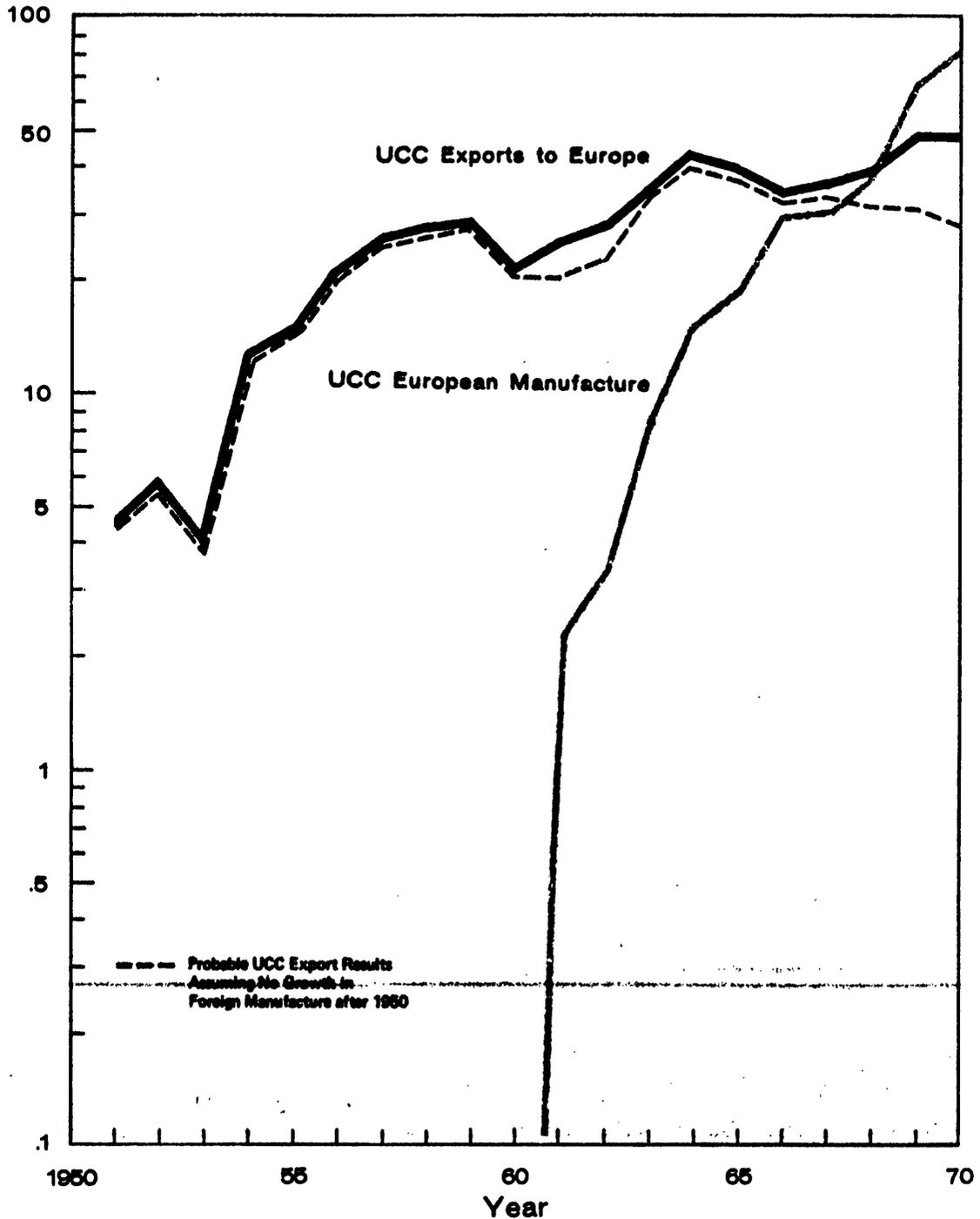
UCC's initial entry for Product Group A into the continental European market was made by exports from the U.S. Between 1951 and 1958 UCC's exports of this product grew at an average annual rate of 35%. However, as European competitors became more self-sufficient and the formation of the EEC fostered the building of larger, more efficient plants, increased competitive pressures developed and UCC's exports began to level off.

In 1961 and 1963 UCC built manufacturing facilities in Europe for one of the major sub-groupings of this overall product. It is interesting to note that UCC's exports from the U.S. again began to increase following the construction of these foreign facilities. A portion of these increased exports reflected market build-up prior to and during the start-up of these local manufacturing units, the balance being sustaining supply needed from the U.S. to meet demands beyond the capabilities of the local producing unit.

CHART NO. 33

Product Group A UCC Continental European Sales

Million \$



Product Group B - UCC Export Sales**Chart No. 34**

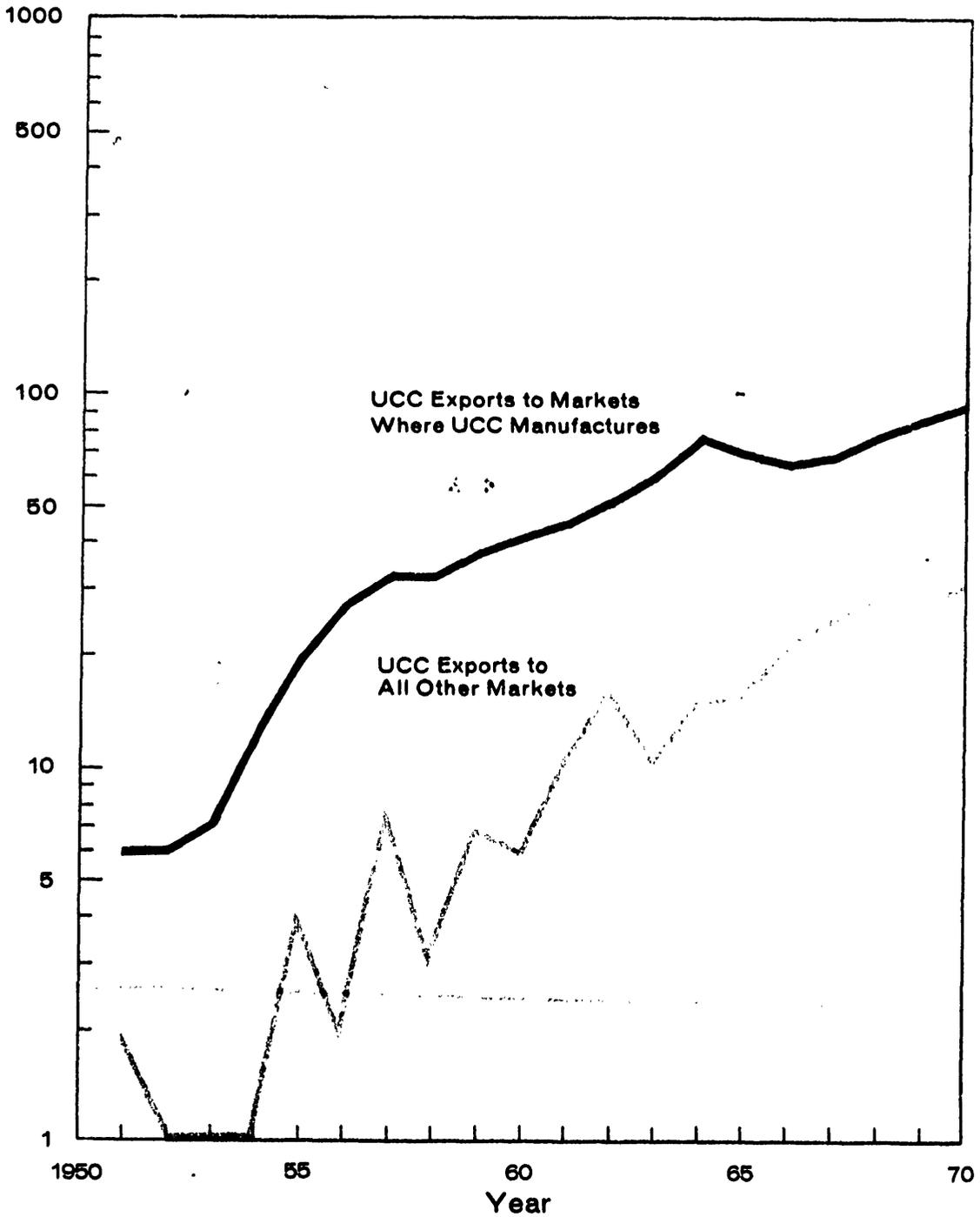
Export sales of Product Group B have been consistently greater to areas where UCC has manufacturing facilities. This Chart is essentially another example depicting the overall favorable "pull" effect of foreign investment on U.S. exports.

At slightly over \$90 million in 1970, UCC's exports of Product Group B to markets where UCC manufactures are three times higher than exports to all other markets in the same year. This is an impressive differential which certainly verifies the favorable cause and effect relationship which exists between UCC's foreign investment and UCC's exports from the U.S.

CHART NO. 34

Product Group B UCC Export Sales

Million \$

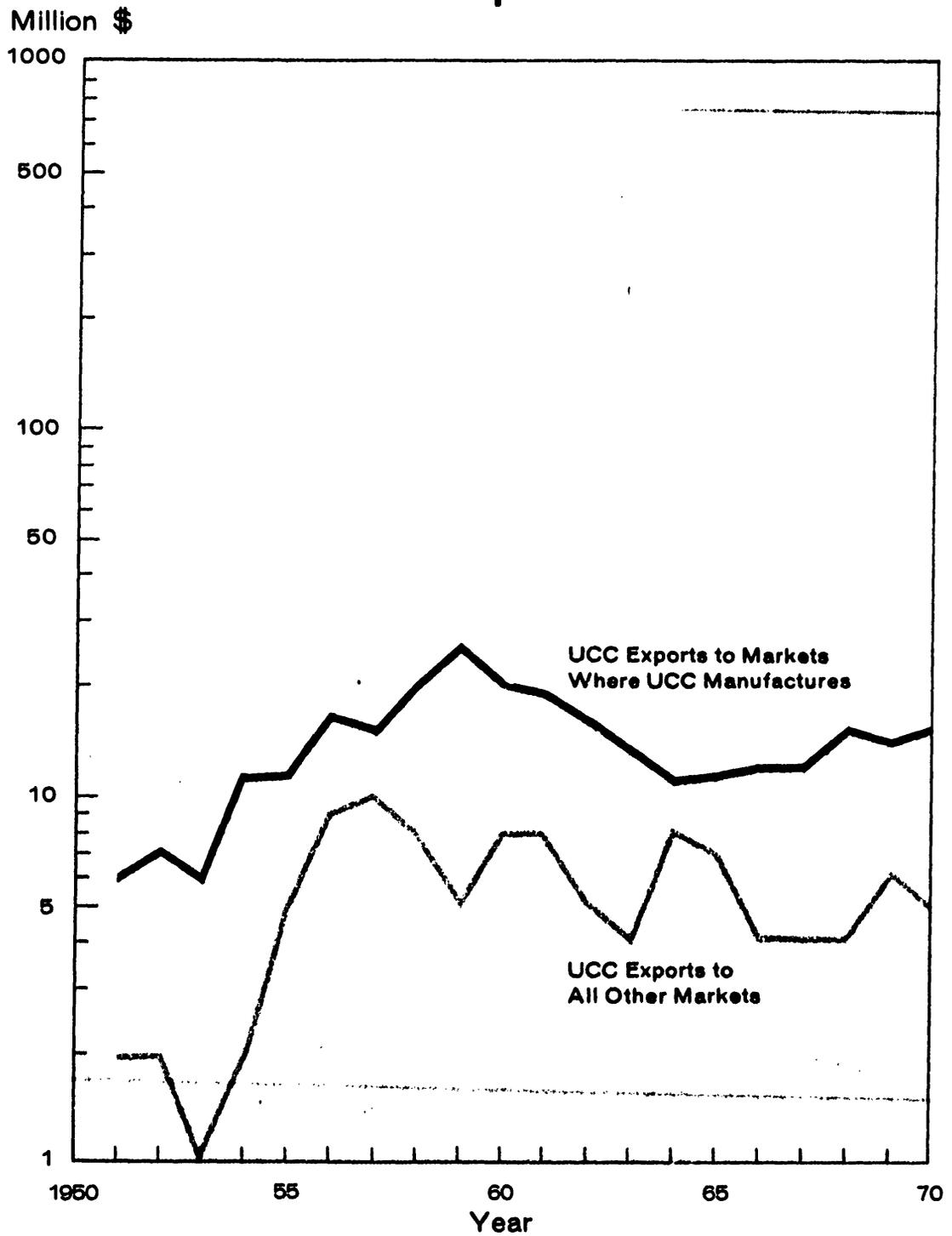


Product Group C - - UCC Export Sales**Chart No. 35**

The export sales of Product Group C to areas where UCC has manufacturing operations have been consistently higher than to other areas. However, because of extreme worldwide competition reflecting large additions to worldwide capacity in the 1960's in this Product Group, and also because of the retaliatory import duty action taken by the European Economic Community in 1962 (mentioned previously in the Report), UCC's exports of this Product Group to areas where we have foreign plants are not as high as they might otherwise be.

CHART NO. 35

Product Group C UCC Export Sales



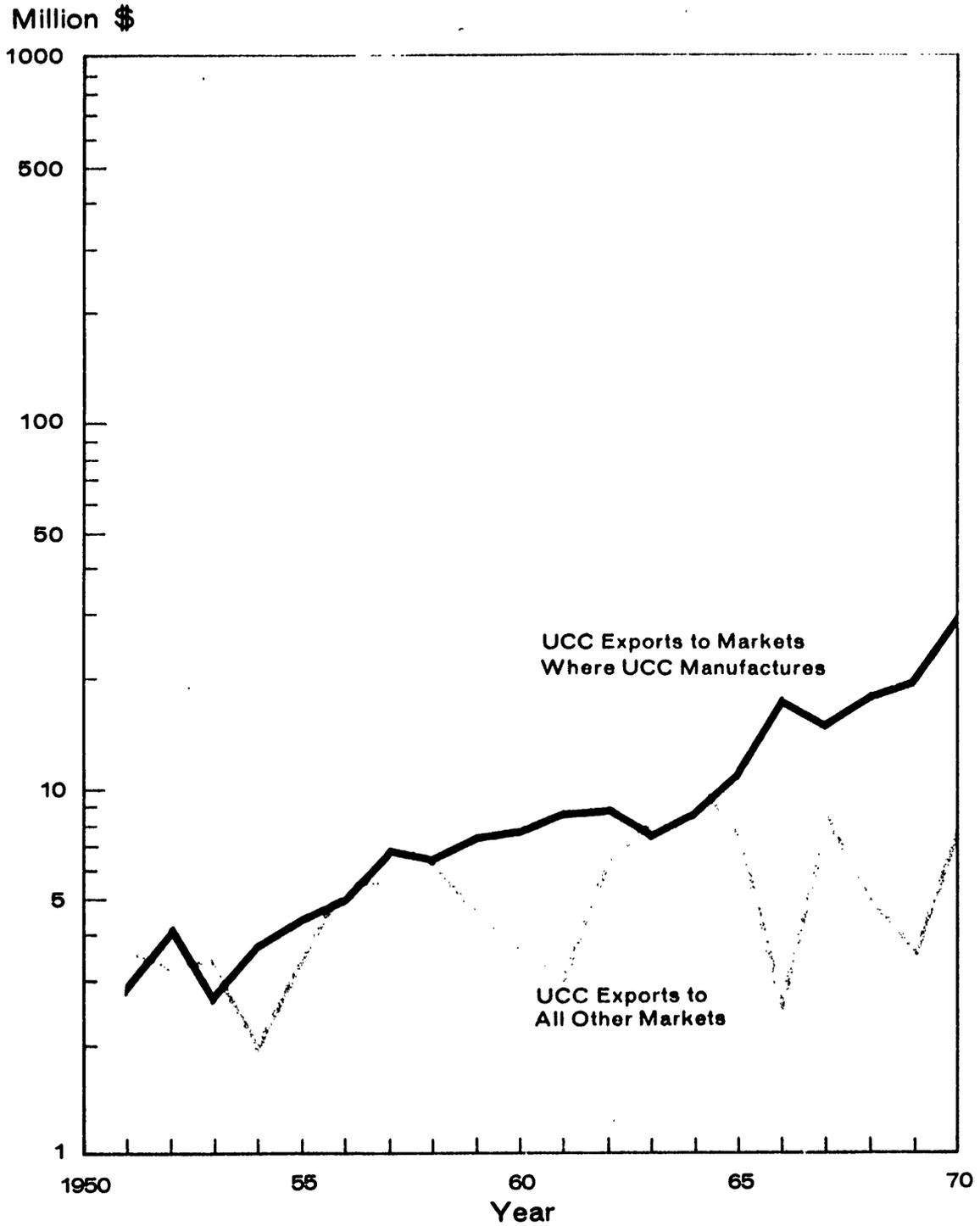
Product Group D - - UCC Export Sales**Chart No. 36**

This Chart shows that the growth rate of exports to geographical areas in which UCC has made no manufacturing investment is only 3.4% while the growth rate for exports to the areas in which UCC has installed manufacturing facilities is 12.5%. Despite the loss of exports to manufacturing areas of the finished products which UCC set up to manufacture in those areas, the growth rate of exports to those areas has continued over the years to be more favorable than exports to the rest of the world where there was no adverse effect on exports from our own manufacture.

These two curves point up emphatically the fact that the existence and "presence" of a manufacturing organization with intensified marketing activity serves to "pull" or attract substantial export of other allied products and particularly raw materials and intermediates. In this connection, the finished product exports would have been eliminated anyway regardless of whether UCC had made the overseas manufacturing investments. This is because of the fact that the countries in which UCC established production facilities were bound and determined that they were going to have basic plants of these types and, if we had not made the investment, foreign competitors would have done so anyway. Therefore, without the UCC investment, there would have been no demand for UCC export of raw materials and intermediates either, and hence little or no export at all.

CHART NO. 36

Product Group D UCC Export Sales



Comments on the

INTERNATIONAL ACTIVITIES

of

U. S. MULTINATIONAL CORPORATIONS

Submitted to the

Subcommittee on International Trade
Committee on Finance
United States Senate

by the

National Association of Manufacturers

January 10, 1973

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SECTION I
INTRODUCTION
NEW WORLD REALITIES

Any meaningful assessment of the domestic and international implications of continued foreign direct investment by U.S. corporations must be done in the context of the following new realities of world competition:

- ° The return of balance to the world economy.
- ° Growing differences in local market needs and transportation and labor costs as well as proliferation of trade barriers, particularly non-tariff barriers (NTBs).
- ° The shift from ideological to economic competition.
- ° Increasing interdependency between domestic and international economic prosperity.

Return of Balance to the World Economy

The U.S. emerged from World War II as the unchallenged economic leader of the free world. In a very real sense, the free world and the U.S. economy were synonymous. To expand and strengthen world markets, U.S. foreign economic policy throughout the '50s and early '60s was directed at restoring balance to the world economy by rebuilding the war-torn economies of Western Europe and Japan.

The success of this policy can be seen by the fact that the combined gross national products of the European Economic Community countries, including the United Kingdom, grew from \$216 billion in

1950 to over \$565 billion in 1970 and Japan's \$200 billion plus economy trails only that of the U.S. and the U.S.S.R.

The transition from a U.S.-dominated international economic system to one of relative economic balance and equity has brought with it many new opportunities for the U.S. as well as the challenge of more aggressive foreign competition. How effectively American industry meets this challenge will increasingly affect domestic employment, inflation and the balance of payments.

Special Market Needs, Cost Differences and Trade Barriers

Economic growth abroad has led to greater consumer affluence and sophistication as well as a more differentiated product demand abroad. Foreign buyers no longer want exactly the same products as U.S. consumers. Increasingly, they are demanding product modification to meet special local needs and tastes. At the same time, the growth of foreign competition has accentuated the importance of customizing products to special local market tastes at competitive prices. As a result, transportation and labor cost differentials have made it impossible for certain U.S. industry groups to compete in world markets strictly through exports. Even more important is the fact that, despite the rapid economic growth and maturity of Japan, the European Economic Community and Canada, many of these countries have allowed their currencies to become undervalued vis-a-vis the dollar and have maintained and/or increased their trade barriers, particularly NTBs, making it

difficult if not impossible for U.S. firms to compete for world markets solely by exporting. (It should be noted that the U.S. itself maintains several tariff and non-tariff barriers to restrict imports.)

An analysis of the economic costs and benefits of foreign direct investment must reflect these new dynamic realities of international competition.

Shift From Ideological to Economic Competition

Another factor which must be taken into account when evaluating the economic impact of foreign direct investment on the U.S. is the reduction in cold war tension between the U.S. and the Soviet Union and China. As a result, there has been a noticeable shift from highly volatile ideological confrontation to more rational pragmatic economic competition for world markets.

The shift from ideological to economic competition has helped to reduce the threat of military conflict. At the same time, this shift represents a major new challenge for the U.S. - a challenge in which the multinational corporation (MNC) and foreign direct investments have a vital role to play.

Increasing Interdependency Between Domestic and International Economic Prosperity

Finally, the real domestic impact of the international operations of U.S. MNCs must take into consideration the growing interdependence between domestic prosperity and the international competitiveness of American industry.

Historically, exports have accounted for a relatively small proportion of the U.S. gross national product and employment (about 4.3% in 1971). Yet, exports were responsible for 9% of the total employment in agriculture and 7% of the total employment in manufacturing in 1969. Imports, like exports, represent only a small share of total gross national product (4.5% in 1971). Yet their importance to the supply of goods available in the U.S. is considerable - in excess of 8%.¹ In a number of sectors the importance of imports is even higher. (See Table 1.) As a result, a drastic reduction in all imports could cause major price increases and accelerate our already high rate of inflation. (According to former Secretary of Commerce Peter G. Peterson, adoption of the indiscriminate, all-inclusive quotas suggested in the Burke-Hartke bill, would result in a \$10 to \$15 billion price increase in the U.S.)²

The relationship between U.S. trade, domestic employment and inflation, however, is only part of the inter-relationship between our domestic economy and international competitiveness. The rapid growth of U.S. direct investments abroad has further integrated the U.S. and world economy. Not only do U.S. foreign subsidiaries help to "pull through" close to 25% of our total exports and 35% of our total manufactured exports, but equally important, the remitted earnings of U.S. foreign affiliates are responsible for contributing billions of dollars to the U.S. balance of payments

TABLE 1

Imports as a Percentage of Domestic Supply of Industrial Materials (1968).

<u>Item</u>	<u>Per cent</u>	<u>Item</u>	<u>Per cent</u>
Natural abrasives	100	Pulp mill products	31
Manganese ores	95	Copper (smelted)	27
Bauxite	86	Lead and zinc ores	27
Scouring products	40	Potash	27
Iron ores	35	Steel	15

Source: Imports and Economic Welfare in the U.S.
 Remarks of Andrew Brimmer to the Foreign Policy
 Association, February 16, 1972, p. 8.

and to the disposable income of tens of millions of Americans.

The remainder of this document will be devoted to answering the questions raised by Senator Ribicoff about the domestic economic impact of the international operations of U.S. MNCs. Since the National Association of Manufacturers represents a broad base of American industry, our analysis will concentrate on the macro economic relationships between the domestic economy and foreign direct investment given the new realities of international competition.

SECTION II
DOMESTIC EMPLOYMENT
AND
THE MULTINATIONAL CORPORATION

One of the key issues being raised about the MNC concerns the relationship between foreign direct investment and domestic employment.

In particular, two questions are being asked:

- ° Does the MNC, through its foreign direct investments, export capital which would otherwise be used to build new facilities and create jobs in the U.S.?
- ° Does the MNC, in order to take advantage of "cheap" foreign labor, produce goods abroad (which could have been economically produced in the U.S.) for the U.S. market?

The MNC and Capital Export

The question of whether foreign direct investment aggravates U.S. employment by exporting capital which would otherwise have been invested in the U.S. implies that domestic and foreign capital investments are highly substitutable and made at the expense of one another. Yet, there is little evidence to support this assumption. To the contrary, according to Harvard Professor Raymond Vernon:

"There isn't any basis for assuming any single consequence based on the concept of a zero-sum game such as the notion that what is produced in a subsidiary abroad would otherwise have been produced by the parent company in the U.S." 3

The realities of business decision-making indicate that corporate executives evaluate both domestic and foreign investment opportunities on the basis of their risk-return potential. Unless an investment project promises to yield a return commensurate with risks involved, it is rejected. If after analyzing available domestic and international investment opportunities, a company finds that acceptable investments do not exist, additional funds probably will not be borrowed and excess cash would either be paid out in additional dividends or invested in short-term securities until satisfactory investment opportunities became available.

This question also implies that the foreign direct investments of MNCs are financed primarily through capital export, making them a net exporter of U.S. capital. Statistics, however, show this not to be the case. In a recent study of 83 MNCs NAM found that over the last five years these companies remitted on average about 50% of their foreign earnings to the U.S.⁴ Earnings which were retained abroad, combined with foreign borrowing, provided the great majority of the capital used to expand corporate operations abroad.

Between 1960 and 1971, the remitted earnings of U.S. MNCs grew from \$2.3 to \$7.3 billion.⁵ In total, U.S. MNCs returned over \$16 billion more capital (excluding royalties and fees) to the U.S. than they exported during this twelve-year period. The steady increase in remitted earnings has not only helped to strengthen our weakening balance of payments position but these earnings have

provided job-creating investment capital for over 3,000 U.S. firms with foreign direct investments. Thus, hundreds of thousands of jobs have been created or maintained in the U.S. Since it takes close to \$25,000 of investment capital to create one job in manufacturing, it is estimated that the net remitted earnings from U.S. foreign subsidiaries provided the capital necessary to create and/or support upwards of 200,000 domestic jobs over the last five years. (See Appendix A.)

"Cheap Labor" Exports to the U.S.

Several recent studies⁶ have examined the question of whether or not foreign direct investments are made in order to allow a firm to export goods made with "cheap labor" back to the U.S. market. These studies show that in general U.S. direct investment abroad tends to be concentrated in industry groups which fall into the lowest import categories. Conversely, product groups with the highest imports, such as shoes and textiles, are among the industry groups with the lowest direct investment. In high-import industry groups, such as automobiles and steel, where U.S. firms have invested heavily abroad, the great majority of the import comes from companies such as Nippon Steel, Volkswagen and Toyota rather than U.S. affiliates

On a micro level, the primary exception to the above, seems to be the electronics industry, which has been hard-hit by imports. Although part of these imports come from subsidiaries of U.S. firms,

Japanese firms account for 50% of the radios and 77% of the TVs imported to the U.S. The primary reason for this seems to be the rapidly growing technological and managerial capabilities of foreign electronics firms. As a result, labor cost differentials become extremely important and it is here that U.S. firms are at a competitive disadvantage. To meet foreign competition, U.S. firms have little choice but to produce abroad to take advantage of the lower wage rates afforded foreign competitors abroad or lose their share of the U.S. and world markets. It was this situation that led the Tariff Commission to conclude after a year of comprehensive study:

"For producers of consumer electronic products the retention of a significant share of U.S. market depends largely on the cost reductions realized through the use of foreign labor ..."⁷

Recent studies by the National Foreign Trade Council,⁸ The Conference Board,⁹ Emergency Committee for American Trade and Business International,¹⁰ and Business International¹¹ of corporate motivation for foreign direct investment, further confirm the assumption that low-cost labor is not a primary determinant of foreign direct investment. These studies indicate that proximity to markets, NTBs and foreign competition are the three primary determinants of a corporate decision to invest abroad. These findings are confirmed by the fact that the rate of growth in U.S. foreign direct investment has been highest in Canada and Europe¹² (see Table 2) where wage levels

TABLE 2
GROWTH OF U.S. DIRECT INVESTMENTS ABROAD, BY AREA AND INDUSTRY

1950 - 1970 a/

	Amount in Billion Dollars		Percent of Total	
	<u>1950</u>	<u>1970 b/</u>	<u>1950</u>	<u>1970 b/</u>
All Areas, Total	11.8	78.1	100.0	100.0
Canada	3.6	22.8	30.5	29.2
Latin America	4.6	14.7	39.0	18.8
Europe	1.7	24.5*	14.4	31.4
Middle East & Africa	1.0	5.1	8.5	6.5
Other areas	0.9	11.0	7.6	14.1
Developed Countries, Total	n.a.	53.1	n.a.	68.0
Less Dev. Countries, Total	n.a.	21.4	n.a.	27.4
International, Unallocated	n.a.	3.6	n.a.	4.6

Notes: Detail may not add to totals because of rounding.

a/ Book value at year end

b/ Provisional

* Excludes Eastern Europe

n.a. Not available

Source: As shown in Dept. of Commerce The MNC: Studies on U.S. Foreign Investment, vol. 1, p. 13.

were relatively high compared to those in Latin America, Africa and the Far East. Further, if foreign direct investments were made primarily to take advantage of low wages abroad, it would follow that foreign MNCs would be uninterested in investing in the U.S. since U.S. wages are higher than anywhere else in the world. Yet, over the last five years, foreign direct investment in the U.S. has grown five times faster than U.S. investment abroad (Exhibit 1).

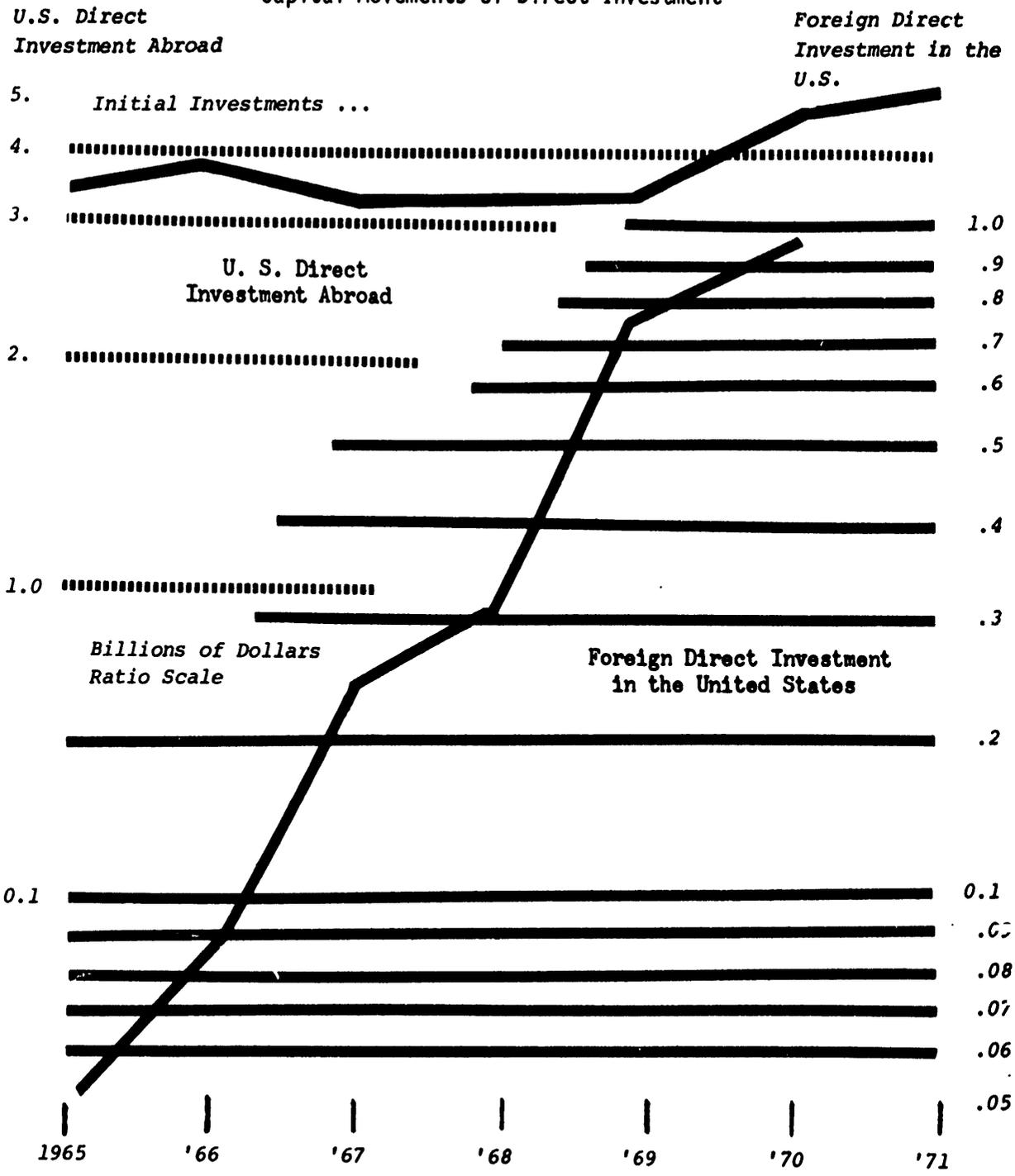
Domestic Job Creation and the MNC

Although there is little factual evidence to support the premise that foreign direct investment aggravates U.S. unemployment because it is made at the expense of domestic investment and results in increased imports, there is considerable evidence that such investment is a net creator of jobs.

Over the last year, at least six major national studies¹³

EXHIBIT 1

Capital Movements of Direct Investment



Printed by permission from THE CONFERENCE BOARD publication FOREIGN DIRECT INVESTMENT IN THE LAST DECADE, Road Maps of Industry, No. 1693, July 1, 1972.

have analyzed the relationship between foreign direct investment and U.S. employment. Although the methodologies of these studies differed, they were consistent in their findings - U.S. foreign direct investment is a net creator of domestic jobs which otherwise would not have been created.

These studies identified several reasons for the direct, positive relationship between foreign direct investment and U.S. employment. Underlying all these reasons was the fact that in general U.S. firms would rather invest in the U.S. than they would abroad, since domestic investment carries less risk than foreign investment. Foreign investments are generally undertaken either because geographic location of certain raw materials, such as oil, copper or tin, dictate investment in other countries, or because it is no longer economic to produce domestically and continue to compete for profitable international and/or domestic markets. The "compete or not compete" option is illustrated by the growing trend among many developed and developing countries to require a specified portion of a foreign product be produced locally. For example, France requires that two-thirds of the weight and 50% of the value of steam turbines be produced in France and Brazil requires that 50% of the value and two-thirds of the weight of all locomotives sold in Brazil be produced locally. Since foreign competition is keen in both of these product groups, U.S. firms which are not willing (or able) to meet these content requirements

will lose these markets. By investing in countries with NTBs, such as local content requirements, U.S. MNCs preserve export markets for U.S. components and capital equipment which would otherwise have been lost to foreign competition.

(NAM is currently coordinating the efforts of over 25 major trade associations in the first inter-industry study of major foreign NTBs. As part of this study we are collecting data on the extent to which NTBs have been a factor in motivating firms to invest abroad.)

The importance of foreign direct investment in "pulling through" U.S. exports is illustrated by the results of the latest Department of Commerce Bureau of European Analysis (BEA) Mini Census of 298 MNCs. This study shows that these firms exported close to \$430 million in U.S. capital equipment to their foreign affiliates in 1970. In addition, these firms exported over \$4.3 billion worth of products for further processing by their foreign affiliates in 1970 (an increase of 65% over 1966) and an additional \$4.8 billion worth of goods for resale by foreign affiliates (an increase of 77% over 1966).¹⁴ Studies by the Emergency Committee for American Trade (E.C.A.T.),¹⁵ Business International,¹⁶ the U.S. Chamber of Commerce¹⁷ and NAM¹⁸ show that most of these exports could not have been made without U.S. foreign direct investment. This latter fact is particularly important when one considers that in 1969, according to the estimates made by the Bureau of Labor

Statistics in the U.S. Department of Labor, about 2.6 million jobs could be attributed to the \$37.5 billion of exports of merchandise in that year. Thus, about 69,000 jobs were associated with each \$1 billion of exports in 1969.¹⁹

The importance of the "pull through" effects of foreign direct investment is further illustrated by E.C.A.T.²⁰ and Business International studies²¹ which show that firms with foreign affiliates increase their exports faster than the rate of increase for U.S. exports in general. In fact, these studies show that there seem to be a direct correlation between foreign direct investments and exports - the greater the foreign investment the greater the rate of increase in exports.

In addition to the jobs created as a result of U.S. exports being "pulled through" foreign affiliates, the expansion of U.S. affiliates abroad also has resulted in many managerial technical and clerical support jobs being created in the U.S. According to Professor Robert Stobaugh of Harvard, foreign direct investments by MNCs have created upward of 600,000 new jobs over the last five years.²²

The foreign subsidiaries of U.S. parent companies also create jobs for American workers in yet another way - by providing the funds necessary for capital investment in the U.S. As was noted earlier, NAM found that over the last five years, the net remitted earnings of U.S. firms have provided the capital to create and/or maintain upwards of 200,000 jobs in the U.S.²³

Finally, by investing abroad, U.S. MNCs have been able to minimize the adverse effects of U.S. business cycles on domestic cash flow, investment and employment. As a result, during the recent recession, many U.S. firms with investments abroad were able to maintain a higher domestic rate of investment and employment because of the cash flow generated from foreign direct investments.

SECTION III
TECHNOLOGICAL EROSION

The ever-increasing rate of technological change which took place during the '50s and '60s, accentuated the relationship between technology, employment and domestic economic growth. Therefore, in considering the relationship between foreign direct investment and domestic employment, it is also necessary to review the relationship between the international expansion of the U.S. MNCs and the transfer of U.S. technology abroad.

The primary concern over the transfer of U.S. technology abroad centers around its affect on the product life of U.S. products. Historically, U.S. goods have enjoyed a comparative advantage in high-technology product groups, such as automobiles, electrical generators, computers and airplanes. Studies by such experts as Professors Stobaugh and Vernon indicate that U.S. exports of manufactured goods depend upon product differentiation, whereas other advanced countries rely on price differences to export.²⁴ As a result, once a U.S. product begins to age, foreign firms are able to imitate and modify the product to meet local needs and produce it more cheaply because of lower R&D and transportation costs. Today, the competitive life of U.S. products is about one-half the product life of goods produced prior to World War II.²⁵

It is particularly difficult to attempt to quantify the relationship between direct investment abroad and the transfer of U.S. technology for the following reasons:

- ° The complexity of the inter-relationships which exist

among employment, trade, technology and foreign direct investment.

- ° The limited data available upon which to base any conclusions.
- ° The intangible nature of technology.

Nonetheless, it is possible to make generalizations, believed to be fairly accurate, about the relationship between technology transfer and foreign direct investment.

Royalty and Fee Account

One measure which has been used to estimate this relationship is the balance of payments, royalty and fee account. However, this is at best a very rough estimate for the following reasons:

- ° This account reflects the accumulated returns from the transfer of technology as well as industrial growth abroad.
- ° The balance-of-payments account does not take into consideration the value of the technology gained by U.S. corporations when they acquire a foreign firm. According to Professor Hellman, many of the foreign firms acquired by U.S. MNCs are leaders within their industry and represent an important source of R&D for American industry. ²⁶
- ° The fee and royalty account does not take into consideration improvements in U.S. technology which may be obtained as a result of modifications of U.S. technology by foreign users.

Keeping the above factors in mind, Table 3 shows that receipts of royalties and fees by MNCs from their foreign subsidiaries were

TABLE 3
 U.S. BALANCE OF PAYMENTS RECEIPTS AND PAYMENTS OF ROYALTIES AND FEES
 1960-1970
 (Millions of Dollars)

	<u>Receipts of Royalties & Fees</u>			<u>Payments of Royalties & Fees</u>	
	<u>Non-Affiliated Firms</u>	<u>Affiliated Firms</u>	<u>Total Receipts</u>	<u>Non-Affiliated Firms & Affiliated Firms</u> <u>Payments</u>	<u>Difference Between Receipts & Payments</u>
1960	247	590	837	75	762
1961	244	662	906	89	817
1962	256	800	1056	101	955
1963	273	890	1163	112	1051
1964	301	1013	1314	127	1187
1965	335	1199	1534	135	1399
1966	353	1329	1682	140	1542
1967	407	1438	1845	167	1678
1968	461	1546	2007	187	1820
1969	523	1682	2205	221	1984
1970	600	1880	2480	230	2250
	<u>4,000</u>	<u>13,029</u>	<u>17,029</u>	<u>1,584</u>	<u>15,445</u>

Source: Trends in Direct Investments Abroad by U.S. Multinational Corporations 1960 to 1970.
 February, 1972

much larger than those received by non-affiliated foreign firms. Payments of royalties and fees by U.S. foreign subsidiaries to their parent company amounted to \$13 billion as compared to \$4 billion for non-affiliated foreign firms between 1960 and 1970. At the same time, U.S. MNCs paid out only \$1.6 billion in royalties between 1960 and 1970 to foreign firms. Thus, the net surplus in royalty and fee payments to the U.S. for the use of U.S. technology was over \$15 billion during this eleven year period. At first glance, this would indicate that MNCs are exporting considerable amounts of U.S. technology to potential foreign competitors and receiving relatively little foreign technology in return. However, as was noted earlier, these figures do not reflect the fact that U.S. firms have acquired billions of dollars of foreign technology through acquisitions and mergers nor do they reflect U.S. innovation of foreign technical breakthrough.

Nonetheless, it is clear that MNCs are one of the most important vehicles for the transfer of commercial technology both to and from the U.S. It should be noted, however, that they are not the only vehicles of technological transfer. Although it is impossible to determine accurately to what extent American scientific journals and conferences contribute to the export of U.S. technology, it is clear that the media are an important channel of communicating U.S. technology abroad, nor is it possible to determine how the international movement of government, academic and corporate personnel, or the publication of U.S. patents affect the technological position of the U.S. (a copy

of a U.S. patent is available for 50¢.)

Narrowing Technology Gap

Although foreign direct investment facilitates the two-way flow of technology transfer between the U.S. and the rest of the world, it does not follow that such investment is primarily responsible for the narrowing "technology gap" between the U.S. and many developed countries. The growing technical capabilities of our foreign competitors are a natural outgrowth of the return of economic balance to the world economy. The economic recovery of Europe and Japan has allowed these countries to acquire the capital resources necessary to foster their own research and development and innovate their technological breakthroughs. Although the dollar expenditures for R&D in the U.S. still exceed that of any other nation (some comparative totals for '68, the last available figures show that the U.S. invested a total \$14 billion for R&D, Japan \$5 billion and West Germany \$5 billion). R&D expenditures have been declining as a percentage of gross national product. As a result, several countries are now devoting a greater percentage of their gross national product for civilian technology efforts than in the U.S. Today, Western Europe has more scientists and engineers working on civilian product research than the U.S.²⁷

The effect of this increased emphasis on R&D abroad is indicated by the fact that 45% of U.S. patent applications are

now of foreign origin. It is not surprising then that the Germans invented the rotary engine which may be destined to revolutionize the automobile industry; that the Italians invented the radial tire; that the French developed and put into operation transfer machines to improve the manufacturing efficiency and quality of motor vehicle engines and other mechanical components; and that the Japanese have been leaders in the adoption of computer technology to automobile production.

If the U.S. is to maintain its technology lead, policies must be adopted to encourage and stimulate R&D in the private sector as a means of strengthening the international competitive position of American industry as well as improving the quality of life in America. The spirit of partnership between government and industrial research organizations must continue to be strengthened so that the maximum economic benefits might be derived from all technological breakthroughs regardless of whether they are made in the public or private sector.

SECTION IV
THE U.S. BALANCE OF PAYMENTS
AND
THE MULTINATIONAL CORPORATION

The deteriorating balance-of-payments position of the U.S., combined with the rapid international growth of the multinational corporation, has led to considerable speculation about the effects of foreign direct investment on both the balance of trade and the balance of payments in general.

BALANCE OF TRADE

Export Displacement

One of the questions currently being raised about the relationship between foreign direct investment and the balance of trade, concerns the extent to which U.S. subsidiaries abroad displace U.S. exports. In evaluating the relationship between foreign direct investment and export displacement, it is important to recognize that the major portion (over 75%) of U.S. foreign direct investment has been concentrated in limited export industries such as petroleum, mining, pharmaceuticals and packaging. Thus, the question of export displacement by foreign direct investment is relevant only to a relatively small proportion of our exports (25%).

Even when foreign direct investments are made in high-export product groups, the question of export displacement assumes that U.S. corporations would prefer to establish plants abroad than to continue to serve foreign markets through exports. This assumption, however, is inconsistent with business realities. International investments, because of geographical distance, custom differences, government intervention and the threat of expropriation are generally more risky than domestic investments. As a result, corporations

generally invest abroad, recent studies indicate,²⁸ only when they no longer are able to serve and compete effectively in foreign markets through exporting. Thus, in the long run, little if any export displacement occurs when foreign direct investments are made.

In the short run, temporary export displacement may occur as the result of foreign direct investment when a firm chooses to invest abroad before it loses its total export market to foreign competition. The reason for this is that, given the new realities of international competition and the considerable planning and lead time necessary to establish operating facilities abroad, a firm which waits until it has lost all or a substantial part of its export market before making a foreign investment probably will find it difficult to regain its share of the market from foreign competition.

Export Stimulation

Although there is little indication that foreign direct investment has impeded U.S. export growth, there is considerable evidence that the foreign affiliates of MNCs have played a significant role in stimulating the growth of U.S. exports during the last ten years. According to the Department of Commerce, 25% of all U.S. exports and over 35% of all manufactured exports go to the foreign affiliates of U.S. firms. The most recent Commerce Department BEA study of MNCs reports that the 298 MNCs studied exported over \$9.3 billion worth of goods to their foreign affiliates in 1970. This was an increase

of 62% over 1966. In total, these 298 MNCs exported over \$20 billion worth of goods in 1970. As was noted earlier, tariff and non-tariff barriers, increasing foreign competition and transportation and labor cost differentials would have made the great majority of these exports impossible if it had not been for the "pull through" effect of U.S. foreign direct investment.

Domestic Causes for U.S. Export Expansion

To attempt to force a direct relationship between foreign direct investment and export displacement ignores the basic reasons for the apparent erosion in the competitiveness of U.S. products in world markets. Domestically, the combination of cost-push inflation, lagging productivity and the absence of "export mindedness" on the part of the U.S. government, have contributed to our current lagging export growth.

The rapid escalation of the Vietnam War and the more than \$30 billion budget deficit in '67 and '68, when we had essentially full employment, stimulated excess demand pressures on the economy. At the same time, other major industrial countries were experiencing recessions which both reduced their demand for U.S. exports and helped to curtail wage increases abroad. As the U.S. rate of inflation jumped to near 6% during '69 and '70, the price of U.S. exports in already weak foreign markets rose further, reducing their competitiveness. U.S. inflation also stimulated domestic demand for low-priced foreign imports.

Using an econometric model, the Council of Economic Advisors³⁰ estimated that:

- ° A 1% rise in the U.S. wholesale price index relative to the prices of our competitors reduces the value of U.S. exports by .61%: At 1971 export levels, this amounts to a reduction in export volume of more than \$250 million.
- ° For each 1% increase in the U.S. wholesale price index the overall U.S. balance of trade deteriorates by approximately \$1.3 billion.
- ° A 1% rise in the wholesale price index has a particularly adverse impact on U.S. imports of finished manufacturers, resulting in a 5% increase in imports in this sector.

Table 4 illustrates the adverse effect U.S. inflation has had on export prices relative to our major trading partners. These statistics demonstrate why German and Japanese goods, as well as those of many other major nations, are becoming more competitive in world markets than U.S. products.

In addition to inflation, the lagging rise in the rate of productivity has contributed to the deteriorating competitiveness of U.S. exports. Table 5 shows that the U.S. dropped from an average annual productivity rate increase of 4.5% during the period 1960 - 1965 to 1.1% between 1965 - 1970. At the same time, the maturing economies of Canada, Japan and the European Common Market were enjoying a rapid growth in industrial productivity.

Still another major factor which has inhibited U.S. export growth has been the relative lack of "export-mindedness" on the part of government. In most developed countries, exports are considered crucial in providing the foreign exchange to pay for imports. Thus, the governments of Japan, the European Common Market countries and Canada actively support industry export efforts. With the ex-

TABLE 4

COMPARATIVE EXPORT PRICE CHANGE, 1961-1970

<u>Country</u>	<u>Average Annual Change 1961-65</u>	<u>Average Annual Change 1965-70</u>
United States	0.7%	3.8%
West Germany	1.0	2.7
United Kingdom	2.3	1.9
France	1.3	1.5
Japan	-1.7	2.9
Canada	0.0	4.4
Netherlands	0.7	0.4

Source: UN Monthly Bulletin of Statistics, September, 1972

TABLE 5

ANNUAL PERCENTAGE CHANGE IN OUTPUT PER MAN HOUR FOR ALL EMPLOYEES IN MANUFACTURING
SELECTED COUNTRIES, 1965-1970 and 1971

<u>Country</u>	<u>1960-65</u>	<u>1965-1970</u>	<u>1970-1971</u>
United States	4.5%	1.7%	3.4%
Canada	5.1	4.0	3.2
Japan	10.0	14.0	7.0
France	5.6	6.1	5.6
Germany	7.4	5.3	5.9
Netherlands	5.7	8.8	6.9
United Kingdom	3.6	3.6	4.8

Source: Monthly Labor Review, July, 1972, page 6.

ception of the Domestic International Sales Corporation (DISC) and the Western Hemisphere Trading Corporation, the export services offered by the U.S. government are relatively poor compared to the export services and incentives provided foreign firms by their governments.

(To help stimulate U.S. exports, NAM is co-sponsoring a national export expansion program with the Department of Commerce and the World Trade Institute to help small and medium-sized corporations with high export potential increase their exports. This program, known as "Partners in Trade", will begin in April and will run one year.)

International Impediments to U.S. Export Growth

The new dynamics of increased international competition have also acted to slow U.S. export growth, since there are more foreign firms competing for world markets than ever before. At the same time, despite substantial economic recovery abroad, many of our trading partners have continued to maintain tariff and non-tariff barriers against U.S. products. One of the most damaging to U.S. export expansion has been the common agricultural policy of the European Common Market, which supports established European Community farm prices in competition with lower-price imports from the U.S. through a system of variable levies. Since the U.S. has a major comparative advantage in agricultural goods, this has been particularly damaging to the U.S. balance of trade. A second EEC policy, which has adversely affected the U.S. trading position, is the so-called preferential trading agreement, which members of the European Common Market have extended to their former African colonies and several Mediterranean countries. Trade and

investment barriers have also limited the growth of U.S. exports to Japan.

Equally damaging to the international competitiveness of U.S. products was the exchange rate imbalance which developed during the '60s. Many countries, such as Japan and France, allowed their currencies to be undervalued vis-a-vis the dollar. As a result, U.S. products were placed at a severe price disadvantage in world markets. Although preliminary currency realignment after the Smithsonian Agreement has helped to alleviate part of this problem, further adjustments will probably be necessary before foreign exchange rates realistically reflect the relative strengths of the economies concerned.

(The NAM currently has a high-level group of corporate monetary experts working to develop an industry position on international monetary reform for the upcoming monetary negotiations.)

It is clear from these facts that U.S. foreign direct investments are not responsible for the last decade's lagging growth in U.S. exports. To the contrary, the foreign subsidiaries of U.S. MNCs have helped many U.S. exports remain competitive in world markets.

Import Stimulation

In addition to the question of foreign direct investment and export substitutability, there is currently much discussion as to whether MNCs have contributed to our balance of trade deficit by producing abroad and exporting to the U.S. In order to answer this question, it is necessary to differentiate between imports of raw materials and products which are not normally produced in the

U.S. and imports of manufactured goods which could in theory be produced in the United States. It is with this latter group that the question of whether U.S. MNCs contribute to the U.S. balance of trade deficit is relevant.

According to the most recent Department of Commerce survey of MNCs, the foreign affiliates of the 298 MNCs studied imported, \$1.5 billion worth of manufactured goods from their foreign affiliates (excluding \$1.01 billion of transportation equipment mainly from Canada under the Canadian auto agreement) in 1966. This represented about 6% of our total imports. In 1970, the foreign subsidiaries of these firms imported \$1.85 billion of manufactured goods from their foreign affiliates (excluding close to \$3 billion of transportation equipment largely from Canada under the Canadian auto agreement) accounting for 5% of total U.S. imports.³¹ These statistics show that between 1966 and 1970, the greatest growth in U.S. subsidiary exports to the U.S. took place under the special Canadian auto agreement or were raw materials and/or products which could not be produced in the U.S. economically.

The BEA results were consistent with the findings of several previous studies which showed that industry groups with the largest foreign direct investment were in the lowest import categories. Conversely, areas of heaviest imports, such as shoes and textiles, are among the industry groups having the lowest foreign direct investment. In industries such as automobiles, electronics and steel,

where U.S. foreign direct investment has grown along with imports, most of the U.S. import growth has come from foreign-owned companies, such as Toyota and Volkswagen, not U.S. subsidiaries.

This is not to say that imports from U.S. affiliates in certain industries, such as electronics, have not increased. They have. In these industries the problem is different. Foreign firms enjoy such large cost advantages in certain product areas that it is impossible for U.S. firms to compete effectively for U.S. markets - much less world markets. Faced with the choice of losing both domestic and foreign markets or serving both markets from foreign-based plants, aggressive American firms have had little choice but to invest abroad.

BALANCE OF PAYMENTS - CAPITAL FLOW

The deterioration in the U.S. balance of payments has also raised the question of whether the capital outflow caused by foreign direct investment has contributed to the U.S. balance of payments deficit.

During most of the postwar years the U.S. balance of payments has shown a chronic deficit. Using the so-called "basic balance," which is intended to give a rough estimate of long-run trends in the U.S. balance of payments, Table 6 shows that the private sector portion of the "basic balance" account has been in surplus every year since 1950, providing the U.S. with a cumulative credit balance of \$71.7 billion. The government sector of this "basic balance," on the other hand, has been in deficit every year since 1950, resulting in a cumulative debit balance of \$111.9 billion. Even when the so-called "liquidity balance"

TABLE 6
Sector Balances, 1950-1969

(All figures in \$ million)

<u>Year</u>	<u>Private Sector</u>	<u>Government Sector</u>	<u>Shortfall</u>
1950	1,127	-4,298	-3,171
1951	3,948	-4,480	-532
1952	3,095	-4,491	-1,396
1953	2,345	-4,531	-2,186
1954	2,513	-3,894	-1,381
1955	3,452	-4,624	-1,172
1956	3,794	-4,795	-1,001
1957	5,173	-5,090	83
1958	2,495	-5,538	-3,043
1959	778	-4,741	-3,963
1960	3,501	-5,350	-1,849
1961	4,509	-5,488	-979
1962	4,563	-5,534	-971
1963	4,332	-5,811	-1,479
1964	4,748	-6,225	-1,477
1965	6,354	-6,125	229
1966	5,239	-6,753	-1,514
1967	3,913	-8,324	-4,411
1968	2,056	-7,926	-5,870
1969	3,692	-7,837	-4,145
<hr/>			
1950-1969	71,667	-111,855	-40,188
<hr/>			

Source: Calculated from various issues of the Survey of Current Business -
 Particularly the June 1970 issue. pp. 33-48.

is used, the private sector has been in near balance or has shown a surplus in all years since 1960, except '69 and the government sector has been in deficit every year since 1960. In a very real sense then the U.S. has a continuing balance of payments deficit because it chooses to have one.

Beginning in 1968, however, the chronic deficit began to enlarge at a rapid rate, reaching crisis proportions in the first two quarters of 1971. In addition to the steady decline in the merchandise account, one of the primary reasons for the increasing balance of payments deficit has been the unstable condition of the U.S. economy since 1968. This encouraged a rapid capital outflow initially in the form of European investors withdrawing from U.S. security markets in response to the sharp decline in stock prices and then in an acceleration of U.S. long-term capital outflow in search of more attractive rates of return abroad during 1970 and 1971.

Offsetting the rise in long-term capital outflow which has occurred since 1968, has been the rapid increase in remitted earnings from U.S. subsidiaries abroad as well as fees and royalties. Table 7 shows that remitted earnings grew rapidly from \$2.1 billion in 1960 to over \$7.3 billion in 1971. Fees and royalties jumped from \$.8 billion in 1960 to over \$2.2 billion in 1971. As a result, the capital generated from our foreign direct investments abroad has now replaced the balance of trade account as the single most important positive contributor to our balance of payments.

TABLE 7

Private Direct Investment Abroad, 1960-1969
(All figures in \$ million)

<u>Year</u>	<u>Income On Direct Investment</u>	<u>Royalties And Fees</u>
1960	2,355	590
1961	2,768	662
1962	3,044	800
1963	3,129	890
1964	3,674	1,013
1965	3,963	1,199
1966	4,045	1,329
1967	4,518	1,438
1968	4,973	1,546
1969	5,658	1,682
1970	6,001	1,880
1971	7,286	2,200 ^(e)
<u>Total</u>	<u>51,414</u>	<u>15,229</u>

Source: Survey of Current Business, June 1972, pp. 34-35.

THE MULTINATIONAL CORPORATION AND THE MONETARY CRISIS

Although the multinational corporation is a net contributor to the U.S. balance of payments, there is some question whether dollar hedging and/or speculation by U.S. multinational corporations (MNCs) prior to August 15, 1971 precipitated the monetary crisis by putting undue pressure on the dollar in international markets. It is true that between '70 and early '71, there was a significant outflow in short-term capital from the U.S. A closer look at this short-term capital outflow indicates, however, that it consisted largely of Eurodollar repayments primarily by U.S. banks to their European subsidiaries or correspondents of funds borrowed between '67 and '69. (Eurodollar borrowings jumped from about \$3 billion in '67 to over \$14 billion in '69, largely as a result of the tightness of the U.S. money markets at that time.)

Over the course of 1970 and the first six months of '71 about \$12 billion of this sum was repaid as credit conditions returned to normal. In essence, the result of these flows was a postponement of payments deficits from 1969 to '70 and '71.

Several billions of dollars in short-term capital, other than Eurodollar repayments (i.e., purchases of short-term foreign treasury notes), also flowed out of the U.S. during '71. However, since the majority of these outflows went unrecorded, it is impossible to trace what financial institutions and/or firms were responsible for these outflows. Nonetheless, it appears that interest rate differentials were not a significant factor in these flows. Rather, this outflow

was caused, to a large extent, by the deterioration in the U.S. current account, particularly the trade balance. The decline in these balances was a strong indication to banks and firms with large holdings abroad that the official exchange rate was out of line. In order to protect the value of their international sales and investments, U.S. banks and corporations were forced to hedge the value of the dollar.

Apropos of this latter conviction, it should be noted that by far the greatest pressure on the dollar came not from MNCs or U.S. banks but rather from foreign holders of dollars who became convinced that exchange rate revaluation was imminent. These foreign holders pursued an aggressive policy of exchanging their dollar holdings for other currencies. Although these transactions did not show up immediately in the U.S. payments account because the dollars involved were already outside the U.S. as a result of previous payments deficits. They, nonetheless, put immense pressure on the exchange rate and eventually precipitated the President's actions of August 15th and the Smithsonian agreement in December of '71.

SECTION V
TAXATION OF FOREIGN SOURCE INCOME

One of the questions raised by the rapid international growth of U.S. MNCs concerns the method by which foreign source income is taxed by the U.S. In particular, two provisions of the U.S. Tax Code and Items 806.3 and 807 of the Tariff schedule have been criticized as unfair tax "loopholes" which allegedly encouraged MNCs to invest abroad in order to avoid paying U.S. income taxes. They provide that:

- ° The earnings and profits of foreign subsidiaries of U.S. corporations with certain limited exceptions (see subpart F of the Internal Revenue Code), are not taxed by the U.S. until they are remitted to the U.S. parent company.
- ° American corporations are allowed a tax credit against their federal income taxes for the income taxes they pay to foreign countries on income earned in those countries.
- ° U.S. manufacturing companies are permitted duty-free reentry of U.S. manufactured components and products which have not lost their identity by being produced abroad. Full duty is imposed on all foreign value added (Items 806.30 and 807 of the U.S. Tariff schedule).

The remainder of this section will deal with the main question being raised about our current method of taxing foreign source income, as well as Items 806.30 and 807. Much of the discussion is based on

an exhaustive NAM study of the U.S. system of taxing foreign income. This study included the results of a detailed tax survey of 83 multinational corporations.³²

INCENTIVE TO INVEST ABROAD

The assumption that foreign income taxes are substantially lower than U.S. taxes underlies the issue of whether granting a tax credit for foreign taxes paid and taxing only the remitted earnings of U.S. foreign subsidiaries provides an unfair tax incentive for U.S. firms to invest abroad. A comparison of the effective U.S. corporate tax rate with those of fifteen countries in which over two-thirds of all U.S. foreign direct investment is concentrated, however, does not support this assumption. Although the effective income tax rates shown in Table 8 could only be estimated on the basis of a sample survey of foreign affiliates in 1966, Table 8 (see Appendix B for a detailed explanation of how the figures were derived) does show that most U.S. corporations pay the same corporate tax rates abroad as they do in the U.S. This is further demonstrated by the fact that 50% (\$2.6 billion) of the taxable foreign income earned in 1971 by the eighty-three firms studied by NAM went to pay foreign taxes.

Recent studies by the National Foreign Trade Council and the Conference Board confirm that foreign corporate tax rates are not a major incentive to U.S. corporations to invest abroad. Further, if foreign corporate taxes were relatively low and if this were a primary determining factor in U.S. foreign direct

TABLE 8

Estimated Effective Tax Rates for 1966 - Majority Owned Foreign Affiliates of U.S. Manufacturing Reporters¹

<u>Country of Incorp.</u>	<u>1</u> <u>Net Profit Before</u> <u>Income Taxes²</u> <u>(Millions)</u>	<u>2</u> <u>Income Taxes³</u> <u>(Millions)</u>	<u>3</u> <u>Effective Income</u> <u>Tax Rate-1966</u> <u>(Percent)</u>
Canada	1,345	649	48.3
Mexico	145	70	48.3
Argentina	141	61	43.3
Brazil	157	48	30.6
Chile	36	13	36.1
Colombia	40	17	42.5
Venezuela	142	92	64.8
Belgium	59	29	49.2
France	173	113	65.3
West Germany	416	219	52.6
Italy	97	64	66.0
Netherlands	78	36	46.2
United Kingdom	627	256	40.8
India	39	26	66.7
Japan	102	58	56.9
Total	<u><u>3,597</u></u>	<u><u>1,751</u></u>	<u><u>48.7</u></u>

Estimated Income Tax Rates for 1966 - United States Manufacturing Corporations⁴

United States	<u><u>51,787</u></u>	<u><u>20,850</u></u>	<u><u>40.3</u></u>
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- 1) Data for foreign affiliates taken from U.S. Direct Investments Abroad, 1966 Part II Investment Position, Financial & Operating Data Group 2. Preliminary Report on Foreign Affiliates of U.S. Manufacturing Industries. A Supplement to the Survey of Current Business, U.S. Dept. of Commerce Office of Business Economics.
- 2) Net Profits before taxes for foreign affiliates reflect the ordinary accounts of foreign enterprise rather than its accounts calculated and adjusted for U.S. tax purposes. The data for foreign affiliates also do not fully reflect the effects of other U.S. tax provisions with respect to foreign source income.
- 3) Income taxes for foreign affiliates include both central and local taxes.
- 4) Data for U.S. corporate taxes from Quarterly Financial Report for Manufacturing Corporations 1966, Federal Trade Commission, Securities & Exchange Commission.

investment decisions, one would expect that foreign corporations would not invest in the U.S., because of relatively high corporate taxes in this country. Yet, as was noted earlier, Europeans and Japanese investment in the U.S. has increased five times faster than U.S. investments abroad.

Avoidance of U.S. Income Taxes

The issue of tax avoidance has also been raised with regard to the current method of taxing foreign income. Some claim that by not taxing all of a foreign subsidiary's earnings in the year they are earned, the government encourages MNCs not to remit their foreign earnings in order to avoid paying U.S. taxes. If this were the case, one would expect that U.S. foreign subsidiaries would remit a relatively small portion of their earnings to their U.S. parent company. This, however, is not the case. The results of the NAM tax study indicate that, on average, American subsidiaries abroad repatriate between 50-58% of their total after-tax foreign earnings. As a result, remitted earnings of U.S. foreign subsidiaries grew from \$2.1 billion in 1960 to \$7.3 billion in 1971. In total, American business and industry repatriated \$66.4 billion between 1960 and 1971, all of which was subject to U.S. taxes.

The charge that not taxing unremitted earnings of U.S. subsidiaries abroad allows MNCs to avoid paying U.S. taxes also overlooks the fact that foreign subsidiaries in most host countries pay taxes which are equal to or slightly higher than U.S. corporate income taxes. Thus, a U.S. subsidiary generally

gains little tax advantage by retaining part of its foreign earnings abroad.

Consistency with Accepted U.S. Tax Policy

Critics have also raised the question of whether the current method of taxing foreign source income is consistent with accepted U.S. tax policy. Some have argued that, since domestic firms pay taxes on all their income in the year that it is earned and do not receive a tax credit against their federal taxes for the state taxes they pay, foreign subsidiaries should pay taxes on all their income in the year it is earned and should not receive a tax credit for the foreign taxes they pay. An analysis of the tax principles underlying the current system of taxing foreign subsidiary income, however, shows that there is no inconsistency between the way foreign source income is taxed and domestic income is taxed.

A foreign subsidiary of a U.S. firm is a separate entity which has been incorporated in a host country, pays taxes there and abides by its laws and regulations. Since the relationship between a U.S. parent company and its foreign subsidiary is that of a stockholder, and since U.S. stockholders are taxed only on the portion of corporate earnings which they receive in dividends, it follows that a U.S. parent company should not be taxed for the earnings of its foreign affiliates until it receives them in dividends. Thus the policy of not taxing foreign subsidiary income until it is remitted to the U.S. is consistent with the accepted tax principle that income should not be taxed until it is realized upon receipt of dividend.

The purpose of granting a tax credit for the foreign taxes paid by a subsidiary is to avoid double taxation of foreign income

and to assure that taxes play a relatively neutral role in business decisions to invest in the U.S. or abroad. The tax principles of avoiding double taxation and tax neutrality are basic to U.S. tax law. For example, 41 of the 44 states with income taxes grant a tax credit to individuals for income taxes they pay to other states - a concept similar to that of the Federal government granting a tax credit for the foreign taxes they pay to prevent double taxation. In the case of corporations, states generally tax income earned only within a state. Taxable income is generally determined by applying a prescribed formula. As a result, the need for a tax credit to avoid double taxation is eliminated.

Internationally the need to safeguard against double taxation and assure tax neutrality is accentuated by the fact that MNCs operate in and pay taxes to a number of countries, and the chance that their foreign earnings might be taxed twice has been greatly increased. The fairness and vital competitive importance of these tax provisions are demonstrated by the fact that virtually no developed countries tax the unremitted earnings of their foreign subsidiaries and every country has tax provisions to avoid the double taxation of its companies' foreign earnings. In fact, 25 countries don't tax the foreign earnings of their corporations at all. Further, the U.S. has bilateral tax treaties with 32 countries (Table g) which describe acceptable methods of avoiding double taxation. In all cases, the U.S. method of taxing foreign corporate income is considered fair and constant with acceptable tax law.

Table 9

**U.S. TAXATION TREATIES TO AVOID DOUBLE
TAXATION OF FOREIGN EARNINGS**

In force August 12, 1972

- | | |
|--------------------------------------|-----------------------------|
| 1. Australia, 1953 | 12. Japan, 1953 |
| 2. Austria, 1957 | 13. Luxembourg, 1946 |
| 3. Belgium, 1953 | 14. Netherlands, 1948 |
| 4. Canada, 1942 | 15. New Zealand, 1951 |
| 5. Denmark, 1948 | 16. Norway, 1972 |
| 6. Finland, 1952 | 17. Pakistan, 1957 |
| 7. France, 1949 | 18. South Africa, 1952 |
| 8. Federal Republic of Germany, 1954 | 19. Sweden, 1939 |
| 9. Greece, 1953 | 20. Switzerland, 1951 |
| 10. Ireland, 1951 | 21. Trinidad & Tobago, 1970 |
| 11. Italy, 1956 | 22. United Kingdom, 1946 |

The following treaties are in force through extension of the operation of the treaties indicated to newly independent countries:

U.S.-U.K. Treaty, 1946:

23. Barbados
24. Gambia
25. Jamaica
26. Malawi (formerly Nyasaland)
27. Nigeria
28. Sierra Leone
29. Zambia (formerly Northern Rhodesia)

U.S.-Belgium Treaty, 1953:

30. Burundi (formerly Urundi)
31. Rwanda (formerly Ruanda)
32. Zaire (formerly Belgian Congo)

Source: International Economic Policy Association.

ECONOMIC EFFECTS OF REPEALING THE TAX CREDIT
FOR FOREIGN TAXES PAID
AND
TAXING THE UNREMITTED EARNINGS OF U.S.
FOREIGN SUBSIDIARIES IN THE YEAR THEY ARE EARNED

Despite the overwhelming evidence to the contrary, some groups insist that the current system of taxing foreign income is an unfair "tax loophole" for big MNCs. They suggest that the tax credit for foreign taxes paid be repealed and that the unremitted earnings of U.S. foreign subsidiaries be taxed in the year they are earned. The results of our tax survey of eighty-three MNCs indicated these tax changes would have a major adverse affect on U.S. jobs, disposable income, balance of payments, and international competitive position.

Effect on Jobs

As a result of the growing interdependency between domestic and international growth, any domestic and/or foreign economic policy which acts to weaken international competitive position of American industry will, in the long run, adversely affect U.S. employment and the domestic economy in general.

The eighty-three firms studied by NAM reported that in 1971 they earned \$18.3 billion before taxes, and \$9.8 billion after taxes, on sales of \$151.9 billion. A breakdown of the worldwide before-and after-tax income of these companies shows that over 27% (\$5.2 billion) of the combined before-tax income and a little less than 27% (\$2.6 billion) of the combined after-tax income was earned abroad. Over half (\$1.5 billion) of the \$2.6 billion of after-tax earnings of the foreign affiliates

of the firms studied were remitted to the U.S. parent where it was available for domestic investment in new plant facilities and/or dividends. Approximately \$800 million of the \$1.5 billion was paid out in dividends. The remainder, some \$700 million, was retained for investment in domestic plant and equipment, creating and/or helping to maintain jobs for upwards of 48,500 American workers in 1971. It is estimated that the net remitted earnings minus total foreign direct investment) of the more than 3,000 key American firms with foreign direct investments have provided the capital to create and/or maintain upwards of 200,000 U.S. jobs over the last five years. (See Appendix A.)

If the tax credit for foreign taxes paid had been repealed in 1971 and all foreign affiliate income had been taxed by the U.S. in the year it was earned rather than when realized upon payment of a dividend, the firms surveyed estimated that the taxes they paid on their foreign earnings could have increased by as much as 58%. Remitted earnings which were available for reinvestment in the U.S. by the firms studied could have declined by as much as \$320 million or the equivalent of the capital needed to support close to 18,000 U.S. jobs in these firms in 1971 alone.

To put it another way, if these tax changes were enacted, U.S. firms with foreign operations would be forced to pay a tax of over 72% on their foreign earnings. Few American firms

could afford to pay such a confiscatory tax and continue to compete with foreign MNCs.

The Effect On Disposable Income

In addition to reducing the funds available for U.S. capital investment, repealing the tax credit for foreign taxes paid and taxing the unremitted earnings of U.S. subsidiaries abroad, an NAM study found that earnings available for U.S. dividends would also be reduced. For the 83 firms studied earnings available for payment of U.S. dividends would have been reduced by \$355 million.

At the same time, enacting these tax changes would further reduce the disposable income of U.S. citizens by causing a drastic decline in stock value. Although it is difficult to accurately quantify the effect of these changes on stock prices, it is possible to get a rough idea of how the stock prices of firms with foreign direct investment might be affected. Ignoring the possible psychological impact which these tax changes might have on the stock market in general, it was estimated that the stock value of the 83 firms studied could decline by as much as \$10 billion. Since over 110 million Americans either directly or indirectly, through mutual funds, pension plans, endowment funds and insurance companies depend on dividends and capital gains to supplement their incomes, tens of millions of Americans would be hurt by repealing the tax credit for foreign taxes paid and taxing all foreign subsidiary income in the year it is earned. The potential economic

hardship which these tax changes would impose on the American public is magnified by the fact that the stocks of U.S. firms with foreign operations are generally more widely held by public funds and financial institutions than are the stocks of strictly domestic firms.

The Effect on the Balance of Payments

The short-run balance of payments effects of repealing the tax credit for foreign taxes paid by foreign subsidiaries and taxing all their income in the year it is earned might be favorable to a moderate degree. Although U.S. firms would probably be forced to repatriate a larger portion of their foreign earnings and reduce their foreign direct investments, these benefits to the balance of payments could be offset by:

- ° Host country retaliation against U.S. affiliates and products.
- ° Declines in export sales.

In the long-run, there is little doubt that the changes in the taxation of foreign source income being suggested in the Burke-Hartke bill and other so-called "tax reform" legislation would weaken the international competitive position of American industry and adversely affect the U.S. balance of payments. This potential is demonstrated by the fact that 67 of the 83 firms said they expected their foreign sales to decline if the tax credit for foreign taxes paid were repealed and all foreign affiliate income were taxed in the year it was earned. Executives of 51 of these

firms indicated that they felt their firm's foreign holdings as well as exports would also be reduced if these tax changes were adopted. Obviously, a long-run decline in both the foreign sales and U.S. exports of firms with foreign direct investments would only aggravate our balance of payments problems.

ITEMS 806.30 AND 807

Although a tax question is not specifically involved in Items 806.30 and 807 of the Tariff Schedule, these items have generally been included in the discussions surrounding the taxation of foreign source income.

Items 806.30 and 807 were promulgated in 1954 and 1963 to permit the duty-free re-entry of U.S.-manufactured components and products which have not lost their identity abroad. Full duty is imposed on all foreign value added under these items. The exemption of re-entry of American goods is available to foreign manufacturers as well as to domestic businesses.³³ This has raised the question of whether or not these tariff items encourage the "run-away" of plants to countries where MNCs can use low wage foreign labor to assemble products outside the U.S. and ship them back to the U.S. duty-free. Although it is difficult to quantitatively determine if Items 806.30 and 807 eliminate U.S. jobs and act as an incentive for corporations to make foreign direct investments abroad, there is evidence that these Items probably have only a limited short run negative effect on U.S. employment. In the long run, domestic jobs are probably created through increased employment in component and parts production. Additionally, there may

be several significant beneficial aspects to the U.S. from these Items. For example:

1. In recent years when extraordinary demand for consumer and capital goods has occurred and U.S. production was at capacity, Item 807 allowed U.S. manufacturers to tap foreign producers for critical "bottleneck" items to meet domestic demands. It is interesting to note that under these conditions "the offshore costs of processing or assembly of many of these 806.30 and 807 components are higher than, or at least equal to, the cost of production of identical goods in the U.S. - even if such manufacturing facilities and skilled labor had been available domestically.³⁴
2. Since these Items are available for utilization not only by American manufacturers but also by foreign producers, there is an incentive to encourage the procurement of parts and subassemblies in the U.S. for incorporation into exports into this country. For example, certain automobile manufacturers in Europe and Japan make it a policy to include a significant percentage of U.S.-made parts in vehicles destined for sale in this country. Several of these exporters use General Electric's automobile lamps made in Ohio, Kentucky and Tennessee. Inasmuch as these manufacturers have gained a significant proportion of the American automobile market,

they provide considerable employment in the U.S. for production of lamps which enter the U.S. under Item 807 as well as the replacement market which might otherwise be served by imports.³⁵

3. Items 806.30 and 807 often enable a U.S. firm to continue to serve U.S. markets by remaining cost competitive. This is particularly true in the electronics industry, where foreign competition in such goods as radios, the chassis of television sets, phonograph amplifiers and similar products can be met only by producing abroad to take advantage of labor cost advantages. In so doing, these firms are able to retain in the U.S. many portions of their manufacturing and distribution processes which would normally have been eliminated if a firm were forced to produce an item domestically.

These and other factors led the U.S. Tariff Commission to conclude after a year-long investigation that only a small portion of U.S. jobs were affected by Items 806.30 and 807. The Commission went on to say:

These provisions (806.30 and 807) now provide employment for about 37,000 people in the U.S. producing U.S. materials for export to be assembled or processed abroad, and further processing imports after they have been returned. Accordingly, repeal would probably result in only a modest number of jobs returned to the United States which likely would be more than offset by the loss of jobs among workers now producing components for export and those who further process the imported products.³⁶

SECTION VI
SUMMARY
(COST-BENEFITS OF THE MULTINATIONAL CORPORATION)

The return of economic balance to the world economy, the proliferation of tariff and non-tariff barriers and the shift from ideological to economic competition, have been key factors in stimulating the rapid international growth of U.S. and foreign multinational corporations. Because of their effectiveness in efficiently allocating resources within the dynamic constraints of new world markets, the MNC has become the most viable and competitive private institution of this century.

The vital role which the foreign subsidiaries of U.S. MNCs play in linking our domestic economy to the world economy is demonstrated by the fact that over the last ten years U.S. MNCs have:

- ° Created well over a million new jobs in the U.S. - jobs which could not have been created without the steady expansion of U.S. subsidiaries abroad.
- ° "Pulled through" and created new markets for billions of dollars of U.S. exports which otherwise would not have been made. Today, over 34% of all manufactured exports go to the foreign subsidiaries of U.S. companies.
- ° Made a net contribution to our balance of payments of over \$46.2 billion during the last ten years (excluding \$13.9 billion in royalties and fees).

- ° Linked the developed and developing economies of the world and helped shift the emphasis from volatile, ideological to more rational economic competition.
- ° Been a major factor in keeping America competitive in world markets.

Despite the many contributions of the MNC, some groups are questioning whether these international companies should be allowed to continue to grow and compete for world markets. This apparent opposition to the concept of the MNC, however, is not surprising. In order to effectively cope with the constantly changing realities of international business, the MNC itself has had to become a dynamic force of change. As with any change, there is a tendency on the part of some to perceive it as a threat to their economic and/or political power. Thus, rather than actively supporting the MNC as a means of remaining internationally competitive, these groups want to unilaterally restrict the international operations of the MNC and foreign trade as a means of maintaining the status quo.

Unfortunately, the long-run economic and political implications of further restricting the international operations of MNCs either through discriminatory taxation or direct controls would be disastrous. Not only would such controls weaken the international competitive position of U.S. industry, increase domestic unemployment and worsen the balance of payments deficit, but such action would destroy the spirit and commitment which currently surrounds the multilateral trade and monetary negotiations scheduled for '73.

APPENDIX A
Estimated Net U.S. Jobs Supported
By The
Remitted Earnings of American Industry

	<u>Remitted Earnings</u>	<u>Foreign Direct Investment</u>	<u>Net Remitted Earnings</u> ¹	<u>Est. Dividends Paid From Net Remitted Earnings</u> ²	<u>Net Remitted Earnings Available Reinvesting In U.S.</u> ³	<u>Est. Jobs Suggested By Net Remitted Earnings</u> ⁴
1967	4,517	3,137	1,380	731	649	29,186
1968	4,973	3,209	1,764	935	829	37,281
1969	5,658	3,254	2,404	1,274	1,130	50,818
1970	6,001	4,400	1,601	849	752	33,819
1971	7,286	4,765	2,521	1,336	1,185	<u>53,291</u>
Total net U.S. jobs supported by remitted foreign earnings						204,395

1. To get a more accurate estimate of the economic contribution made by the remitted earnings of American industry, capital outflows for foreign direct investments were subtracted from total remitted earnings (Column 1 minus Column 2).
2. An average dividend payout rate of 53% was used to estimate the dividends paid from net remitted earnings. This was the 5-year average payout rate reported by the 83 firms studied. In addition, it was assumed that since foreign corporate income taxes are about the same as U.S. corporate income taxes all net remitted earnings would be available for dividend payout and/or reinvestment in the U.S.
3. Estimated remitted earnings available for reinvestment in the U.S. were calculated by subtracting estimated dividends paid from net remitted earnings (Column 3 minus Column 4).
4. The number of U.S. jobs supported by the net remitted earnings of U.S. industry was estimated by dividing net remitted earnings available for reinvestment in the U.S. by \$22,236 - the latest available capital employee ratio (1968) for all manufacturing.

SOURCE: Survey of Current Business, June 1972, pages 30-31.

The Conference Board, Capital Invested, Road Maps of Industry, October 15, 1971, p.2. 54

APPENDIX B

Explanation of Table 1

**Estimated Effective Tax Rates
for 1966 - Majority-Owned
Foreign Affiliates of U.S.
Manufacturing Reporters**Sources

The most recent available data from the United States Treasury on the earnings of and foreign income taxes paid by U.S.-controlled foreign corporations on a country-by-country basis are for 1962 and are found in Statistics of Income, Supplemental Report on Foreign Income and Taxes Reported on Corporation Income Tax Returns for 1962, U.S. Treasury Department, Internal Revenue Service, 1969.

More recent data for the income and expenses, including taxes, of majority-owned foreign affiliates of manufacturing reporters on a country-by-country basis are available for 1966 from the Department of Commerce and are found in U.S. Direct Investments Abroad Part II: Investment Position, Financial and Operating Data Group 2, Preliminary Report on Foreign Affiliates of U.S. Manufacturing Industries.

Data more recent than 1966 are not available on a country-by-country basis and, therefore, it was not possible to make a more up-to-date comparison between tax rates in the United States and fifteen selected foreign countries.

Data

For a comparison of the effective tax rate of one country with that of another country to be completely accurate, the same method of accounting for income and deductions and taxable income and the actual net tax paid on actual taxable income would have to be utilized. As will be noted below, this was not the case and is not possible with available statistics.

The total tax burden should include not only net central government income taxes but net income taxes paid to local governments as well as property, sales and other taxes imposed on the corporations. These taxes should be net taxes, i.e., taxes actually paid net of any credits or subsidies since all such taxes are equally a cost of doing business in that locality. The available data, however, did not permit such a determination in all cases.

General Comments

The data for the foreign affiliates of manufacturing corporations were taken from U.S. Direct Investments Abroad 1966 (A Supplement to the Survey

of Current Business) Part I: Balance of Payments Data and Part II: Investment Position, Financial and Operating Data (U.S. Department of Commerce, Office of Business Economics). The Office of Business Economics obtained its data through its comprehensive survey of American direct investments abroad for the year 1966. All data were taken for full fiscal years. Most companies close their books on December 31; for companies using a different closing data, the data covered the 12-month period ending closest to December 31, 1966.

The survey instructions required that all financial data of foreign affiliates be taken from their own books and reported in the currency (foreign usually) used in those books.

Data on income taxes refer to provisions for taxes, both central and local, during the statement year which may differ from taxes paid during the year. No data for foreign central income taxes alone were available. Net income after taxes and the U.S. reporter's share in net income reflect the ordinary accounts of the foreign enterprise, rather than its accounts calculated and adjusted for U.S. tax purposes. The data shown here do not fully reflect the effects of other U.S. tax provisions with respect to foreign source income. Net income figures are stated before any unrealized gains or losses resulting from changes in the international values of currencies.

Income taxes shown are Federal corporate income taxes.

Explanation of Table 1

Column 1 and 2 show net profits before income tax and income taxes respectively. The estimated effective income tax rate is obtained by dividing income taxes (column 2) by net profits before taxes (column 1).

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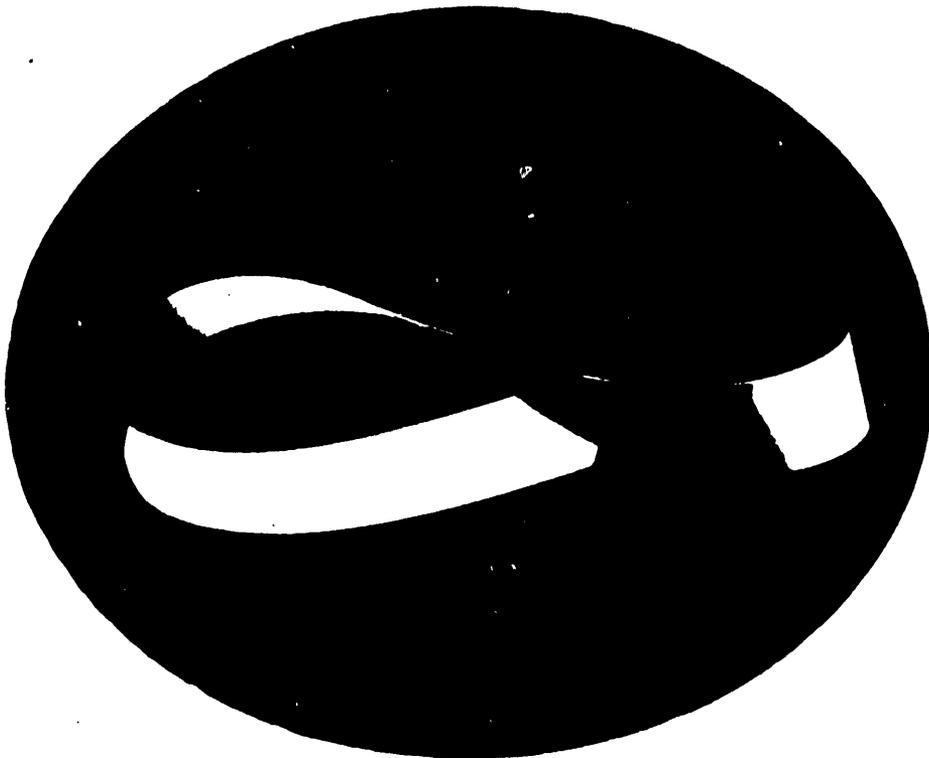
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National Association of Manufacturers
January 19, 1973

united states multinational enterprise

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TO: Participants in the Multinational Enterprise Survey

It is with great pleasure that we submit our report on the recent Multinational Enterprise Survey.

As you know, significant legislative interest has been attached to this topic since establishment of the National Chamber's Task Force on the Multinational Enterprise. Introduction of the highly restrictive "International Trade & Investment Act of 1972" (the Burke-Hartke Bill) in September, 1971 has been followed by piecemeal attacks on multinationals under the politically pleasing guise of "tax reform". The need for factual information has never been more urgent.

This report, developed over a six-month period with the assistance of 160 participating U. S. international companies, should play an important role in dispelling claims that activities of multinational enterprises overall result in decreasing U. S. employment and increasing U. S. imports. I sincerely hope you will relate its message and recommendations to your Senators and Congressmen so they may be better equipped to counter the argument that has been made for Burke-Hartke.

Finally, on behalf of the Task Force, I would like to take this opportunity to express our appreciation for the time and effort which went into the completion of our rather complex questionnaire. Results are presented in aggregate form in this report. Individual responses have been, and will continue to be, treated in confidence.

With warm appreciation.

Lee L. Morgan
Chairman
Multinational Enterprise Task Force
Chamber of Commerce of the U.S.A.

preface

The multinational enterprise is by no means a new phenomenon. Corporations with headquarters in one country and manufacturing, assembly, sales or service activities in another have been in existence for many decades. Until recent years, the most intense criticisms of multinational enterprises have come from host governments. Today, however, with increasing frequency and considerable emotion, various groups from within the United States have attacked the activities of multinational enterprises with the claim that MNEs "export" U. S. jobs, exploit "cheap labor" overseas and are largely responsible for the unfavorable U. S. balance of trade.

In an effort to develop a factual base from which constructive and well-substantiated analysis could be formed, the Chamber of Commerce of the United States established the Multinational Enterprise Task Force, comprised of corporate executives of international companies and members of the academic community. Under the chairmanship of Mr. Lee L. Morgan, President, Caterpillar Tractor Company, the Task Force distributed a comprehensive questionnaire dealing with the impact of U.S.-based multinational enterprises on domestic employment, international trade and investment.

In recent months, numerous government, education, and private institutions and agencies have studied the problem and distributed surveys with similar interests in analyzing the impact of the MNE on the domestic economy. At the time of printing, this Chamber report reflects the broadest based sample of manufacturing companies operating in the international area of any of the privately-sponsored surveys undertaken:

The current debate is an important one for the future of U. S. corporations, U. S. employment, the U. S. economy and international economic development. The findings of this report on the survey of multinational enterprises present a clear and unbiased picture of the U.S.-based multinational enterprise's major and positive contribution to increased U. S. employment and international trade.

Arch N. Booth, Executive Vice President
Chamber of Commerce of the United States

introduction

This Report is a response to attacks being made against U. S. international investment and its main agent, the multinational enterprise. It is intended (1) to demonstrate that specific demands, typified by those of organized labor for sweeping controls over American multinational firms, are without justification and (2) to help redress more general, but increasingly prevalent, attitudes contending that multinational business concepts are a negative factor in the world.

Early in 1971, before restrictions had been introduced in the Burke-Hartke Bill, business members of the National Chamber requested Chamber action to redress a growing criticism of the multinational enterprise. Sensing that such criticism reflected serious misconceptions of the foreign investment function, these members stressed the importance of developing accurate factual data for use in explaining the activities of these corporations.

Following the recommendations of business members and the Chamber's International Committee, the Chamber established a

Multinational Enterprise Task Force (MNE), with three immediate objectives: (1) To produce factual evidence on which to base arguments relating to specific legislative attacks that might be leveled against the MNE; (2) To formulate information that could be the basis of public pronouncements about the beneficial aspects of MNE operations; (3) To lay the ground for creating National Chamber policy and action toward the subject of MNEs:

The Chamber of Commerce of the United States occupies a unique position. As the leading business organization in this country, its contributions to the dialogue on multinational enterprises reflect concerns and beliefs of the entire range of the American business community. Its membership includes more than 40,000 business firms and individuals, over 1000 trade and professional associations, and 2600 local, state and regional Chambers of Commerce. In 31 foreign countries, the Chamber Federation is represented by American Chambers of Commerce Abroad. Therefore the position of the Chamber on international investment reflects the collective opinion of its broadly-based membership as it does on any other issue. Though the rationale for the Chamber's support of multinational enterprises is described first in the Report, the criticisms to which this study is directed are enumerated below, together with a summary of the Report's findings on these points.

Criticisms of the foreign investment activities of American multinationals fall into two main categories—those of a domestic nature and those in foreign countries. The foreign variety is usually associated with various forms of "economic nationalism" found most often in countries with a measurable degree of foreign control or ownership in their domestic resources and industries. At times this criticism is expressed in specific controls and limitations over the activities of foreign investment, or in the form of a threat to impose such controls. In any case, this area is beyond the scope of this particular Report.

One major focus of this Report is on the domestic criticism leveled by some elements of organized labor, which has been most vocal in its attack and most sweeping in its advocacy of change. But complementing the specific charges of labor are the attitudes of those who regard multinational business as a "negative" force. This group includes those who oppose multinationals because they connote "big business"—and in these eyes, anything linked with "bigness" must be bad. Surrounding this school

of thought is a conspiratorial view of business, a view that has been given new impetus as a result of recently scheduled hearings in the Senate Foreign Relations Committee.

Less extreme, but undoubtedly more numerous are critics holding that international investment is of secondary importance in the international economic system. The positive contribution to the United States balance of payments from U.S. investments is discounted, and inordinate attention is placed on building a trade surplus. This mercantilist philosophy discounts the investment balance, the largest contributor to the credit side of U.S. international payments. An example of this attitude in official U.S. policy is the "controls mentality" surrounding the foreign direct investment controls program.

Political necessities in the United States have spawned another set of critics—those advocating tax restrictions on foreign investment under the guise of "tax reform". These proponents stress the alleged "tax savings" to the U.S. economy while giving little import to the prospective damage that would accrue to America's competitive position.

Organized labor's interest in restricting U. S. international investment is of relatively recent origin and has been expressed clearly in the AFL-CIO Executive Council statement of May 12, 1971, on *The Critical Need for New International Trade and Investment Legislation*. Most of the proposals included in this statement were subsequently embodied in the Burke-Hartke Bill, while others have appeared in several other pieces of proposed legislation.

Three main charges that form the centerpiece of organized labor's attack against the U.S. multinational follow:

1. The AFL-CIO maintains that foreign direct investments result in the "export of jobs", i.e., the loss or decrease of U. S. employment.
2. It argues that American plants abroad generate increased U. S. imports while discouraging exports, thus weakening the U. S. trade balance.
3. Organized labor claims that a basic corporate rationale for operating abroad is to take advantage of cheap foreign labor and to ship the related production back to the U. S.-based parent company.

The findings of this Report toward the foregoing charges are

summarized below with more detailed explanations in the body of the Report.

1. The survey provides evidence that American multinational enterprises are increasing their domestic employment at a higher rate than the United States general manufacturing average.
2. Clear evidence is presented showing that the export performance of the general manufacturing multinational firms surveyed was far superior to the total national average.
3. The survey demonstrated that American multinational enterprises prefer to locate their operations abroad in the most highly developed foreign countries and that there is no concrete evidence showing that large-scale shipments from these foreign operations come back to the U. S.-based parent firm.

The results of the survey reinforce the view that the international investment function is one of the most important means of maximizing economic growth on a worldwide scale. The fact that a survey was used to demonstrate the credibility of international investment as a positive economic force reflects the considerable gaps that exist in knowledge of the subject. One of the most obvious gaps is the inability of the prevailing analytical techniques to cope with the reality of international investment. Conventional thinking in international economics is dominated by the classical concept of comparative advantage in which the product or trade flows between national economies are seen as the key factor in growth. This thinking assumes that factors of production (labor, technology, capital) are of secondary importance in contributing to the most efficient allocation of resources between the nations of the world. To some extent, this thinking accounts for the marked tendency for U. S. official trade policy to place priority on improving the trade balance as the key to international economic health.

In the shadow of two hundred years of conditioning to the effect that trade is the barometer of a country's relative economic efficiency, it is understandably difficult, particularly for national policy makers responsible for action, to admit that international flows (of men, money and ideas) are equally important standards of measurement—and that all these factors are intertwined. To affect one will eventually affect one or more of the others.

While this interdependence may not be reflected in current

U. S. international economic policy, with its emphasis on trade and on controlling the outflow of investment funds, it is somewhat paradoxically implicit in the labor position on multinational investment. Restrict further the ability of American firms to invest abroad, part of the fallacious argument goes, and domestic employment and associated export activity will inevitably increase.

Results of the Chamber's survey refute the cause and effect assumption in this contention, but its dominating position in current labor thinking reflects the fundamental concern of organized labor with current economic trends. This concern is understandable. Unemployment in the United States has run at unusually high levels over the past year and a half (though the number of jobs continues to increase). Throughout the high employment Fifties and Sixties, when a major portion of American direct investment abroad was taking place, labor leaders seldom raised their voices either in acknowledgement or protest. But as unemployment increased, so has the multinational enterprise been singled out as the guilty party.

The frustrations of labor have longer-term sources as well. Two economic trends of the past two decades have had an unsettling impact on the union movement. The first is the increasing importance of the service sectors of the American economy and a decline in the relative role of manufacturing. For organized labor as an institution this is a negative development because union membership has traditionally been weak in service activities and strong in manufacturing. Thus the AFL-CIO, the major force behind the push to restrict trade and investment, represents less than 20 percent of all U. S. workers. Excluding contract construction, service industry workers make up approximately 40 percent of the AFL-CIO membership—but about 70 percent of the total U.S. workforce.

The second trend concerns the rapid increase in employment of highly specialized technicians who remain outside union ranks. In the manufacturing sector, the high technology industries are relatively under-represented in the labor federation—and these are the industries with the greatest reliance upon exports and hence with a major interest in an open trade policy. Also, these are the industries in which most multinationals are involved.

Given the swing toward service employment in the American economy, it follows that organized labor would be sensitive to any erosion of the growth prospects of its membership base.

Right or wrong, if multinationals appear to be transferring U. S. manufacturing jobs abroad, it would make good sense for labor to prevent these transfers.

Reduced to its essentials, the labor position on international trade and investment is that the economic problems of the United States, particularly in the sense of unemployment and a declining trade balance, can be solved by protectionist policies. Conversely, by constructing a "garrison state economy" inefficiency would be entrenched and protected and critical international business decisions would be made by government and not the market place.

The main alternative approach, supported by the National Chamber, is along more positive lines. This is to stimulate growth of the total economy, while controlling inflation so that individual firms can improve their performance *vis-a-vis* imports as well as their efforts in export markets. An expanding economy will naturally generate employment opportunities, without undue fear of international rivalry. This is the approach followed by the Administration and given special emphasis in the New Economic Policy inaugurated August 15, 1971.

Undeniably, the shift from manufacturing to service employment has provoked concern beyond union circles. This wider concern is generally in response to the question "how long can we continue to take in one another's washing?" The question, of course, presupposes the trends toward services, if unchecked by new initiatives, will continue indefinitely. Projected to the extreme, the assumption is that we would all be taking in each other's washing and paying for it with the proceeds from foreign investment income which could be arbitrarily suspended at any time with calamitous consequences. The reality, of course, is that the change in the position of manufacturing has been relative, not absolute. United States production of manufactures has increased to about \$350 billion a year, more than the combined gross national product of several leading industrial nations.

At the same time, there is a slowing down in the rate of increase of American investment abroad. Investment responds to a variety of motivations, as the report details, and these are continually changing. As many acknowledge, including organized labor, foreign direct investments as well as trade face a multitude of restrictions and controls in every country of the world. In the Communist world foreign investments are virtually prohibited. In much of the developing world, limitations on foreign invest-

ments are the rule. Accordingly, the concept of selected new curbs on American foreign investment activities, including the transfer of patents, does not appear unreasonable at first blush to many people. Moreover, the extent of the controls being proposed by organized labor, and their potential harm, is not readily apparent.

To conclude these introductory comments about the Chamber's report, any meaningful dialogue on the role of multinational investment must take note of the total economic and political climate in which the multinationals operate. Without perspective, the exception may be taken as the rule, the aberration as the normal, for without a sense of balance myth takes over from reality and emotion may prevail over common sense.

When reviewing the state of the world today, an outstanding feature of the post-war years has been the tremendous worldwide growth in material well-being. While the United States has led in this growth, it has been closely paced by many other nations, notably in Western Europe and Asia, where recovery from war-time devastation was the spur.

Undeniably, there are serious gaps between the levels of prosperity achieved by different nations—the gaps between the "rich and poor", the "haves and the have-nots". Nevertheless, while economic development is without a doubt the objective of all, its practicable attainment has only in recent years finally proved to be feasible.

Individual countries have adopted their own formulas for economic development and for utilizing technology according to their particular circumstances—their historical conditioning, social values, aspirations and political philosophies.

The multinational enterprise represents a leading edge of this development offensive. As former Secretary of Commerce Maurice Stans put it, the multinational enterprise "is a bold and imaginative—and necessary—response of U.S. business to the inexorable pressures of international commerce. While the growth of multinational investment should not be viewed uncritically, the effort that it represents to maintain our position in the international commercial community should not be subjected to criticism that fails to take account of today's realities".¹

¹ *Policy Aspects of Foreign Investment*, U. S. Department of Commerce, January, 1972.

recommendations

The National Chamber report concludes that the attacks on multinational enterprises are unjustified and misplaced. The survey has demonstrated clearly that U. S. international corporations have made a substantial contribution to the growth of American employment in the face of recession, and to export development in the face of general declining international competitiveness.

Nevertheless, the national economy is encountering real problems in high unemployment and persistent weakness in the trade balance. While union explanations for these problems are ill-founded and prescriptions for correcting them are regressive, the problems do require constructive solutions.

Following are five recommendations regarding these problems:

1. That a more realistic and flexible policy of adjustment assistance be provided to companies, groups of workers, and communities injured by competition from imports.
2. That the New Economic Policy of August 15, 1971 be permitted to perform its mission, especially the Job Development Tax Credit, which would be an important stimulus to private investment and the creation of employment opportunities.
3. That benefits of the 1971 international negotiations leading to currency realignments and recent legislative changes in export taxation and export financing be given time to strengthen the U. S. trade balance.
4. That both business and labor give serious support to forthcoming preparations for a new round of international trade negotiations now expected to be launched during 1973.
5. That greater attention be directed to the need for new or strengthened international mechanisms to resolve foreign investment disputes and to harmonize national foreign investment policies.

Adjustment Assistance

The Trade Expansion Act of 1962, which authorized U. S. par-

icipation in the Kennedy Round negotiations, marked formal recognition for the first time that expanding international trade, or at least increased imports, could cause serious problems of adjustment and that some mechanism other than temporary import restraints would be needed to facilitate this transition.

The statutory adjustment assistance provisions, however, were slow to be used, partly because of very restrictive language in the original legislation, partly because of the Tariff Commission's interpretation of the law. From passage in 1962 until October 1969 not a single company or group of workers was found eligible to participate in the benefits originally intended. Since then a more liberal Tariff Commission approach has brought about some use of the adjustment program.

The need for an effective adjustment assistance program is now widely recognized. The tempo of change in international economic relations has accelerated to the point where import-challenged industries have a dramatically diminished period within which to adapt their operations. This is, in effect, another aspect of the longer-term process of internationalization. All sectors of the economy, however, benefit from the free flow of goods and capital. It is, therefore, inequitable that only a few sectors shoulder the main burden of adjustment. Public policy must, accordingly, provide effective means for easing these transitions.

Improvements in the existing adjustment assistance program are needed through both administrative and legislative action. The present system provides government support in the form of low-cost loans, technical assistance, and tax credits. However, eligibility now requires that a direct connection be proved between rising import levels that injure a company (or a group of workers) and a previous lowering of tariffs through international agreement. Removing this latter condition, widely assumed to be a reasonable change, will require legislative action.

Other modifications in the approach to adjustment assistance can be managed through administrative action. A better early warning system is needed, not only to detect trends in imports that are likely to cause market disruption, but in foreign exporting practices that are likely to result in deepening penetration of the American market. More analysis is also needed, possibly on an industry-by-industry basis, to design longer-term solutions for companies either to shift into other product lines in which U. S.

manufacturing is more competitive or to strengthen abilities to compete in existing activities. Maximum emphasis should be placed on self help and on linking these efforts closely with marketplace conditions. Acceleration in delivery of program benefits should also be undertaken.

Labor unions, whose support was essential to passage of the 1962 legislation, will have to lend their support again if this essential program is to be strengthened and made more effective. Labor organizations will have to accept the fact that adjustment assistance is likely to prompt some losses of membership, in some instances, as workers are retrained and enter new fields of activity. Short-sightedness toward that possibility could jeopardize the success of the entire effort.

Job Development

The greatest stimulus to economic development in the New Economic Policy of August 1971 is the Job Development Tax Credit. This helpful tax measure should contribute to resolving both the unemployment and foreign trade problems. On the employment side, the credit will encourage increased investment in plant and equipment, thereby stimulating creation of new jobs. On the trade side, industrial modernization will greatly improve the U. S. competitive position *vis-a-vis* other major exporting nations. Through a strong trade balance, employment will also expand.

By stimulating the replacement of less efficient industrial plant and equipment, the tax credit will enable the U. S. to compete successfully against the lower labor costs of other nations. Moreover, by helping to reduce unit costs of production, it will contribute to checking the inflationary pressures that have recently weakened the performance of American products in world markets as well as at home.

The growing importance of technology in international competition has become generally acknowledged. Serious attention is now being given to the inroads that Japan, West Germany and others have made into the American research and development lead. The investment credit, by helping to renew the U. S. technological position, will be generating exports in what promises to be the fastest-growing sector (on a dollar basis) of world trade during the Seventies and Eighties.

Currency Realignment and Reform

The far-reaching realignment of major national currencies

successfully concluded in December 1971 will also enable the American economy to improve its international competitiveness. By making the prices of U. S. products less expensive in overseas markets, while making foreign products more costly in the U. S. domestic market, the trade balance should be propelled toward surplus.

It is widely recognized that the effects of this realignment are not likely to surface immediately, but toward the end of 1972 they should make a visible contribution to correcting the trade deficit.

Tax Benefits for Exports

Two major export-oriented statutes placed on the books during 1971 should begin to make an impact in the months ahead. One of these is the so-called DISC (Domestic International Sales Corporation) export tax deferral program. The other is the expansion and streamlining of Export-Import Bank operations.

The DISC program permits American companies to establish a new species of corporate exporting subsidiary that enjoys deferral on 50 percent of its annual taxable income. Moreover, by providing beneficial rules for the prices at which parent companies sell to their special export subsidiaries, the new program makes exporting additionally attractive.

DISC should have a constructive impact on the U. S. trade balance in several ways. First, it will encourage more companies to get into export, many for the first time, and provide an incentive for existing exporters to devote more of their resources to selling abroad. One government estimate is that DISC would generate an additional \$1.5 billion a year in U.S.-based foreign sales. Second, the new program puts American exporters on a more equal footing with the kind of tax treatment their rivals enjoy in other countries. Most major trading nations have given special tax breaks to foreign sales that have at times put U. S. companies at a decided disadvantage. Third, DISC is expected to neutralize the effects of the American tax system on business decision-making in cases where the choice is a narrow cost calculation between manufacturing in the U.S. (and exporting) and manufacturing abroad. Exports should, therefore, be encouraged.

Export Finance

Over the next decade the role of financing in export operations is expected to gain increasing importance, as high-technology

products and major industrial and infrastructure installations become the major American sales abroad. Both the high prices of these items and the size of the export "package" involved will require extensive use of deferred payments. Intensified competition by leading exporters will put pressure on most companies to offer financial arrangements too.

Official recognition of this trend in 1971 led to expanded financing authority for the Export-Import Bank, and to several significant improvements in the agency's operations. Congress passed legislation raising the Eximbank obligational ceiling to \$20 billion from the previous \$13.5 billion, and specifically increased the Bank's authority to participate in guarantee and export credit insurance activities to \$13.5 billion.

Bank utilization of this fresh authority should give American exporters a definite edge in many areas of export financing and at least equality in most others. Recent projections indicate anticipated growth from \$5.4 billion in authorizations in fiscal 1971 to as much as \$31.6 billion in fiscal 1976. Much of this expansion will occur in export credit insurance, in which the U. S. has until recently lagged behind other major exporting nations. But it will also represent expansion in such innovations as guarantees of export leasing, local cost financing of major projects and installations, and an aggressive program of cooperative lending in which Exim teams up with local financial institutions in most countries where American exports are sold.

Many of these new programs have already injected fresh life into U.S. exports. They should be given time to make what is sure to be a substantial impact and a definite edge in many areas for U. S. business.

Trade Negotiations

Proposals are being made by representatives of the major trading nations for a new round of international trade negotiations to begin possibly sometime in 1973.

These would be concerned with the many trade problems that have developed between the major trading countries of the world since the "Kennedy Round" of tariff negotiations which was concluded in mid-1967.

The important point is for American business and labor to begin now to plan their "input" into the official U. S. preparations for these talks. This round of negotiations will give American

export interests an opportunity to press for improved access to the major markets of the world. It will also provide a forum for considering some of the unfair competitive practices on the part of other governments.

These talks will provide the best forum for exchanging views and balancing off interests in international trade policies and practices. It is important that U. S. negotiators enter these discussions armed with the facts and with a flexible mandate to pursue the real needs of the American economy and the national interest. Recent union proposals for complete controls over imports and foreign investments would be a straightjacket for American negotiators and certainly doom prospects for a successful outcome.

Significantly, these international discussions will focus heavily (though not entirely) on non-tariff barriers to the flow of trade. While American practices will have to undergo scrutiny also, it is generally agreed by U. S. officials and businessmen alike that many practices of other countries have seriously retarded trade development and can only be modified or removed in a multi-lateral context. Farm product trade will receive considerably more attention than was the case in the "Kennedy Round" of trade negotiations, and this should help in an area in which the U. S. enjoys some comparative advantage.

Imports from the developing countries, a disproportionate volume of which is said to have come into the American market, will also get extensive consideration. It is expected that this international forum will be useful in spreading the responsibility more widely among advanced, industrial nations to absorb increased quantities of goods from countries now in the early stages of industrial development. This should enable the U. S. to live up to its obligations to assist these countries through trade, while diluting the pressures on the trade balance and on certain industrial sectors that have had problems of difficult adjustment.

The United States has been a major architect of these proposed trade negotiations as well as of forthcoming discussions aimed at reforming the international monetary system. Both of these efforts, like the shorter-term ones that were completed successfully in late 1971 and early 1972, can be expected to prove helpful in strengthening the American position in foreign trade and investment. They should be given energetic support.

Multinational Enterprises

In periods of fundamental transition, such as the current movement toward internationalization of national economies, it is not surprising that defensive reactions are unleashed. But it is just at these moments that objectivity is most called for. Labor union suspicions of multinational enterprises, the survey suggests, are unjustified, and the campaign to legislate crippling controls and tax disincentives is self-destructive.

Even their severest critics readily acknowledge that MNEs have demonstrated a remarkable ability to manage advanced technology and to administer complex organizations. The very international orientation of these companies, however, has generated opposition among those who would prefer to return to the past, when national economies were sheltered behind walls, and goods and capital moved less comfortably. Adjusting to the new international perspective has been made more difficult by unemployment. The new economic policies and the forthcoming trade and monetary negotiations should be given every opportunity to do their work in confidence. U. S. policymakers can help create that confidence through recognition of the contributions MNEs have been making toward growing domestic employment and a strong American trade position.

Multinational enterprises themselves, however, face a variety of problems that call for greater attention and assistance from government. One of these is the matter of investment disputes between a foreign company and a host country government. Another is the difficulty of adjusting to the great multiplicity of national laws and regulations, which can be an enormous challenge to MNEs.

Increased official attention has recently been directed toward dealing with foreign investment disputes. Moreover, the first case has now been registered for arbitration under the World Bank-sponsored International Center for the Settlement of Investment Disputes. It is hoped that, in the future, such agencies will be utilized more frequently when disputes arise. Both developing and developed countries should also be encouraged to participate fully in the proposed International Investment Insurance Agency now being considered by the World Bank, thereby multilateralizing investment risks while encouraging the vital flow of funds into capital-starved countries.

Harmonizing certain national business practices is an equally

long-term but highly necessary undertaking. As the President's Commission on International Trade and Investment pointed out,¹ every country has an important stake in ensuring the free flow of investment resources. Considerable work thus lies ahead in narrowing local differences in such practices as antitrust, transfer pricing, profit repatriation, securities disclosure, and taxation. Greater harmonization will help smooth the way for even greater efficiency in the performance of multinational enterprises. The Chamber considers it advisable to enlist the maximum participation of MNEs themselves in any steps toward harmonization. An international authority could provide oversight of these efforts. An existing international organization, such as the General Agreement on Tariffs and Trade or the Organization for Economic Cooperation and Development might conceivably be appropriate.

U.S. multinational enterprises have contributed substantially to the worldwide improvement of living standards, the rapid generation of employment opportunities, and the more effective use of advanced technology. By increasing the mobility of resources, they have strengthened economic efficiency throughout the world, thereby benefitting both the U.S. and host countries. In linking the peoples of the world more closely together, they have also helped build a foundation for international understanding and peace.

¹"United States International Economic Policy in an Interdependent World", July, 1971.

findings in brief

There are three interrelated basic issues surrounding the MNE that form the basis of this Report. The summary findings on these issues are described below while more detailed facts are covered in a subsequent section and the original questionnaire is included in an Appendix.

employment

THE SURVEY PROVIDES POSITIVE EVIDENCE THAT AMERICAN MULTINATIONAL ENTERPRISES ARE INCREASING THEIR DOMESTIC EMPLOYMENT LEVELS AT A SIGNIFICANTLY HIGHER RATE THAN THE UNITED STATES' GENERAL MANUFACTURING AVERAGE. The experience of 121 firms that answered the employment question indicated an increase in domestic jobs from 2.5 million in 1960 to 3.3 million in 1970. This is a gain of 31.1 percent, significantly higher than the national percentage increase for that period. The 121 multinational firms tallied accounted for approximately 17 percent of U.S. general manufacturing employment in 1970.

The survey found that the operations of these U. S. international corporations led in strengthening of domestic employment, outpacing the economy which by 1970 had slid into recession and an unemployment rate of over 6 percent by year-end.

foreign trade

THE EXPORT PERFORMANCE OF 81 MULTINATIONAL FIRMS IN GENERAL MANUFACTURING ACTIVITIES WAS FAR SUPERIOR TO THE NATIONAL EXPERIENCE DURING 1960-1970. The shipments of these firms abroad from U. S. production facilities increased from \$2 billion to \$6.2 billion in that period, a gain of 209 percent, well above the national growth rate.

Unions contend that foreign operations replace U. S. manu-

facturing facilities and undermine export development, while boosting imports and weakening domestic employment. The 81 firms examined showed an export surplus of \$5.14 billion in 1970. According to ratios established by the U. S. Department of Labor, this can be translated into 458,172 American jobs.¹

location of investments

THE SURVEY DEMONSTRATED THAT AMERICAN MULTINATIONAL ENTERPRISES PREFER TO LOCATE THEIR OVERSEAS OPERATIONS IN THE ADVANCED, MORE HIGHLY INDUSTRIALIZED, HIGHER-WAGE COUNTRIES WHERE ECONOMIC CONDITIONS MOST CLOSELY RESEMBLE THOSE IN THE UNITED STATES. Data furnished by 160 companies indicate that, by far, the preferred locations are Western Europe and Canada, with Latin America in third place, followed by Asia-Australia and Africa.

If labor's contention that international firms prefer locating in low-wage areas were true, the results would have been quite the reverse of those actually tallied. But beyond mere location, the survey polled the member companies as to why they specifically established operations in each of these geographic areas. Here too the response provided clear refutation of union charges.

motives for going abroad

AMERICAN MULTINATIONAL ENTERPRISES LOCATE PLANTS IN FOREIGN COUNTRIES TO RETAIN FOREIGN MARKETS AND TO OVERCOME TRADE AND TARIFF BARRIERS. These 160 companies were asked to consider nine leading reasons for establishing operations in the various locations and to rank these reasons in order of preference from one to five.

In each of the five regions, the most popular reason for establishing a local operation was to permit "better servicing of an existing market", followed in all cases by the objective of overcoming tariff and trade barriers. Third most popular reason was the need to prevent a competitor from preempting a market.

Labor cost advantages, the explanation given by unions for multinational operations, were never at the top of the list, and

¹ *Monthly Labor Review*, June 1969, p. 16. According to the Department of Labor, this is the latest published criteria on export job creation.

only in the case of Asia were they given any prominence (third place). Moreover, Asian operations were regarded as far less preferable than those in Europe, Canada and Latin America (where labor costs were in sixth, sixth and fifth places, respectively).

The actual weighted tabulations of reasons for establishment in each region are listed under the section titled "Results in Detail".

The survey clearly documents that American multinational enterprises have not gone abroad to use low-cost labor and ship products back into the U. S. market. The overwhelming part of their foreign activities has been devoted primarily to serving local markets where operations are established, and to a lesser extent third-country markets. This confirms the findings of U. S. Government studies which have shown that plants abroad send back to the U. S. about 8 percent of their output. If Canadian automobiles are excluded, the figure is only about 4 percent.

The survey also indicated that, while U. S. operations abroad have enjoyed continuing expansion as part of the process of internationalization, these multinational enterprises have been guided by the necessities of retaining and building foreign markets, and not to escape American labor costs. While reasons have varied over the years (some multinational enterprises went abroad around the early 1900s, others in the 1920s and 1930s), leaping over tariff and trade walls has been a consistent motivation. So has the need to counter moves by foreign competitors. However, the need to better service local markets has been paramount.

The implication is clear: without overseas operations, U. S. multinational corporations would have lost much of their foreign markets to foreign competitors. They could not have maintained them through export alone. The survey documented that overseas business was not developed at the cost of American production, employment and exports. As noted, the employment levels, the export growth and the trade surplus of these firms outpaced the rest of the economy.

In short, the domestic activities of U. S. multinational enterprises have been among the most vigorous growth factors in the American economy. The critical charges of labor unions clearly are not justified.

survey results in detail

The Multinational Enterprise Task Force was guided by several elements in its selection of the 644 firms to whom it distributed its survey questionnaire. First, it was decided to poll members of the National Chamber to assure a willingness to cooperate in the effort. Second, it was decided to utilize the annual *Fortune* list of 1,000 leading industrial companies because, it was felt, this list would include most of the major American corporations with overseas operations. At the same time, the Task Force recognized that some companies on that list would not be multinational in character but still should be polled. Its reasoning was that information provided by firms that are large and yet not involved in operations abroad would help shed light on the motivation for going overseas or for not doing so.

A total of 280 companies responded to the Task Force questionnaire by the cutoff date, with 77 indicating no desire to participate and 43 reporting a complete lack of multinational operations. The list of 160 multinational companies whose responses were analyzed was pared further.

First, the extractive and automotive industries' figures were separated from the aggregates. The Task Force decided that companies in the extractive industry (including petroleum) had far different reasons for making investments abroad than other sectors of the economy. Extractive industries must operate where their raw materials are located and their foreign investments are usually limited to facilities engaged in acquiring and shipping these materials. It is therefore unrealistic to expect such corporations to restrict their investments to the United States or to refrain from importing the product of these operations into the U. S. Including this sector in the survey would have resulted in a distortion: it would reflect heavy foreign investment closely linked to substantial imports into the U. S. in a sector that has no alternative.

The automotive industry response was separated out because of the special effects of the 1964 automotive trade agreement with Canada. The U.S. motor vehicle trade balance with Canada,

largely because of that arrangement, has shifted from a \$657.9 million surplus in 1965 to a \$195.1 million deficit in 1970.¹ Extractive and automotive company responses, however, are used in a number of places throughout the report. Financial institutions, on the other hand, were excluded from the survey at the outset and warrant a separate study.

The second reason for deleting some responses from the analysis was they were incomplete. The Task Force attempted to minimize this factor through the distribution of a supplementary letter clarifying certain questions and seeking additional replies.² Nonetheless, some incompleteness remained which required varying the size of the sample utilized in sections of the report. Nevertheless, responses used include companies in a broad range of manufacturing activities—chemicals, pharmaceuticals, food products, electronics, rubber, agricultural machinery, paper, plastics, various consumer products, machinery and aircraft.

Incomplete returns (those with at least one question partially unanswered) were utilized in determining trends in individual issues. Thus, all 160 multinational companies answered the questions dealing with business motives for investing abroad, while 121 firms replied to all the employment questions.

The firms responding to the Task Force questionnaire, it should be noted, represent a substantial part of U. S. multinational enterprises. Thus, 114 firms reported their 1970 worldwide sales—\$104.0 billion—and 118 reported their 1970 sales outside the United States (excluding exports from the U.S.)—\$48.2 billion. Ninety-nine firms reported on exports in 1970 amounting to \$6.1 billion and 90 reported 1970 import levels of \$1.0 billion. Worldwide employment of 112 companies in 1970 amounted to 3.7 million persons. The 160 multinational companies revealed operations located in from one to over 100 countries. About half (82) reported operations in one to ten countries and about three-quarters (124) reported operations in one to 20 countries.

The corporate profiles available through analysis of the replies indicate a substantial average operation. The firms responding to each of these questions in 1970 were operating in an average of 14.5 other countries and had average worldwide sales of \$929

¹ "Fifth Annual Report of the President to the Congress on the Operation of the Automotive Products Trade Act of 1965". February 1, 1972.

² Copy included in the appendices.

million and overseas sales of \$408.2 million. The average firm exported \$68.9 million worth of goods and imported \$12.8 million that year. Its worldwide employment amounted to 33,013 persons, with 22,362 of them in the U.S. and 10,186 in other countries.

the reasons for going abroad

The Task Force questionnaire sought to determine where multinational companies prefer to establish foreign operations and what specific reasons motivated them in each case. Both points address the labor union contention that MNEs basically attempt to exploit cheap labor costs abroad for the purpose of shipping back to the United States. The companies were also asked to indicate which kind of operation (manufacturing, import/export) they preferred in each area.

Geographic preferences in the responses confirmed the existing trends further documented in U.S. Department of Commerce studies. Responses from 160 multinational companies showed a strong preference for investing in Western Europe followed by Canada. Farther down the list was Latin America and much lower in corporate priorities was Asia (including Australia-Oceania) followed by Africa. Within regions, country preferences were sometimes provided. In Western Europe the most popular were the United Kingdom, West Germany, France, Italy and Belgium, in that order. In Latin America, the preference list was headed by Mexico, followed by Brazil, Venezuela, and Argentina. In Asia the leader was Australia, followed by Japan and Taiwan. These geographic choices for each respondent were weighted, giving five points to first place, four to second, three to third, two to fourth, and one to fifth.

The returns, based on weighted responses for each geographic area were as follows:

Western Europe	706 points
Canada	423 points
Latin America	398 points
Asia	296 points
Africa	47 points

As might be expected from a group of manufacturing companies, a definite preference was indicated toward industrial activities. All geographic areas reflected the same bias in opera-

tional preference as follows: manufacturing, host country sales and service, import/export trading, and assembly operations.

Department of Commerce figures covering the book value of American manufacturing operations abroad in 1970 indicate that out of a worldwide total of \$32.2 billion, Europe was in first position with \$13.7 billion, with Canada second at \$10.0 billion. Investments in Latin American manufacturing stood at \$4.6 billion, while investments in Asia (including Oceania) were \$3.2 billion and in Africa \$538 million.

In attempting to quantify reasons for investing abroad, the Task Force recognized it was dealing with a topic that at best involves a certain amount of subjectivity on the part of the companies surveyed. Yet it was felt that a questionnaire distributed and answered with complete independence among the responding executives would, at the very least, shed important light on the subject. It would be no coincidence if a substantial number of responses demonstrated similar priorities. This turned out to be the case. The respondents were also asked to rank their preference so that trends would be even more evident. Weighting in this case, as in surveying geographic preferences, utilized a system of five points for first choice declining to one point for fifth choice.

The reasons listed on the questionnaire were felt to be the nine most popular ones, and that other possible reasons were relatively atypical. Survey results indicated three leading reasons for investing abroad. The most popular motive was "better servicing of an existing market," a broad rationale. Some firms provided fuller explanation of what they meant by this term. For many it implied a clustering of diverse activities, such as sales, finance, warehousing, manufacturing, which in the aggregate helped make specific overseas operations more economic than continued export from the United States or continued use of licensing arrangements. For some it meant that expanded local operations provided greater responsiveness to a local market. For others it meant upgrading of licensing, and thus a more effective job of reaching the local market. For still others it implied several reasons on the list jointly.

Consistently, the second most popular reason was overcoming tariff and trade restrictions. The need to counter a move by a competitor to pre-empt a market was in third place, in most regions. Fourth most often mentioned was transport cost ad-

vantage. Labor cost advantage was never in first or second position and only in Asia did it rise as high as third place. Elsewhere it was farther down the list.

Another contention of labor unions, that American multinational corporations go abroad specifically to take advantage of special tariff provisions that permit duty-free re-entry of U.S. components assembled overseas (Sections 806.30 and 807 of the U.S. Tariff Schedules), was also discredited by the survey. This factor was marginal in all regions.

A complete listing of the reasons given for making foreign investments is given in the Appendices.

The U.S. Department of Commerce in a recent study, "Policy Aspects of Foreign Investment by U.S. Multinational Corporations," utilized the concept of "defensive strategies" as major motives for overseas operations. Responses to the Chamber questionnaire bears this out. Such popular explanations as tariff and trade barriers, counter moves to prevent competitors from preempting a market, and lack of acceptability for the U.S. product in the target market are all defensive responses to changing market conditions.

The Chamber survey also confirmed a conclusion of the Commerce Department study that, because of the defensive nature of much multinational strategy, restricting the operations of these corporations would not result in an expansion of United States production and increased exports, but, rather, would result in lost overseas markets and enlarged production by wholly foreign-owned facilities. In other words, the corporate decisions involved were normally not between U.S. and foreign production bases but between continuing to supply an overseas market or dropping out. Expansion abroad, therefore, was not accomplished at the expense of operations in the U.S.

Where survey respondents elaborated on the purely quantitative replies, the defensive nature of their investment policies was often apparent. One company emphasized that it invested in the European Economic Community area during the early 1960's because it saw potential growth there for the products it was exporting but felt it would be disadvantaged by the common external tariff policy if it continued to supply from the U.S. In several instances companies exporting over a period of many years found demand in the U.S. for a specific product no longer existed while demand in the overseas market was increasing.

In summary, the Chamber survey has demonstrated that multinational investments by U.S. manufacturing companies have been directed mainly to those regions whose economies are most comparable to the U.S., and that the investments were undertaken mainly to supply local markets, not to ship back to the United States. Labor cost advantages, while an element in these investment decisions, were not a leading factor and were blended in together with several others. Finally, investment decisions were largely defensive, taken with the view that overseas markets would otherwise have been lost and that foreign operations could not, and would not, be replaced by U.S. production and exports.

reasons for staying at home

While primarily interested in analyzing the reasons for multinational operations, the Task Force also sought to obtain a better understanding of the reasons why companies large enough to be included in the *Fortune* 1000 list would choose to limit their activities entirely to the United States. A total of 43 firms replied that they did not, at this time, operate abroad.

Though the sample was relatively small, it was apparent from these responses that the corporations involved shied away from multinationalism primarily for economic rather than governmental reasons. Respondents felt that the greatest deterrent was a lack of adequate capital, personnel, or expertise, in that order. Another major reason was that the domestic U.S. market was sufficient to satisfy all corporate expansion plans at this time. The only significant governmental factor mentioned was fear of expropriation and a parallel preference for a stable host government.

Nearly half of the firms responding indicated that chances were 50-50 or better that they would invest abroad during the next three years. The activities they expected to undertake, in order of preference, were manufacturing, sales/service, assembly, extraction, and trading. Respondents were fairly uniform in the requirements they felt were necessary for making the move overseas. Two factors stood out—an adequate market and a good return on investment.

For those firms that saw no prospect of setting up overseas, reasons submitted fell into two distinct groups—those that were purely internal to the companies involved, and those that com-

prised an evaluation of overseas circumstances. Among explanations in the first group were that a basic management decision had been made to concentrate on the domestic market, or that all available funds were needed for U.S. expansion. In the second group were such observations as the lack of a demonstrable need for company products abroad or present ability of the company to reach overseas markets through a program of licensing, agencies and franchising, or the fact that the possibility of expropriation was too great.

employment trends

The employment issue is by far the most critical element of the national debate surrounding multinational corporations. The charge that MNEs have weakened the American employment base is at the heart of the labor union critique and the basis for the AFL-CIO campaign to legislate controls over foreign investment.

A basic problem in dealing with the employment picture is that the union crusade has been mounted in the midst of recession, high levels of unemployment, and protracted inflation. This has been a period in which joblessness is a real problem, and the unions have laid it at the doorstep of the multinational companies. Moreover, the United States trade balance has seriously weakened over the past four years, with a \$2 billion deficit in 1971, the first such excess of imports over exports in 83 years. The unions have mistakenly attempted to hold multinational corporations accountable for that trend as well.

Despite the national debate now under way, union critics of MNEs have presented no evidence to support their charges. Unemployment and a trade deficit are objective trends, but the necessary links with foreign investments have simply not been made. The findings of the Chamber survey offer a more realistic picture.

Worldwide employment of companies surveyed has climbed steadily. Among general manufacturing companies (extractive and automotive industries excluded) using data from 112 firms that replied, the Task Force found a 1960 total of 2.3 million jobs, rising to 3 million in 1965 and 3.7 million in 1970.¹ While the actual gains were larger in the second five-year period (712,455

¹ See Graph Number 1.

in 1965-70 vs. 688,593 in 1960-65) the rate of increase was slower (23.8 percent vs. 29.9 percent), largely reflecting the recession in the United States.

United States Employment. In examining trends in U.S. job levels during the period covered, the survey made three inquiries. First, it compared the performance of the MNEs responding with the national average. Second, it analyzed company performance according to the size of the employment rolls. Specifically, it distinguished between companies having over 5,000 employees worldwide in 1960 and those with 5,000 or fewer. This distinction was applied to both the 1960-1965 years and the 1965-1970 period. Third, it compared results with similar studies undertaken by the U.S. Department of Commerce. The number of companies covered is indicated for each comparison.

Domestic employment for 121 firms that answered the employment question (including extractive and automotive industries), indicates a significantly higher rate of increase than the national average during the 1960-1970 years. The gain was from 2.5 million jobs in 1960 to 3.3 million in 1970, representing a 31.1 percent rise, accomplished in the face of serious unemployment. If the automotive and extractive industries are excluded, the 1960-1970 increase is 39.1 percent.

Among the 121 companies, whose specific U.S. employment experience is detailed in an Appendix, only nine reveal a decline in U.S. jobs during the ten-year period surveyed. Of those, two are aircraft manufacturers whose operations were sharply curtailed during 1965-70 due to shifts in military spending and a re-ordering of American technological priorities. Two others are in the automotive field operating under the Canadian automobile agreement, revision of which is now sought by the U.S. Government.

The survey data generally coincide with the trends reported by the Commerce Department's studies of multinational enterprises.² In seeking to assess the labor union charge that foreign investments weaken domestic employment, that government agency examined employment trends in fourteen SIC groups within which are concentrated 92 of the 133 largest U.S. foreign direct investors. These groups include: petroleum refining, drugs, industrial chemicals, nonferrous metals, farm machinery, office and

² *Policy Aspects of Foreign Investment by U. S. Multinational Corporations*, January, 1972; *U. S. Multinational Enterprises and the U. S. Economy*, January, 1972.

computing machines, motor vehicles and equipment, canned-cured-frozen foods, soaps-cleaners-toilet goods, tires and tubes, communication equipment, blast furnace and basic steel products, household appliances, and paper and pulp mills.

Among these fourteen groups, only three experienced any decline in employment during the 1965-70 period. Motor vehicles showed a dip of 5.1 percent, while basic steel products and farm machinery each underwent a 4.7 percent employment decrease. One of the Commerce Department studies points out that employment levels in these three industries fluctuated throughout the period, and that motor vehicles were affected by the Canadian Automobile Agreement.

The other eleven groups experienced employment gains ranging from 6.2 percent for paper and pulp mills to 45 percent for office and computing machines. Several industries showing increased jobs included some which are facing strong import competition—for example, tires (12 percent), communications equipment (16 percent), office machines (45 percent), and household appliances (7 percent).

The Chamber survey and the Commerce Department study both highlight the contributions of U.S. multinationals to domestic employment.

In exploring the significance of multinational corporate size as it related to domestic employment trends, the Chamber survey found that smaller firms in a 103-company sample (those with 5,000 or fewer jobs worldwide in 1960) added to their U.S. employment at a faster rate than larger companies in both survey periods, 1960-65 and 1965-70. For the 25 smaller firms U.S. employment between 1960 and 1965 increased 78.8 percent, while employment in the 78 larger companies rose 23.2 percent. From 1965 to 1970 domestic employment for the smaller firms increased at a rate of 51.5 percent, while larger firms increased their jobs by 8.9 percent.

An examination of these 103 companies according to the extent of their geographic dispersal abroad indicates that 83 firms operating in four or more countries experienced a higher growth rate in U.S. employment in both 1960-65 and 1965-70 than was the case for 20 companies operating in fewer than four countries. Specifically, the rate of increase for the more geographically diversified companies was 24.1 percent in 1960-65 and 14.8 percent in 1965-70, while the rates for the less dispersed firms were a gain

of 29.5 percent in the first period and a decline of 4.7 percent in the second.

A study commissioned by the U.S. Department of Commerce helps explain the relative buoyance in the domestic employment trend of U.S. multinational corporations.³ The study, by Professor Robert B. Stobaugh of the Harvard Business School, estimates that roughly 600,000 U.S. jobs have been created by foreign investments of the companies involved. The Chamber survey shows that had 90 companies not invested overseas, their estimated 1970 U.S. employment would have been lower by more than 157,000 jobs.

The Stobaugh study distinguishes three kinds of domestic employment generated by multinational corporations through their overseas activities. First are the jobs, mostly production workers, that are necessary to produce capital goods and intermediate goods (often assembled abroad) required in overseas plants. Second are those jobs in the main offices of U.S. multinational enterprises required to administer overseas operations. Third are supporting workers. Professor Stobaugh estimates these are 250,000 production workers, 250,000 headquarters workers, and 100,000 supporting jobs, for a total of 600,000.

Foreign employment by U.S. multinational enterprises has increased steadily over the past decade. Inevitably, as the book value of U.S. direct foreign investment in manufacturing activities abroad grew, so did the number of foreign workers employed in these operations. Thus, the book value of manufacturing increased from \$11.2 billion in 1960 to \$19.3 billion in 1965 and \$32.2 billion in 1970.⁴ The Chamber survey, based on 104 companies that replied to this question, indicated parallel gains in overseas employment. This increased from 459,000 jobs in 1960 to 682,000 in 1965 and over 1 million in 1970.

While the data are too limited to draw firm conclusions, there are indications that the growth of overseas employment by U.S. multinational corporations may be slowing down. For one thing, when firms with more than 5,000 employees worldwide in 1960 are distinguished from those with 5,000 or fewer, the first group is seen to experience a far slower rate of increase in the 1960-70 period.⁵ This suggests that the larger companies have already

³ *U. S. Multinational Enterprises and the U. S. Economy*, U. S. Department of Commerce, January, 1972.

⁴ *Survey of Current Business*, October, 1971, pp. 28-29.

⁵ See Graph Number 5.

made most of their major moves overseas, while smaller ones are still in the process of building foreign operations. The aggregate employment impact of these smaller firms will be more limited.

A second suggestion of this possibility appeared in responses to the survey on estimated foreign employment levels in 1975. Nineteen smaller firms estimated 1975 foreign employment at 157 percent above 1970 levels, but 48 larger companies estimated growth of only 25.8 percent.

Among firms replying to the survey, five industry groups in the general manufacturing sector accounted for nearly 50 percent of the increase in foreign employment during the 1965-70 period—business machines and computers, metal containers, tires, communications equipment, and conglomerates. Three of these, however, are also among those industries listed by the Commerce Department as enjoying strong rates of growth in domestic employment while facing strong import competition—office machines, communications equipment, and tires. The implication is strong that in the case of rapid-growth industries, employment expansion can occur vigorously both at home and abroad simultaneously. In the business machines industry, for example, computerization of business and government developed rapidly in both the United States and Europe throughout the 1960s. The survey revealed substantial growth in U.S. and foreign employment for these manufacturers throughout the period.

The employment of American citizens abroad has been very marginal in recent years among U.S. multinational corporations. According to the survey, there has actually been some decline in the relative role of these staffs. Based on responses from 100 companies, U.S. citizens accounted for only 0.9 percent of foreign employment in 1960. In 1970 this figure was 0.5 percent. The average is less than 50 U.S. citizens overseas per company.

In the debate over the employment impact of MNEs, critics have attempted to discredit the buoyant trend in domestic jobs by attributing this strong showing to corporate acquisitions rather than representing newly-created positions. The survey provided data on the role of acquisitions in the employment gains of 112 companies. Unfortunately, it did not cover corporate divestments occurring during the period, which would have counter-balanced the contribution of acquisitions, and provided a more realistic picture. The data indicated that just over one-third of total domestic employment gains in 1960-1970 were due to acquisitions.

Moreover, the survey showed that almost one-half of foreign employment gains in those years were accounted for by acquisitions. Thus, foreign employment gains are often the result of acquiring a going concern and not the initiation of a new enterprise.

The Chamber survey and the Department of Commerce studies reach very similar conclusions on the trend in employment. While the growth of foreign-based jobs occurred at a rapid rate during the 1960s, from a relatively small base, there are no indications that this phenomenon had any negative impact in the aggregate on United States employment. In fact, the very opposite appears to be the case.

First, American MNE domestic employment did not diminish, but rather grew, and did so far more rapidly than was the case for other companies in the general manufacturing sector during these years.

Second, this healthy domestic employment picture would undoubtedly have been even more vigorous were it not for the presence of a serious recession during 1970. In fact, the multinational corporations surveyed represented the healthiest part of the manufacturing sector in the midst of serious unemployment. It can only be assumed that with the recovery of the broader economy these companies will show even livelier growth rates in their payrolls.

Third, U.S. employment has been helped directly by foreign investment through the generation of exports. An estimated 25 percent of American exports are normally sent to overseas subsidiaries. This activity, together with home office administrative operations and supporting functions, creates substantial and growing employment.

Fourth, many, possibly most, overseas operations have been established for defensive purposes, to retain markets that would otherwise be lost due to tariff and trade barriers or aggressive moves by foreign business competitors. The typical management choice was between retaining or losing a market, not between U.S. or foreign operations.

Finally, financial return flows by foreign subsidiaries help to strengthen the profitability of the American parent companies, thereby permitting them to expand at home and to sustain increases in domestic employment.

international trade trends

Weakening in the U.S. trade balance during the past four years has brought intensified political controversy over foreign commercial policy. With growth in imports outstripping development of exports, the trade balance declined from a surplus of \$7.1 billion in 1964 to a \$2 billion deficit in 1971, the first for the United States since 1888.

While the causes of this trend are varied, there is general agreement that diminished international competitiveness in several U.S. manufacturing industries has been a major contributing factor. Increasing reliance on imported industrial raw materials has also been an important influence, and this trend is expected to become even more pronounced in the future. As the trade balance in textiles, shoes, steel, and parts of the electronics industry slipped into deficit, some jobs were lost.

Significantly, this changed trade situation has brought a complete about-face by many labor unions. The AFL-CIO, traditionally a supporter of liberal trade policies, has moved over into the ranks of those advocating restrictions against imports. Over the past two years the labor federation has also linked the problems created by mounting import competition to the overseas operations of American multinational corporations. The AFL-CIO charges that foreign manufacturing activities are designed to ship goods back to the U.S. while displacing exports, thereby hurting the domestic employment base. It should be noted, however, that not all unions or workers share these views.

The Chamber survey gathered data on the export and import experience of U.S. multinational enterprises as well as on their worldwide intra-corporate exchanges of goods. Analysis relates these corporate trade trends with domestic employment levels and distinguishes the trends between companies with varying levels of employment. Survey data has been compared with studies undertaken by the U.S. Department of Commerce.

The survey provides clear evidence that MNEs in general manufacturing have provided a strong element in the U.S. trade balance, and have contributed little to its recent weakness. Using

a sample of 81 companies answering both questions these MNEs showed a growing surplus—from an excess of exports over imports of \$1.7 billion in 1960 to \$2.5 billion in 1965 and to \$5.1 billion in 1970.¹

This continued strengthening has occurred in the face of a dramatic shift in the overall U.S. trade balance—from a surplus of \$4.6 billion in 1960 and \$7.1 billion in 1964 down to only \$837 million in 1968. In 1970 it recovered to \$2.7 billion, but then slipped into a \$2 billion deficit in 1971.

The exports of 101 companies covered in the survey grew from \$2.4 billion in 1960 to \$3.5 billion in 1965 and to \$6.9 billion in 1970. Gains in the first five-year period amounted to \$1.1 billion and in the second to \$3.4 billion, for percentage increases of 46 and 97 respectively.² The average level of exports for the 101 companies in the sample was \$69 million in 1970.

On the import side, the aggregate of 94 companies covered rose from \$365 million in 1960 to \$635 million in 1965 and to \$1.2 billion in 1970. Increases were \$171 million, or 47 percent in the first five years and \$668 million, or 125 percent in the 1965-70 period. Average imports per company covered amounted to \$12.8 million in 1970. The survey made no distinction between imports of raw materials and finished materials, though presumably the increase took place in both categories.

The data demonstrated that smaller firms experienced a far more active rate of growth in their foreign trade during the 1960-70 period, once again suggesting that larger companies underwent the process of internationalization earlier, and that the major shift for them is already accomplished.³ Specifically, 20 smaller firms (those with 1960 worldwide employment of less than 5,000 jobs) enjoyed export expansion from \$59.9 million in 1960 to \$356 million in 1970, for a 495 percent gain. Imports of these companies rose from \$2.4 million in 1960 to \$40.8 million in 1970 for a 1,636 percent increase. For 62 larger companies (over 5,000 jobs) exports grew from \$2 billion in 1960 to \$5.9 billion in 1970, for a 194 percent increase. Imports of these firms rose from \$332 million in 1960 to \$1.1 billion in 1970, for a 224 percent increase. It must be remembered, however, that the

¹ See Graph Number 2.

² See Graph Number 3.

³ See Graph Number 4.

sample for the smaller firms was limited to only 20 companies. The trend is thus more suggestive than conclusive.

Because the imports of the MNEs in the aggregate rose at a rapid rate during the period covered, the Task Force decided to determine even more closely what the exact relationship was of those firms experiencing the greatest increases in imports with domestic employment. These import levels actually ranged from gains of as little as \$2 million to as much as \$86 million in the 1965-70 years. The net employment experience of 28 firms thus covered was an increase of over 169,000 U.S. jobs over five years. Moreover, while the imports of these companies increased by an aggregate \$475 million in the period, their exports gained by \$1.3 billion. *Clearly, even those MNEs experiencing rapid import growth have in the aggregate added to their U.S. employment.*

Data covering the employment, import and export experience of these 28 firms are listed below.

Corporation #	U.S. Employment 1965-70	Import Performance 1965-70 (millions)	Export Performance 1965-70 (millions)
1	+ 800	3	(negligible increase)
2	- 700	5	+269
3	- 5,150	84	+ 35
4	+ 7,000	20	+ 27
5	+ 8,000	16	(decrease of 4)
6	+45,772	86	+262
7	+12,000	17	+ 9
8	+ 4,826	2	+ 6
9	+13,000	7	+ 71
10	- 2,600	3	(decrease of 5)
11	+ 7,200	13	+ 11
12	+ 1,284	7	+ 6
13	+ 9,632	4	+315
14	+ 500	5	(negligible increase)
15	+ 1,000	21	+ 52
16	+ 1,764	2	+ 27
17	+ 1,280	3	+ 17
18	+ 7,000	26	+ 10
19	- 4,896	4	+ 4
20	+ 982	11	+ 25
21	+ 2,934	2	+ 21
22	-	2	(negligible increase)
23	+10,000	3	(decrease of 1)
24	+ 4,500	5	+ 10
25	+ 3,000	10	+ 51
26	+11,500	34	+128
27	+26,000	70	(negligible increase)
28	+ 2,100	10	(negligible increase)
Total gain:	169,328 (net)	\$475	\$1337 (net)

The survey data, including company responses on the reasons for operating abroad, run parallel to Commerce Department findings.

Commerce Department data reveal that overseas manufacturing affiliates ship a relatively small part of their annual sales volume back to the United States. In 1968, 78 percent of total affiliate sales (or \$45.5 billion) was sold in the local markets where the foreign investments were located. Another 14 percent went to third-country markets, and only 8 percent was shipped to the U.S. Excluding Canadian cars, the latter figure would be only 4.2 percent, exactly what it was in 1965, before the volume of the car imports began to soar.⁴

Moreover, a Commerce Department study demonstrates that while imports from overseas manufacturing affiliates have grown, the increase in the proportion which these flows represent within total U.S. imports has been entirely due to the Canadian automotive agreement. Thus, Commerce Department data show that imports from foreign affiliates rose from \$1.789 million in 1965 to \$4.741 million in 1968. This represented 8.3 percent of all American imports in 1965 and 14.3 percent in 1968. Excluding cars from Canada, however, the 1968 figure comprises only 8 percent of total U.S. imports, actually slightly below the 1965 position.

Commerce Department data also point to substantial exports by MNEs to overseas affiliates. In 1965, latest year for which detailed statistics are available, a survey of 330 firms showed exports to affiliates (by parent companies and other suppliers) of \$5.092 billion. Of that total \$1.728 billion represented components for further processing or assembly, another \$2.247 billion was for resale without further manufacturing, \$356 million represented capital equipment, and another \$487 million was unallocated. In addition, \$273 million worth of goods was sold by affiliates on commission.

Commerce Department data for 1962-64, the latest years available, show that sales to overseas affiliates represented 25 percent of total American exports and nearly one-third of non-agricultural exports.

The Department study has suggested at least three reasons why

⁴ See Graph Number 6.

foreign investments actively stimulate U.S. exports. First of all, many investments abroad are accomplished through an export of capital equipment, and often there is some continuous shipment of replacement equipment. Secondly, many parent companies ship parts, components, and industrial raw materials to affiliates for further processing and assembly. This is particularly true in automobiles, chemicals, machinery, and rubber products. Thirdly, a substantial volume of exports to affiliates is resold by overseas subsidiaries without further processing. The Department points out that in many instances affiliates are much more effective salesmen than non-affiliated foreign distributors. Affiliates have greater interest in these sales, can round out product lines with other parent company items, and their mere presence in other countries can stimulate interest in U.S. products. Also, the existence of sales facilities, warehouses and trained personnel on-the-spot must facilitate the sales of not only the affiliates' own products but of their parents' as well.

On the whole, then, the Commerce study observes, it seems reasonable to conclude that a considerable part of the U.S. exports sold through foreign affiliates would not have been sold without their presence.

Much interest has developed over the trends in intra-corporate trade, not only by overseas affiliates with their U.S. parent companies, but with one another. The Task Force survey obtained data on 64 companies for the year 1970. Two trends stand out. First, it was apparent that foreign affiliates found parent companies to be a more important source of their imports than a customer for their exports. Specifically, foreign affiliates of the 64 companies responding to the question exported 27.7 percent of 1970 shipments abroad to their parents, while acquiring 46.6 percent of their 1970 imports from their parents. The second trend was that a large part of the international trade transactions by overseas affiliates is maintained within the multinational company itself. Thus, 60.1 percent of these affiliate exports in 1970 went to other parts of the MNEs (including the parents), while 72.8 percent of all imports by foreign affiliates came from within these MNEs (including the parents).

In summary, the only conclusions to be drawn are that while U.S. multinational corporations have expanded both exports and imports rapidly and substantially, they are making a major con-

tribution to export development, enjoy a growing trade surplus, and have, accordingly, increased their U.S. employment more rapidly than the national average.

First of all, MNEs have broadened their surplus of exports over imports in the face of serious weakness in the American trade position.

Second, this strong trade showing has been accomplished despite the presence of severe inflationary trends which make U.S. products less competitive in world markets. It can only be assumed that with a reduction in the rate of inflation this MNE trade surplus will be further enlarged.

Third, the rate of expansion in both exports and imports has been more rapid among smaller MNEs, strengthening the belief that larger companies underwent internationalization earlier and that most of this longer-term shift has already occurred.

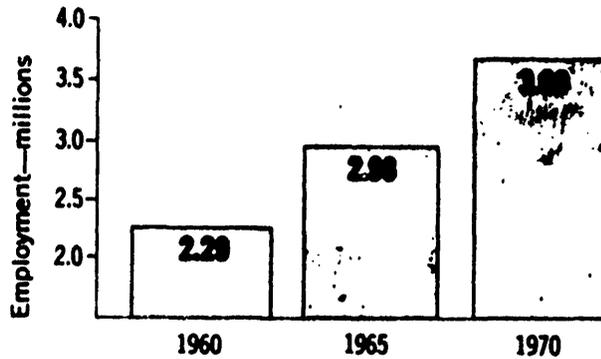
Fourth, even MNEs that have added most substantially to their imports have in the aggregate shown no decline in U.S. employment, but, quite the contrary, have added substantially to domestic job levels. In general, U.S. multinational enterprises have been conspicuously absent from those industries that have experienced a weakening in international competitiveness, negative trade balances, and declining U.S. employment levels.

Fifth, American affiliates abroad sell the overwhelming part of their production (in fact, 92 percent) in other countries and only a small part (8 percent) in the United States. When cars shipped from affiliates in Canada are excluded, affiliate exports to the U.S. are exceedingly modest (4.2 percent of total sales).

Sixth, while imports from affiliates have represented an enlarged part of total U.S. imports, all of this proportionate gain has been contributed by Canadian cars. If Canadian motor vehicles are excluded, U.S. imports from affiliates have actually declined slightly as a proportion of total imports.

Graph Number 1

WORLDWIDE EMPLOYMENT (112 COMPANIES)



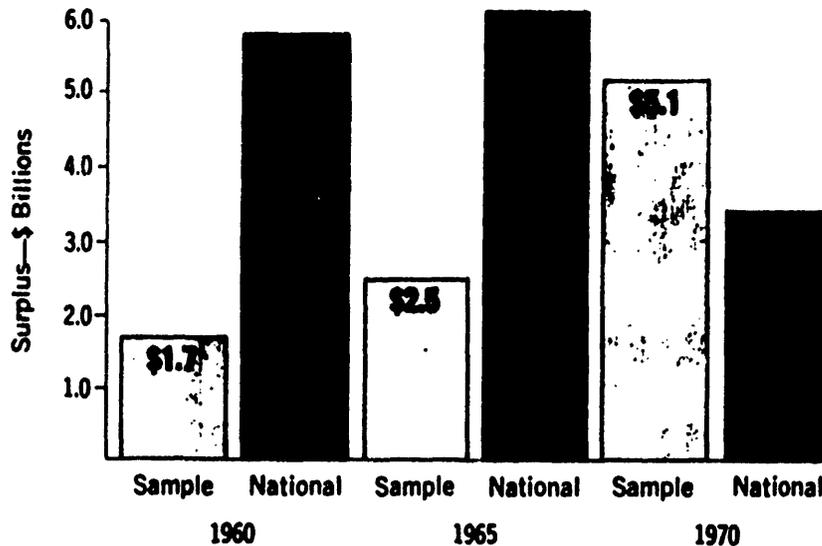
Worldwide Employment for 112 companies was:

1960—2,296,445

1965—2,985,038

1970—3,697,493

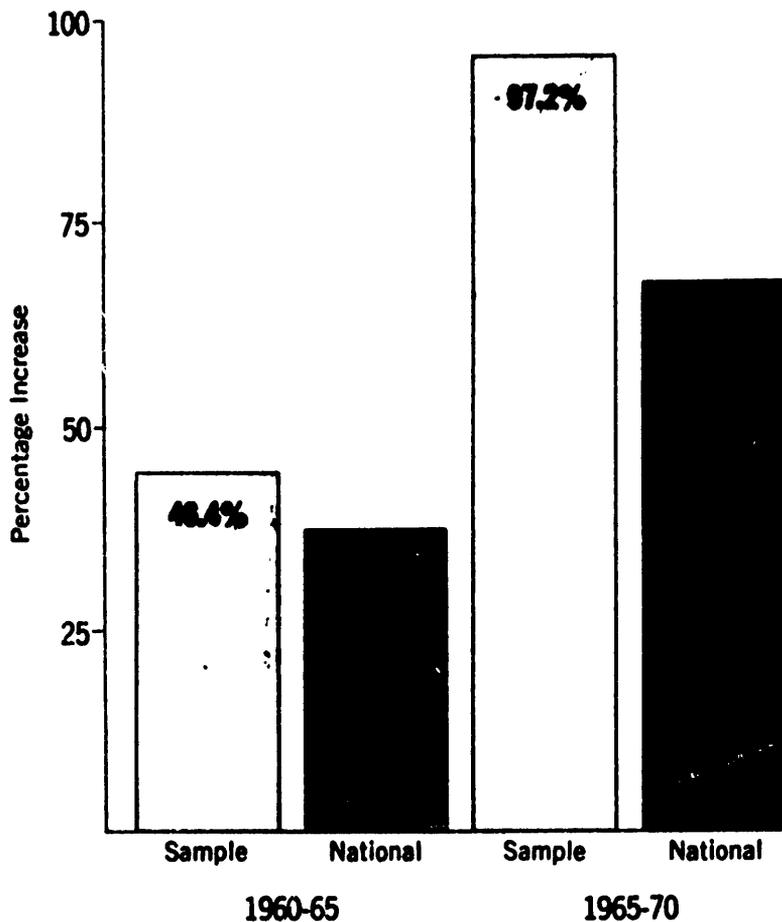
Graph Number 2

MANUFACTURED GOODS TRADE BALANCE
SAMPLE (81 COMPANIES) VS. NATIONAL PERFORMANCE*

*Statistical Abstract of the United States, 1971, U.S. Department of Commerce, Bureau of the Census, pp. 772-773, 777-778. The National Trade balance of manufactured goods was computed from figures of exports and imports in the categories of "Machinery and transport equipment", "Chemicals", and "Other manufactured goods."

Graph Number 3

**PERCENTAGE INCREASE IN U.S. EXPORTS OF
MANUFACTURED GOODS* AND PERCENTAGE INCREASE
IN SURVEY SAMPLE (101) COMPANIES**



Source: National increases in exports of manufactured goods were obtained from *Overseas Business Reports*, U.S. Department of Commerce, number 65-60 (August, 1965) table 7 and number 71-009 (February, 1971) table 2.

National figures for exports in manufactured goods were:

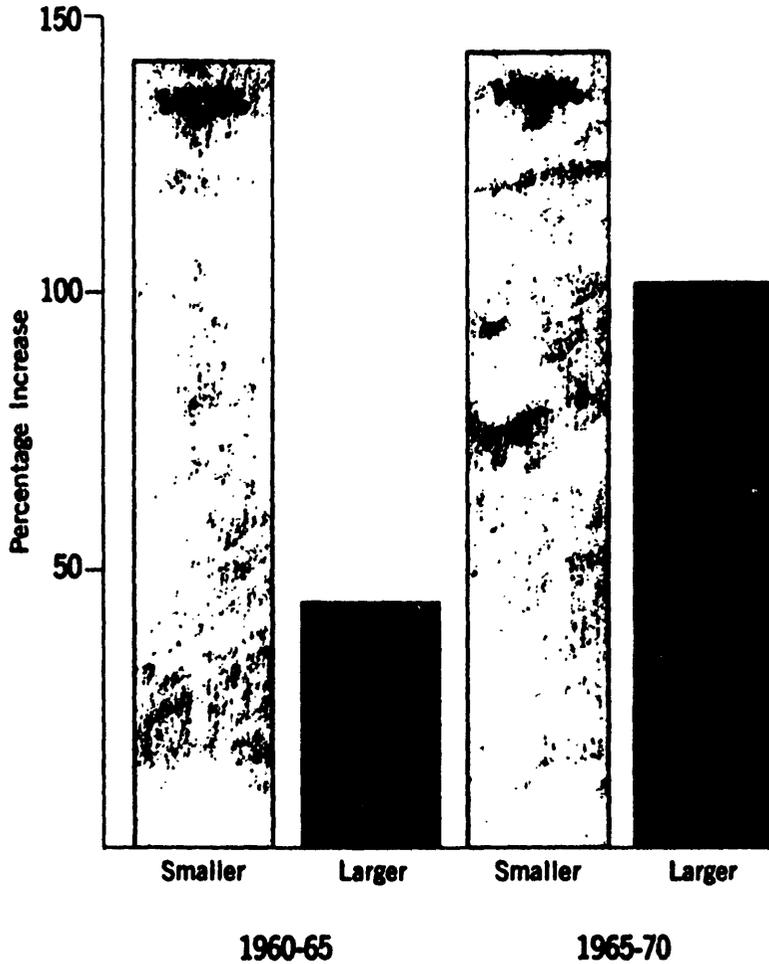
1960—\$12,583,000,000

1965—\$17,432,000,000

1970—\$29,340,000,000

Graph Number 4

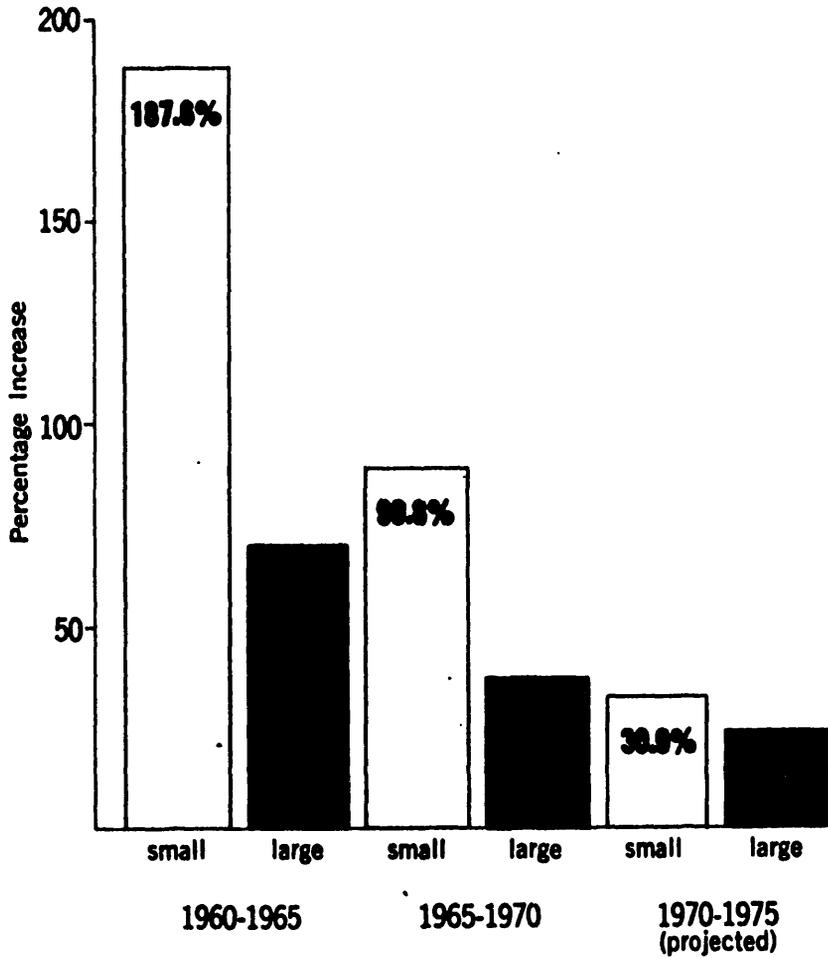
**PERCENTAGE INCREASES IN EXPORTS
SMALLER (20 COMPANIES) VS.
LARGER (62 COMPANIES)***



*Companies in the "smaller" category were determined by listing those with 5,000 or less employees worldwide in 1960. For the 20 companies in this category, exports were: \$59,840,000 in 1960; \$145,335,000 in 1965; \$355,803,000 in 1970. For the 62 companies in the "larger" category exports were: \$1,980,932,000 in 1960; \$2,897,690,000 in 1965, and \$5,825,391,000 in 1970.

Graph Number 5

**PERCENTAGE INCREASES IN
SMALLER (19) VS. LARGER (54)
COMPANY FOREIGN EMPLOYMENT**

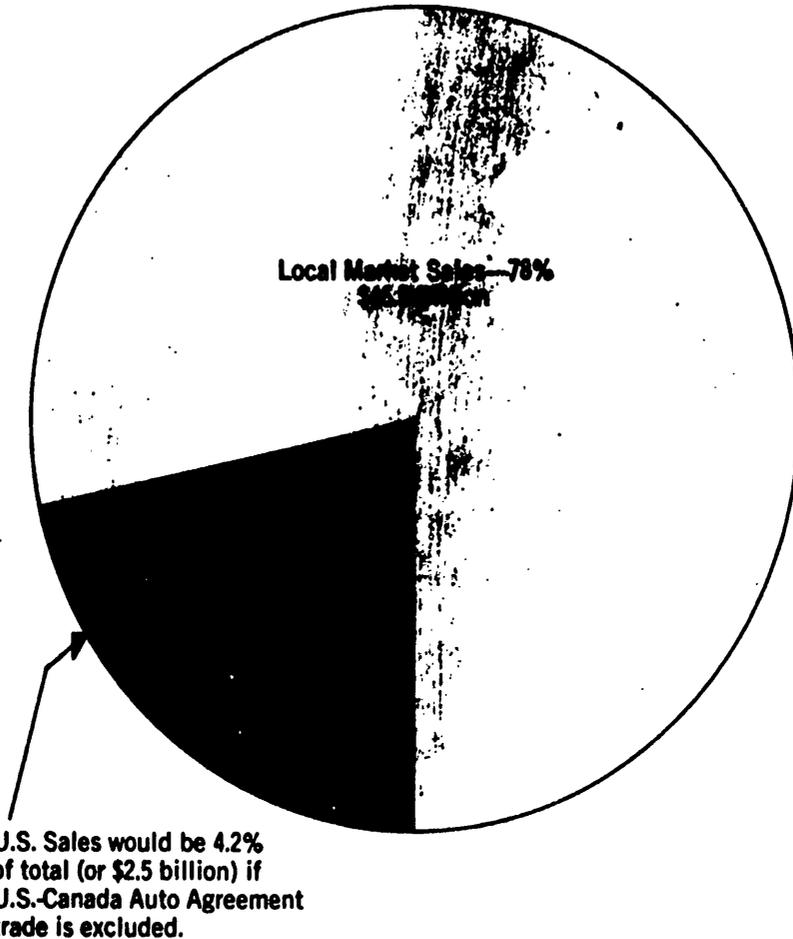


**Foreign Employment for 19
Smaller Companies:**
 1960— 4,523
 1965—13,003
 1970—24,811
 1975—32,458
 (est.)

**Foreign Employment for 54
Larger Companies:**
 1960—224,129
 1965—373,916
 1970—499,426
 1975—617,744
 (est.)

Graph Number 6

**FOREIGN MANUFACTURING
AFFILIATE SALES OF U.S. MNEs*
1968 TOTAL SALES = \$59.7 BILLION**



*Source: *Trends in Direct Investments Abroad by U.S. Multinational Corporations, 1960-1970*, U.S. Department of Commerce, Bureau of International Investment, February, 1972: pp. 18-20 and table 9, p. 48.

REPRESENTATIVE RESPONSES TO QUESTION #7 OF THE
CHAMBER OF COMMERCE OF U.S. MNE SURVEY

These questions asked the participating companies to indicate what the effects would be on their operations if nine legislative and policy objectives of organized labor toward the MNE became law. With very few exceptions, the companies indicated that they would have an adverse effect. A percentage breakdown of all the responses is indicated with each proposal.

1. WHAT WOULD BE THE EFFECT ON YOUR OPERATIONS OF THE REGULATION AND SUPERVISION OF CAPITAL TO ALL COUNTRIES?

(92% - Adverse, 0% - Beneficial, 8% - Nil)

- "As a relative newcomer to international exploration and production operations, the control of capital is particularly restrictive to our efforts since we have not had an opportunity to generate earnings from foreign operations as have our major competitors."

- "...it restricts our freedom in seeking the best opinions from a business point of view for those investments that will return the highest dividends to our U.S. company. We already are dealing with the OFDI, and it is a costly and troublesome problem. Its long term effect will, without question, prevent the normal growth of our export business and will in the long run damage the balance of payments as far as our Company is concerned."

- "If investment capital for new facilities or modernization of older facilities is tightly restricted, it is obvious we would lose these markets to foreign investors; it is erroneous to assume these markets could be supplied by U.S. exports."

-2-

- "It would compound a problem made difficult already by OFDI regulations, which are causing a long-term negative impact on our company's ability to do business in foreign countries and to return capital to the U.S."
- "If you have foreign operations and can't export capital you have to borrow abroad to finance any new or expanding operations. These borrowings are often at higher interest rates, they leave you vulnerable to foreign currency fluctuations, and frequently expose you to foreign government regulations."

2. WHAT WOULD BE THE EFFECT OF THE REMOVAL OF TAX INCENTIVES NOW IN LAW TO SPUR FOREIGN INVESTMENT? THIS WOULD INCLUDE REQUIRING THE TAXATION OF PROFITS WHEREVER EARNED AT THE TIME THAT THEY ARE EARNED.

(92% - Adverse, 0% - Beneficial, 8% - Nil)

- "Any program to kill tax incentives for investments puts American companies at a serious disadvantage with their foreign competitors whose governments do provide such incentives. This would hurt our foreign trade and create repercussions on the American economy."
- "In general the payment of tax on income when earned would either require use of U.S. funds thereby slowing domestic investments, or would require an accelerated remittance of earnings from overseas. The results of either is obvious in that the effect would be a choking off of capital for investment or growth. In its simplest form it represents a tax increase to industry and a siphoning of funds into government coffers."
- "Should such a proposal be instituted, we probably would be less inclined to proceed with investment plans in less-developed countries that generally have lower tax levels or tax holidays."

-3-

- "Effects would be adverse in terms of substantially increased tax liabilities, decrease in cash flow, making more difficult the financing of foreign operations, placing our company at a competitive disadvantage on an international level as foreign companies do enjoy foreign tax credits or are not even taxed on their foreign income."
- "The taxation of profits wherever earned at the time that they are earned, presumably by our foreign subsidiaries, we think would be an unwarranted and perhaps illegal extension of U.S. sovereignty in that our foreign subsidiaries are foreign corporations taxed by the nations in which they exist. Not only would this be an infringement of national sovereignty, it would have an immediate and adverse effect on the capacity of the subsidiaries to manage their financial affairs by using undistributed profits for reinvestment purposes."
- "Would adversely affect corporate earnings in behalf of plants now in existence and would make anything but the most profitable projects a poor investment if the tax treatment proposed in the Burke-Hartke Bill were to become law."
- "Would reduce the internally generated cash flow which provides the funds for improvement of both foreign and domestic plants. Increased difficulty of financing capital expenditures, therefore, would ultimately have an adverse effect on American labor because they would be forced to use less efficient equipment than can be brought by a prosperous employer."

-4-

3. WHAT WOULD BE THE EFFECT OF REQUIRING THE REPORTING OF OUTPUT, EMPLOYMENT, HOURS, EARNINGS BY ESTABLISHMENT BY SIC NUMBER TO THE 7-DIGIT LEVEL FOR FOREIGN OPERATIONS OF U.S. FIRMS, JUST AS THEY ARE NOW REQUIRED TO REPORT FOR U.S. ESTABLISHMENTS?

(64% - Adverse, 0% - Beneficial, 36% - Nil)

- "This would place a greater burden on all of our world-wide accounting personnel...with manufacturing operations in nearly 30 countries and sales offices in nearly every major market of the free world, the cost of compiling data in the detail suggested would be enormous."
- "These added reporting requirements covering operating and employee data for foreign operations would first of all be an added, and seemingly unnecessary cost. The authority of the U.S. to extend its laws and regulations into the business of an entity operating in another country must be seriously challenged."
- "Although this would impose a severe administrative burden on us in gathering this data from our 80 or more foreign affiliates, there would be no real adverse effects commercially."
- "This would merely add to the load of our administration abroad. It would be in the nuisance category. Many of our operations are small and are mostly equity interest in a number of countries. This additional effort seems both unnecessary and inappropriate."
- "We do not wish to provide information of this type as it gives aid and comfort to our competitors, foreign and domestic. The large company would have the advantage over the small companies."

-5-

4. WHAT WOULD BE THE EFFECT SHOULD THE GOVERNMENT REFUSE TO GRANT NEW TAX INCENTIVES SUCH AS THE DISC PROPOSAL? (QUESTION POSED PRIOR TO ENACTMENT OF DISC)

(67% - Adverse, 0% - Beneficial, 33% - Nil)

- "Inasmuch as we do not now have DISC or other export incentives, the immediate effect would probably be a continued deterioration, probably slowly with ups and downs, of our export sales. The effect of this would be upon our domestic plants and suppliers, not on our foreign operations."
- "The DISC has been the hope of many corporations including ours to improve our export position...Should Congress fail to approve the DISC, we would continue with the Western Hemisphere Trade Corporation for our exports to Canada and South America."
- "If this proposed legislation is not enacted, this would be a disincentive to increase export sales which would be inconsistent with national policy in terms of improving the U.S. balance of payments situation."
- "...would have no impact pro or con on the company. This is so since a refusal to provide new measures merely leaves us in the status quo."
- "Would place us at a growing disadvantage as foreign competition profits from tax recovery on exports and other incentives."

-6-

5. WHAT WOULD BE THE EFFECT OF REQUIRING THE REPORTING OF IMPORT AND EXPORT DATA BY PRODUCT AND NOT JUST DOLLAR VOLUME?

(48% - Adverse, 3% - Beneficial, 49% - Nil)

- "This is a relatively unimportant matter to us since it would not entail much extra effort. We would be willing to go along with such information if it served a useful purpose. Other than that, it merely adds to our administrative load."
- "...could have its beneficial effects as well as its negative side. It could provide improved information on import competition; on the other hand, it could mean increased costs (on the export side) to comply."
- "The immediate effect would be to disclose pertinent information valuable to our competition on our foreign operations."
- "...would bring about an increase in administrative expense and burden -- with little benefit because of the relatively minor amounts of products imported or exported."
- "We don't have any objections to reporting of import and export data by product in addition to total volume."
- "The immediate results would be adverse. The cost of generating voluminous reports would impact our lightly staffed operations. Costs of the controlling government agency obviously would rise because of the need to receive, review and monitor such reports."

-7-

6. WHAT WOULD BE THE EFFECT OF REQUIRING THE LABELING OF PRODUCTS BY COUNTRY OF ORIGIN FROM ANY COUNTRY - INCLUDING U.S. BRAND ITEMS AND ALL COMPONENTS?

(33% - Adverse, 3% - Beneficial, 64% - Nil)

- "The immediate effect on our foreign operations, should a law be passed requiring labeling showing country of origin, would be nil. The reason being that we do not manufacture products or components that are shipped into the U.S."
- "Our experience with labeling of products by country of origin is not as profound as that of the electronics industry. For our part, we don't see any objections to this proposal."
- "The immediate effects on our foreign operations might be adverse in terms of decreased sales of products due to nationalistic considerations of our customers. It is conceivable that other countries would adopt similar measures, thus adversely affecting foreign commerce."
- "...an adverse effect in that there would be an increase in cost of operations."
- "Because we are in the labeling business we might actually gain business if this requirement were passed. However, it would probably be offset by the administrative expense and burden it would cause."
- "Would have little impact in that chemicals and intermediates can only be labeled on the container."
- "The Company has striven hard and gone to great expense to ensure uniform quality and parts interchangeability in all of its products around the world. This (proposal) would connote lack of standards which would be damaging to the product image and hence acceptability in export markets."

-8-

- "This action would have no immediate effects on our foreign operations. Tires are already labeled by country of origin."
- "No real adverse effect on us since we do very little allocation of component manufacturing between countries. It would, however, add expense in the preparation of advertising material and in packaging."

7. WHAT WOULD BE THE EFFECT OF REQUIRING UNIFORM ACCOUNTING PROCEDURES BY MULTINATIONAL FIRMS AS NOW REQUIRED FOR DEFENSE CONTRACTS?
(61% - Adverse, 1% - Beneficial, 38% - Nil)

- "This would require keeping two sets of books and seems unnecessarily restrictive to us. We think this excessive type of regulation serves to defeat the build-up of our favorable trade balance. Governments of many other countries support their foreign trade rather than hamper it."
- "We would be strongly opposed to such an approach. Requiring uniform accounting procedures, beyond that which we already employ, would mean very sizable, if not virtually prohibitive, increases in costs. In addition, adoption of a system comparable to that being considered for defense contracts could well result in misleading information since it is questionable whether such a rigid and inflexible approach would truly reflect the multiplicity of operating conditions found around the world."
- "It would require a multiplication of records, with the prescribed uniform system super-imposed on present accounts. In view of the difficulty in securing agreement on appropriate accounting procedures

even for domestic operations, the task of establishing an accounting system for universal operations is insurmountable."

- "Any requirement of uniform accounting for a multinational firm would operate against such firms as compared to those operating solely in the U.S. In addition, it would place such multinational firms at a disadvantage in various countries around the world with respect to local companies. This could reduce one of our largest sources of revenue."
- "The immediate effect would be a complete upheaval of accounting procedures used in overseas subsidiaries."
- "We have a standardized, conservative and legal accounting system and it would be preferable to have all companies operating on the same basis."
- "Inevitably our costs would be increased and there would be considerable difficulty in view of various national accounting requirements involved in instituting any such system in our overseas subsidiaries. Again, it would seem that such a requirement for subsidiaries would be an unwarranted extension of U.S. sovereignty into foreign lands."
- "This proposal seems very unreasonable...it would be necessary to maintain two completely separate accounting systems for each foreign subsidiary."

8. WHAT WOULD BE THE EFFECT ON YOUR COMPANY OF TAXING THE EXPORT OF CAPITAL TO CREATE A DISINCENTIVE TO PRODUCE ABROAD?

(95% - Adverse, 0% - Beneficial, 5% - Nil)

- "Any tax on capital export (in view of the existing Interest Equalization Tax) would obviously have a negative effect on our investment plans abroad. The seriousness of the tax' negative impact would depend on the origin of capital -- whether domestic or foreign -- available for investment, on the weight of the tax, interest rates (cost of capital), etc."
- "In view of the need of our subsidiaries, were this to become law our cost of operations would be increased and possibly to the extent that any competitive advantage abroad would be lost."
- "This would have little immediate effect but could reduce our growth in world production and markets in the future."
- "The OFDI regulations already in effect impose a tax by forcing us to borrow funds abroad at approximately 50% greater costs. Naturally a tax on OFDI allowables adds additional cost which has to be recovered with higher prices at home and abroad. In the case of domestic market, it weakens us against foreign competitors, and in the export market our competitive condition is further weakened."
- "...would have multiple reactions from every country in the world and place every U.S. company at a disadvantage when operating in any foreign country."
- "Funds for expansion (of well-established foreign subsidiaries) would have to come to a greater extent from foreign borrowing and retention of earnings. The increase in retained earnings would

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cut down on the flow of funds to the United States, thereby negating any positive contribution to the U.S. balance of payments. To the extent the tax on capital outflow caused retention of earnings to increase, the purpose of the proposed legislation would not be achieved."

- "The immediate effect of disincentives would be to further hamper us in our efforts to compete abroad, particularly in exploration and production as well as in sustaining manufacturing operations. We are already having difficulty in getting sufficient capital to operate so this would add to our load."

- "...we feel the taxing of capital exported to create profits for United States investors in an industry where there is no siphoning off of people from the United States labor seems to be cutting off your nose to spite your face."

9. WHAT WOULD BE THE EFFECT SHOULD U.S. GOVERNMENT-SUBSIDIZED PATENTS BE MADE THE PROPERTY OF THE U.S. GOVERNMENT WITH ROYALTIES PAID TO THE U.S. TREASURY?

(29% - Adverse, 1% - Beneficial, 70% - Nil)

- "This would have a negative effect on international trade efforts and would mean that companies would have less reason to work cooperatively with the Government on research projects."

- "...labor's proposal that all use abroad of the patent rights of U.S. companies (whether direct use, by subsidiaries, use by assignees or use by licensees) be subject to prior establishment before a Board that such use would not adversely affect U.S. employment, would have a disastrous effect on our international

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business. It would interfere with the exchange of developments between related companies, reduce the BOP inflow from foreign royalties, handicap our affiliates in competing with foreign competition and force us to violate existing contractual agreements as to future developments."

- "No immediate effects on our foreign operations. Very little of the products of our foreign plants is based on technology sponsored by the U.S. Government."
- "...could stifle innovations in industry and ultimately have an adverse effect on the labor market and the economy as a whole within the country."
- "This would have little effect as we generally finance our own research."
- "Although in only a rare case would our company be involved with exports of U.S. government-subsidized patents, we view the proposal to pay royalties to the Treasury for such patents as contrary to established government practices."
- "...action of this nature could very possibly discourage private enterprise to use its research and development facilities to produce inventions to support U.S. government programs if the companies involved could not foresee the possibility of capitalizing upon their work by using the patents in the civilian markets wherever applicable in the freeworld."

NATIONAL FOREIGN TRADE COUNCIL, INC.

10 ROCKEFELLER PLAZA, NEW YORK, N. Y. 10020

ROBERT M. NORRIS
PRESIDENT

December 28, 1972

Gentlemen:

In accordance with Senator Ribicoff's announcement of June 1, 1972 asking for "factual, documented papers" covering tax and other key issues raised by the operations of multinational corporations, the Council is pleased to submit the following studies which have been prepared under its auspices:

1. "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade"
2. "Economic Implications of Proposed Changes in the Taxation of U.S. Investments Abroad"

We should be happy to send additional copies should you require them.

Yours very truly,

**Robert M. Norris**

Subcommittee on International Finance
Committee on Finance
2227 New Senate Office Building
Washington, D.C. 20510

**THE IMPACT OF U.S.
FOREIGN DIRECT INVESTMENT
ON U.S. EMPLOYMENT
AND TRADE**

**An Assessment of Critical Claims
and Legislative Proposals**

NATIONAL FOREIGN TRADE COUNCIL, INC.
10 Rockefeller Plaza, New York, N.Y. 10020

FOREWORD

In recent years increasing public attention has been given to the worldwide or multinational corporation. During the past year, especially, these corporations have been receiving critical attention in labor, governmental and academic circles. The claims, which are also implicit in legislative proposals which have been made to the Congress, allege that such companies through foreign direct investment permit production and employment overseas at the expense of U.S. employment and exports, and that through such corporations advanced U.S. technology is rapidly transferred to low-cost labor countries abroad, where it is incorporated in products which return to the United States as imports. These groups claim further that the foregoing is damaging to the U.S. balance of payments.

The National Foreign Trade Council recently conducted a survey of those of its members comprising international companies based in the United States and having direct foreign investments, for the purpose of assembling current information to evaluate the validity of these claims; to document the rationale for making overseas investments, including the effect of such decisions on U.S. employment and exports; and the impact of such investments on the U.S. balance of payments. On the basis of an analysis by the Council of non-attributive replies received from 150 member companies, there is presented herewith our assessment of these critical claims.

In providing this document to Council members and others in the business community, to public and private officials, and to members of labor and academic groups, we believe that it will contribute to a broader and more realistic understanding of U.S. foreign direct investment and its relationship to U.S. employment and U.S. foreign trade.

ROBERT M. NORRIS, *President*
National Foreign Trade Council, Inc.

November, 1971

Established in 1914, by resolution of the First National Foreign Trade Convention, the National Foreign Trade Council is a private non-profit business association incorporated under the Membership Corporations Law of New York State. Its Membership consists of U.S. companies and firms located in all parts of the country and engaged in every principal field of business activity relating to international trade and investment.

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I. HIGHLIGHTS

CLAIMS have been made by several U.S. Labor groups and others that foreign direct investment is damaging the interests of the United States by exporting jobs and importing products that should have been produced in this country. They allege that the former results from the supposed substitution of production abroad for U.S. exports and the latter from the transfer of technology to low-wage countries.

INDICTMENTS of U.S. international business on these grounds imply that U.S. companies have been damaging U.S. interests in a willful way, seeking their own benefit over that of the country.

LEGISLATION in Congress proposes to rectify these alleged damaging results by increasing taxation on the outflow of capital and the transfer of technology, by establishing controls over the transfers of both capital and technology, and by creating a new agency to impose quotas on imports of certain goods. The objective is to prevent the movement of industry out of the United States to other countries of the free world.

RESTRICTIONS proposed in the legislation would be ineffective in helping Labor and the U.S. balance of payments. They would lead to retaliation on the part of those countries affected, would adversely affect industrial sectors and companies not involved in the kinds of activities at which such restrictions are aimed, and would lessen growth abroad to the detriment of the U.S. economy.

U.S. POLICY since World War II has been to promote the expansion of direct foreign investment, first to help reconstruct Europe and then to assist in the growth of developing countries. In each instance, the burden of governmental assistance was lessened by the role of private investors.

REVERSAL of long-standing U.S. policy should be considered only if what has been pursued is clearly shown to be damaging because of new circumstances or knowledge.

INTERNATIONAL PRODUCTION has resulted from the continued expansion of direct invest-

ment and the licensing of technology around the free world. Its level surpasses that of world trade and forms the basis for much of the existing flow of trade. To restrict that trade flow, or the underlying requisites of capital and technology transfers for international production, would be to reduce economic growth in the free world. For the past 25 years it has been the U.S. objective to achieve this very goal of self-sustaining economic growth. And during the same period, the success which has been achieved in accelerating world economic growth has been unprecedented. Any reversal of such tested policies would seem clearly ill-advised.

EVIDENCE in the present NFTC survey of members shows that, contrary to claims that foreign direct investment is damaging, the continuation of such investment and the transfer of technology generates benefits to the United States and other economies through international economic growth. The United States can continue to benefit through its balance of payments, through increased exports and employment, and from returns to support research and development activities, even though shifts will be required in the structure of trade and in the location of production internationally.

ANALYSIS of the survey results shows that the critical claims of Labor and others cannot possibly apply to a wide range of international production activities, i.e., extraction, materials processing, construction and building materials, packaging products, pharmaceuticals, and services. Conversely, for example, products which have a high transport cost relative to value cannot be readily exported and must be produced close to the market. Investments also in marketing activities and distribution assist in expanding U.S. exports.

ASSESSMENT of Labor's claims in respect of other industrial sectors shows that exports and domestic employment in all of the respondent companies have gone up over the past decade. There is, therefore, no cause and effect evidence to support the view that foreign production has reduced U.S. exports and domestic employment in companies investing abroad. What would have to be shown, but cannot be, is that with

no foreign direct investment, U.S. exports and employment would have been larger.

Instead, the assessment shows that where exports of specific items have declined as a result of governmental restrictions, increased competition abroad, etc.—(but seldom as a result of U.S. investment to obtain low-cost labor)—there has been a larger increase of exports of other items attributable directly to the investment abroad. In addition, some foreign investment has involved the purchase of technology and rights to produce items in the United States, thus raising employment here.

IMPORTS from foreign affiliates are still negligible and are concentrated, if Labor's argument, in particular, is to be supported, in a few industries and in a few components or simple products. In no case was the investment abroad an export of U.S. jobs, which would not in any event have been lost, because either the supply of such components or products was being lost to foreign competitors *or* more jobs would have been lost if the U.S. company had not been able to keep the final product competitive by reducing costs through the import of certain key components.

TECHNOLOGY transferred to foreign affiliates was considered to be "most highly advanced" in only one or two cases. In all the rest, the tech-

nology sent abroad to permit components to be manufactured and returned to the parent was "intermediate" or "low level." The Labor model as presented in the claim that unemployment was imported from low-wage countries is supported only to a minor degree and in isolated cases.

BALANCE OF PAYMENTS impacts have remained favorable for each of the companies in the survey, with inflows from exports, royalties, technical assistance fees, engineering fees, support of research and development, dividends and other returns on investment and from interest ranging from twice to ten times the level of payments for imports and dividends or royalties to foreigners.

SOLUTIONS to the basic problem of maintaining full employment and an equitable bearing of the burden of adjustment to changes in industrial production and trade patterns should not rely on restrictive measures but rather on expansionist approaches which will significantly increase the contributions of international companies to the U.S. balance of payments and which will increase the level of employment in the United States and internationally. U.S. growth is tied directly to world economic growth and cannot be increased at the cost of growth elsewhere.

II. SUMMARY ARGUMENT

Any discussion concerning changes in U.S. governmental policy, as proposed by some Labor groups and others and now incorporated in legislation before Congress, leads to a re-assessment of the objectives of foreign economic policy of the United States. In the claims there is a tone of indictment that sweeps across all international businesses operating in both the advanced and developing countries. These claims call also into question the policies of the United States and other governments which encourage international private investment. To give up those policies without a careful assessment of their desirability and the impacts of the alternatives proposed would be clearly ill-advised.

U.S. Government Policies

Two U.S. policies in particular have specifically encouraged the outflow of private direct investment since World War II. One was the encouragement to assist in the reconstruction of Europe, and the other was to assist in the growth of the less developed countries. The U.S. Government took the stance in the late 1940s and 1950s that governmental assistance would not be enough to bring the war-torn and developing countries to acceptable levels of growth without the assistance of the private sector. Our Government provided a number of encouragements, not the least of which was verbal per-

suasion. In addition, throughout the 1950s and 1960s the Government encouraged transfers of technology to Europe for purpose of NATO defense.

The response of business was tempered, however by its preference to export from U.S. facilities so long as there was uncertainty abroad and markets were not sufficient to justify local production in foreign countries. In addition, U.S. companies (not unlike their European counterparts) prefer to utilize domestic capacity through exporting rather than build redundant plants overseas or to sell advanced know-how.

Foreign governments added to U.S. inducements through incentives to produce locally. These incentives took the form of low cost loans, the provision of plant facilities, fast write-offs, labor training assistance, etc.* Less developed country (LDC) governments also extended various guarantees to improve the climate for foreign investment.

In later years, the inducements offered above were strengthened by the more attractive growth of local markets. This made it clear that local production could be on a scale that brought costs to competitive levels. Or, if costs could not be reduced, tariffs provided the necessary buffer. These two conditions were present both in the European Common Market and among the developing countries. In many LDCs and in Canada, local-content requirements were added, requiring local production if sales were to be made of specific products. In addition, preferences in governmental purchases and in credit lines to consumers were given for products of local companies.

* Other investment was stimulated by governmental efforts in the reconstructing economies to conserve foreign exchange and to increase local production:

"In the Engineering Products field, when the effort got underway to modernize the nationalized coal industry, many new coal washing and sizing plants needed to be built. The head of the Coal Board had seen our screens in U.S.A. coal washing plants and liked what he had seen. He informed our management he would like to use our screens, but since the UK had no dollars with which to make U.S. purchases, he invited us to build the screens in England, which we agreed to do. Since that time processing pumps followed the same route, as have several other items. None of these products have been exported from the UK to the U.S.A." (NFTC survey reply)

Given these inducements and the gradual (or "precipitous" in the cases of Europe and Japan) growth in the market, private investors responded first in the field of extraction, then in manufacturing, and later in the service sectors. There is nothing complex or mysterious about the phenomenon of U.S. direct foreign investment since World War II: economic and political conditions for investment improved; U.S. and other governmental policies supported it; and tariffs and non-tariff barriers made it necessary. These conditions were naturally coupled with the drive of companies to maintain or increase their "market share," which they could do only by moving to the actual market.

Once the foreign investment had taken place, a progressive reduction of trade barriers made the existence of multiple production facilities over the world more feasible. The reduction of barriers to trade increases the opportunities for profitable investment, not only through increasing the size of the market but also by increasing regional markets, which are best served by production facilities close to the market. This has been seen many times in the dispersion of production facilities by the same company around the continental market of the United States. This dispersion is encouraged by the demand for nearby supplies and servicing on the part of customers, who in turn can sustain the costs of such local facilities when the market becomes large enough.

Rationale of Direct Investment

As a market expands, the problem facing companies in the investment decision-making process is one of where to locate production facilities. If the market can be served from existing plant, a company will do so through exporting. If there are obstacles placed in the way of exporting or if the market becomes large enough to attract another local producer, it will become profitable and necessary for a company to respond with investment in local production facilities.

In many instances of foreign direct investment, the alternative to not investing would be to leave the market to another company which will invest. This is readily enough recognized in the development of raw materials. It does not seem to be adequately recognized in the case of manufacturing. Others will not stand aside

simply because the U.S. company has decided not to invest. Prior studies and the most recent NFTC survey make it clearly evident that not to invest in most instances would merely leave the market to others. Also, what is often found is that despite a decision by one company to set up a production facility adequate to serve a given market, other companies have felt the need to enter also to protect their portion of the market. Without doing so, such other companies would have lost *all* entry into the market.

As explained by one company: "The normal strategy of a company—multinational or seeking to become multinational—is to pursue the following steps in turn:

Develop a product for the domestic market.

Perfect the processing procedures and manufacturing equipments to produce the product economically.

Analyze market acceptance and product design vs. customer needs and desires in the foreign market.

Redesign the product for the foreign market.

Test in the domestic plants processing and equipment changes to produce the redesigned product.

Acquire or build a foreign plant. (Note that the company opens this plant with a proven product, a proven market and a proven technology.)

Seek other export markets for the products being produced in the foreign plant."

A shift in the weight of relative costs makes the decision to invest abroad even easier. For example, it is relatively easy to transfer capital and management and technical skills to labor, but virtually impossible to transfer the labor because of immigration laws and other reasons. Consequently, factor movements are toward low-cost labor which must be adjusted for differences in productivity, not only where the same technology is used, but even more so with the use of different technologies. This does not mean that low-cost labor was *the* reason for the investment, or even an *inducing* reason. Rather, for example, as markets expand the high cost of transport is increasingly important. High transport costs argue against longer hauls from the parent company in favor of shorter hauls

from local facilities to customers. The reduction in other cost factors and added costs of hurdling governmental tariff and non-tariff barriers and preferences, also argue strongly for local production.

Foreign Direct Investment and U.S. Employment

Labor's argument behind the recently proposed legislation is that foreign direct investment cuts exports and therefore reduces U.S. jobs. The new bill proposes a radical change in U.S. policy. To seek a change in governmental policies, however, implies that the effects of past policies are considered to be detrimental. It implies a causal connection between existing policies and the alleged undesirable impact on U.S. employment from foreign investment that is worse than what the result would be if legislative changes in policy recommended by certain groups were put into effect.

For U.S. jobs to be increased or maintained by a reversal of existing policies toward trade and investment it would have to be shown that the drop in exports could be cured by such a policy reversal and that other jobs would not be lost. Before this could be supported, however, it would have to be shown that exports dropped, that foreign investment increased, and that employment decreased. And, even if these three statistical measures were in evidence, it would then have to be shown that the rise in investment *caused* the drop in exports which, in turn, *caused* a decrease in jobs. It is more likely that it could be shown that a drop in exports caused a decrease in jobs than it could be shown that a rise in investments caused a decline in exports. As stated above, investment occurs for a number of reasons other than differences in labor costs. The significant expansion of direct investment is a relatively recent development and has taken place during a period when differences in labor costs have been narrowing. The complaints of Labor have been intensified because of the increase, overall, in unemployment in this country. If our economy were at the levels of employment reaching 96 per cent of the labor force, such complaints, if they existed at all, would be isolated to a few industrial sectors.

Labor's case is made difficult to prove statistically because, although investment abroad has risen, so also have exports and employment

(both U.S. and foreign). Their argument must be amended to say that without the foreign investment U.S. employment would have been *higher* or that U.S. imports would have been lower. There is little evidence that *not* investing abroad would have permitted serving the foreign markets from the United States. There is even less evidence that the funds, if not invested abroad, would have been invested in the U.S. economy, given the existing conditions. An absence of savings has not been the cause of the malaise of the U.S. economy.

Since domestic employment has risen in most companies that have also invested abroad, it would be required for the critics to make their case that they focus on specific industrial sectors and even specific companies. Even where such a drop in exports and employment can be shown, it would have to be demonstrated further that in the absence of direct investment, foreign demand for the U.S. products would have remained the same as before or could have been expanded.

Given the facts that investment, exports, and jobs in most industry sectors investing abroad did rise during the 1960s, an alternative explanation has to be considered: namely, that exports will rise only *with* investment over the longer-run, as growth occurs abroad. This explanation is supported also by location theory, which indicates that, *with* economic growth, production facilities tend to be located nearer the markets. The shift in investment is needed to provide more marketing outlets; to permit local assembly, thus reducing transport costs and duties; to provide wider product selection through holding inventories close to the market; to get a prompt feed-back on products from the market to the production unit; to provide servicing and supply facilities; to reflect preferences for "locally-made" goods, especially industrial purchases; and, very importantly, to gain markets which add to the demand for imports of sophisticated items in the lines produced only in the United States.

This sequence of causation is reflected time and again in the current survey of the NFTC membership. Specific comments are recorded in Section III. The same relationship is found by European countries investing in Latin America and in the United States. But this list of location factors—as modified by governmental in-

tervention—is not the same among different industrial sectors. The extractive industries have their own rationale for investing, and it does not appear that Labor's attack is directed at these; rather, they recognize that foreign materials are necessary for U.S. production. Equally, it is virtually impossible to export the wide range of services sought in growing economies such as banking, insurance, accounting, consulting, hotels, and rentals which have to be located in the market being served. Nor does the criticism seem to be directed at these sectors. The criticism, rather, is directed at the manufacturing sector and seemingly at the high-technology segments within it, since they are the ones supposedly transferring sophisticated technology to lower-wage areas.

To impose a broad range of controls and erect a new control mechanism for all direct investment is to pay a heavy cost to correct a few situations which produced undesirable effects. It would be much better from the standpoint of public policy and the national interest to identify the types of situations that are undesirable and to seek correctives that do not, themselves, produce still more unwanted results. Sweeping controls will not reach the really difficult cases without also damaging much that is good.

Policy should be based, therefore, on a careful distinction among types of foreign investment situations and their impact. There are several different ways of distinguishing the situations and results. The most readily accepted is that already mentioned among extractive, manufacturing, and service sectors. If significant differences among these are accepted as requiring differential treatment, then it should also be recognized that companies serving the extractive sector abroad will likely have to invest abroad. For example, oil drilling and construction equipment is often too heavy to transport very long distances and has to be serviced locally. To obtain business, producers of such equipment have to produce low-level technology items locally and can import only the high-technology items that can be produced on large scale only in a few centers. Local production permits exports which would otherwise not exist, as for example with the oil companies, which export equipment, lubricants, and additives to their foreign facilities.

Similarly, companies supplying the service industries, such as hotels, banks, and retail chains, find it much easier to obtain customers from their local production than by imports. In many cases, the specific products demanded are different from those in other countries and require adaptation. In others, servicing of equipment is so continuous that local facilities are needed to back up this function.

The complaints, therefore, should be directed to manufacturing, except for some that should be exempt because of close ties to the extractive and service sectors. But even among the manufacturing sectors, there are significant differences that must be taken into account. For example, one company reports that it was exporting substantial quantities to nine different national markets some years back but has been shut out of all of them completely by governmental restriction in the food-processing field. It has been able to retain a portion of one only by investing there. Another company found that the best way to add to its product line was to buy a foreign company, obtaining its patent and technology, which enabled it to expand its U.S. production and to export its former U.S. line through the acquired company, which it had not been able to do before. Another reports that all of its investment is in merchandising plus some small assembly facilities with 90 per cent of its foreign sales consisting of U.S. exports. These last two examples are clear cases of export and employment generation through foreign investment.

To be able to analyze and logically evaluate the impact of foreign direct investment on U.S. exports it is necessary to distinguish between the following three Situations:

Situation One — companies that had never exported prior to foreign investment and either were not now exporting, were now exporting components, were now exporting sophisticated items, or were now exporting periodically to fill production deficiencies abroad.

Situation Two — companies that were precluded from exporting prior to (or after) investment either because of foreign governmental action, foreign competition, or U.S. costs or costs of transport.

Situation Three — companies that were ex-

porting, prior to direct investment abroad, and now were either no longer exporting despite the lack of governmental interference, were exporting the same products as before but at diminished, the same, or higher levels, or were exporting different items than previously but at the same, lower or higher levels in terms of value.

In the three Situations outlined above, only the third falls within Labor's case. And only within that category does the situation where companies that were exporting before investment, but are not now doing so despite the absence of governmental interference, present a clear cause and effect example of Labor's claim. All of the events in Situation Three, however, could have occurred without investment; or, investments could have responded to factors which might preclude exports later, and the exports resulting after investment were the best that could be obtained. Much more investigation is required, therefore, to determine the precise causal relationships in each case. The responses to the NFTC survey (see Section III) clearly indicate the variety of situations which give rise to the making of foreign direct investments and the situations which result therefrom. Any control or shutting off of investment under the sweeping mandates proposed by Labor that fails to take into account the diversity of situations involved, could only produce exceedingly damaging results, impair U.S. access to markets abroad and reduce returns from licensing and investment, which contribute significantly to our balance of payments.

There is another situation that has been mentioned and should be re-emphasized; namely, investment abroad induced by the U.S. Government either through aid programs or military programs. It should be stressed also that the goals of arms standardization and NATO defense have led to a number of licensing arrangements, joint ventures, and wholly-owned affiliates in Europe and elsewhere. Only when defense policy is reversed should such arrangements be included in the Situations outlined, for they are undertaken with the approval, encouragement, and protection of the U.S. Government under bilateral governmental agreements. Any control of this outflow must be justified on the basis of a reversal of international defense

policy and not on the arguments of Labor concerning adverse impacts.

Labor's arguments, in particular, concerning U.S. investment abroad would build a case against other nations investing in the United States, thereby cutting employment here. But the Federation of French Industries (CNPF), for one, does not accept the claims of U.S. Labor. It has recently mounted a campaign urging an "obligation to invest abroad," particularly in the United States. The campaign is based on the view that only through investment will French exports retain their markets abroad and will the French make an effective contribution to growth in the developing countries:

"But to export more, French enterprise must continue its expansive investments—not only to create still more competitive products to sell abroad, but also to build production units and to manufacture abroad.

"This will do no harm to production and jobs in France based on exports. Because the new choice is not between exporting, or investing abroad, but between such foreign investment or ceasing to be able to export. . . .

"There is a false idea that a company's investment in production abroad takes jobs away from Frenchmen at home. On the contrary, first of all such French investment abroad is compensated in the Free World's economic operations by foreign job-making investments in France.

"Beyond this, for reasons noted above, a French company's investment abroad is in most cases an indispensable condition for its expansion at home, and increasingly even for the continuation of its industrial activities on its home territory. Thus—by reaching out and breaking out to maintain the competitiveness of French enterprise, is to contribute to full employment on the home front.

"Moreover, it must be remembered that it is preferable for a company to implant itself in a developing country than to cause the developing country's manual labor to transfer to France, with all the problems of uprooting this entails. In this perspective, an investment in developing countries not only is the very best way to give aid to these lands, but also the most humane. . . ."*

* *France Actuelle*, October 1, 1971

If this view is adopted by all advanced countries, there will be an acceleration in the movement of factors and in shifts in the location of production and the composition of trade. Yet, this would not be to the detriment of wage earners in the absence of attempts to rigidify production by restricting the continuous move to more advanced technologies.

Low-Wage Imports

A second claim of certain Labor groups and others is that U.S. companies are sending high-level technology into low-wage countries and importing the product of their manufacture for sale or assembly in the United States, thus eliminating some U.S. jobs. Again, the problem is to link up the proper cause and effect. The case is only sound if there is evidence not only that the facts as described in Situation Three happened but that there was no outside cause inducing them to happen. Thus, even if all three conditions existed and foreign competition was such that without a reduction of U.S. costs the entire U.S. market would be taken by imports, it would be of little advantage to restrict the outflow of U.S. technology or investment funds. If a sizable part of the market could be retained by producing key components abroad, a large number of jobs would be retained for U.S. labor. Not to invest abroad would lose more jobs.*

But the matter is by no means as serious as it is claimed. Evidence from the NFTC survey indicates that "runaway plants" which give rise to imports back to the United States are concentrated in a few industrial sectors and a few components or simple products, and not ones incorporating high technology. The problem is a competitive one which will not be solved by shutting out foreign competition without severe costs to our economy. Nor will it be solved by restricting the outflow of technology. The technology that would be withheld almost wholly involves lower-skills that are readily known else-

* The Tariff Commission on October 6, 1970, concluded in its report to the President that the duty allowance on U.S. materials on the value of U.S. products fabricated abroad does not result in any net loss of U.S. employment. The Commission noted that the modest numbers of increased jobs which would result from the repeal of such duty allowance would likely be more than offset by loss of jobs among workers now producing in the United States under provisions of these tariff allowances.

where and is readily employed by low-wage labor.

International Production and Balance of Payments

Labor charges further that the alleged drop in U.S. exports and rise of imports from low-wage countries damage the U.S. balance of payments. The proposed remedy is to slow down the flow of direct investment and technology. To adopt such a remedy would reduce substantial inflows in the U.S. balance of payments and would tend to reverse one of the most significant developments in the postwar world, namely, the rise of international production.

Evidence in the recent NFTC survey supports again the observation that foreign direct investment is a net long-term earner for the U.S. balance of payments. To curtail that investment is to pay a sizable longer-run penalty for any short-term relief to the current balance of payments.

The growth of international production—which is the production of goods or services in a foreign country by an affiliate of an international corporation—is now advancing at a rate higher than Gross Domestic Products in the advanced countries and, according to some estimates, has reached an annual level of nearly \$500 billion. It is, therefore, larger than international trade and is in fact the cause of a large proportion of trade in the free world. If the trade arising from extractive investment, from food production and processing, from materials processing, from investment in marketing, from construction projects abroad, from supply of machinery to foreign subsidiaries, from supply of raw materials and semi-finished products, from exchanges among affiliates, etc. are added together, it is likely that nearly 50 per cent of total free-world trade is tied in one form or another to direct investment. Without that investment, the volume of trade and its composition would be significantly different. It is not without this causal relationship that the level of world trade has risen at rates above 10 per cent annually during the period that followed high levels of foreign direct investment and the rapid expansion of international production.

Remedies

The criticisms of U.S. Labor and others con-

cerning international trade and international production are symptoms of more fundamental problems. The basic problems are twofold, namely, the maintenance of full employment and an equitable bearing of the burdens of adjustment to changes in industrial production and trade patterns. To try to correct either of these conditions by restrictive measures is to court economic stagnation rather than progress, not only for the United States but for the free world as well.

If the analysis of the relationship between international trade and investment presented here is accurate, then a halt in the flow of direct investment would result in retaining lower technology production in the United States and providing even greater inducements to others to develop their own technology bases, thus reducing returns to the United States for research and development.

To try to reach full employment through restrictive measures aimed at cutting off imports, slowing the flow of technology, and prohibiting foreign direct investment is to multiply several fold the effects of the "beggar-thy-neighbor" policies of the 1930s, which no one should want to repeat. Rather, we should be pursuing policies which seek to solve the problems of industrial growth and change through expansion and not contraction or economic isolationism. To do this means to focus on the newer developments to make certain that they are put into effect when and as desirable and at an equitable cost to all parties concerned.

If there are inequities in the system as a result of too-rapid change, and certain workers or specific companies are forced to bear the larger cost, we should find the means to redress the sharing of the costs of industrial advance, rather than trying to stop the advance or the spread of its benefits over the free world.

In sum, though there may be a loss of employment from a drop in exports *associated with* but not *caused by* an increase in direct investment abroad, some—if not all or more—may be regained through exports because of rising demand abroad, the export of machinery and equipment, and returns from technology transfers. The result is not necessarily one of *lower* levels of activity but of *different* types of activity. The costs of such changes may be inequitably borne by some workers and companies,

but the answer is not to impose restrictions on trade and investment. In fact, the United States cannot impose such controls effectively, save in certain high-technology areas and even this is a wasting asset.

The question that remains is whether we *want* to slow the process of dissemination of technological and industrial advance abroad. If so, we risk rigidifying the U.S. industrial structure and slowing its competitive advance. Alternatively, can we slow the adjustment process and do we want to do so? Can we afford to take a position that would reduce the rate of growth in the developing countries through investment constraints and restrictions on U.S. imports?

Even if we wanted to do these things, it is unlikely that we would be able to, for how does one slow technological development? Can we slow its adoption within the United States? For example, do we know which to select and which

to reject? Can we prevent the dissemination of technology internationally in a world of rapid communication and the multiple means that exist for transfer? Can we slow technological development in other countries? Since the answers to these are clearly negative, we must seek the solution to Labor's problem elsewhere. Even if we *could* employ Labor's proposed solutions, it would appear that the impact on Labor would be undesirable, cutting wages and real income and even increasing job insecurity over the longer-run for its skills would be falling further behind our competitors.

The solution should be sought to facilitate the mobility of labor and industry, that is moving industry to labor, which means an expansionist orientation to both the level of employment and to skills-training that are necessary to keep all employed productively.

III. SURVEY ASSESSMENT OF CLAIMS

Several U.S. Labor groups and others have made three major claims concerning the impact of U.S. foreign direct investment on U.S. labor, trade and the balance of payments as follows:

1. Direct investments overseas promote production and employment abroad at the expense of U.S. exports and employment of American workers.
2. Advanced technology is rapidly transferred abroad to countries having lower labor costs where it is incorporated in products which are then exported to the United States.
3. All of the foregoing is damaging to the U.S. balance of payments.

These claims are implicit in legislation recently introduced in the Congress which would:

- (a) alter the taxation of income from foreign affiliates with the intention of removing the existing "tax incentives" and impose new taxes on royalty income;
- (b) impose new controls over the outflow of capital for foreign direct investment;
- (c) impose controls over the outflow of technology;

- (d) establish a new agency to impose quotas on imports so as to achieve "industrial self-sufficiency" within the United States;
- (e) affirm the purpose of insuring "that the production of goods which have historically been produced in the United States is continued and maintained. To the extent that production of such goods has been transferred abroad, it is the intent of Congress that this production be encouraged to return to the United States."

NFTC member companies having foreign direct investment were surveyed to determine whether the claims are valid in the light of their experiences. In asking for current information in narrative form, including quantitative data if possible, respondents were requested to include a statement of the reasons for deciding to invest abroad; the effect that such investment decisions have on employment in domestic manufacturing facilities; whether the transfer of technology results in low-wage imports; the long-term favorable effect, if any, on jobs because of widened export opportunities resulting from the establishment of manufacturing or assembly operations overseas; and the impact

of such investments on the U.S. balance of payments.

The claim that foreign direct investment causes a reduction of exports and a loss of U.S. jobs can only be supported if both of these events occur as a result of the investment having been made. If either of these results has not occurred, then the *a priori* case of Labor is in doubt. What is then required to be shown, but cannot be, is that exports would have been higher in the absence of investment, which implies that the investment did not stimulate exports; or that employment would have been higher but for the production abroad, implying that the new situation involving the investment abroad did not create *net* new employment.¹

The NFTC survey found that both U.S. employment and exports in responding companies have generally risen. The findings support the conclusion that foreign direct investment tends to expand trade and create employment in the United States, even though this may involve some shifts in the structure of employment in this country. The evidence, moreover, indicates that such shifts as they occur are likely to be toward industries of higher technology.²

Excluded Sectors

To clarify the applicability of Labor's argument it is first necessary, however, to break down the structure of foreign investment among industry sectors. For many of them, exports from the United States are simply not a relevant alternative, since in such sectors there were no exports beforehand. They must be excluded, therefore, from the claims of Labor. They constitute a large segment of foreign direct investment, including activities ranging across the sectors of extraction, materials processing, construction materials, packaging, pharmaceuticals, services, items of high transport cost relative to value, marketing activities, and a variety of items not produced in the United States at all. The total of these sectors amounts to 75 per cent of outstanding foreign direct investment emanating from the United States.

Investment in extractive operations abroad cannot substitute for U.S. exports since the objective is to obtain materials that do not exist in the United States in sufficient quantity; these materials are exported to world markets or, as needed, into the United States to supply ma-

terials for industrial output. Without such an inflow of materials, a large number of U.S. jobs would be lost. In addition, a substantial number of jobs are created by the supply of such operations with U.S. machinery and materials: for example, lubricants that cannot be produced locally in the host country.

The further processing of such raw materials as minerals and timber abroad requires investment and creates jobs there, but it cannot be said to take jobs from U.S. labor. U.S. enterprise can hardly claim the right to process foreign materials in the United States; each resource-exporting country will rightfully demand to process as much of its raw materials as it can economically. Again, even this type of investment—as with processing bauxite into aluminum—creates jobs in the United States for the export of equipment and the fabricating of aluminum into final products; moreover, U.S. exports will rise to countries that are richer because of their own processing or fabricating of aluminum products.³ The same argument applies to oil, copper, manganese, etc.

Basic construction materials such as cement, brick and stone, roofing, paints, and glass enter very little into trade. In contrast to lumber, the raw materials for these items are relatively abundant in each country and local production is much cheaper than imports.⁴ Wood is not always available or is too high-cost to compete with imported supplies. Foreign investment in these areas must also be excluded from the criticism of so-called "runaway plants."

Similarly, investment in the packaging industry abroad does not reduce U.S. exports simply because this is not a sector which can export significantly. Empty tin cans, bottles, and even corrugated board take up too much space to be economically exported. However, the materials for such containers and corrugated board can be exported, and such exports were reported to be substantial creators of U.S. jobs.

Pharmaceuticals constitute another area in which export is often prohibited by governmental inspection regulations rather than by import restrictions or transport costs.⁵ Governmental inspection of drugs must take place during the process of their production in order to certify purity and safety. Local production is, therefore, required. Again, it is feasible in some

instances, but not always, to export some of the bulk chemicals or ingredients. The United States imposes even more stringent regulations on the manufacture of drugs than do other countries; consequently it is difficult to argue against similar regulations in other countries resulting in the need for local manufacture.

Investment abroad in the service sector does not imply a loss of jobs in the United States. Only local banks can serve local customers. Similarly, hotel services, consulting services, insurance, accounting, etc. can be effectively provided only from local offices. The United States itself has regulations concerning the operation within the U.S. economy of foreign banks, foreign insurance companies, shipping companies, etc. If a U.S. company wishes to do business in a foreign country in the service sector, it has to "go local."

Finally, marketing and the setting up of distribution facilities necessary to foreign operations cannot be accomplished from within the United States. This requires the provision of warehouses, trucking and other distribution facilities, as well as advertising and sales functions. Thus, a significant portion of foreign direct investment required for these purposes would have to be expended anyway—even where there is successful exporting.⁶

All of the foregoing sectors which should be excluded from the claims of Labor have one of two characteristics. Either the operation involved could simply not be undertaken in the United States or the transport costs involved in moving the U.S. product or service abroad are too great in relation to their value.

There is a final type of activity abroad which does not fit the above categories but must also be excluded from Labor's claims, namely, the type of activity in which items are manufactured abroad for local preferences but are not produced in the United States. Some examples are detergents having qualities not desired by U.S. users; automobiles which do not satisfy U.S. needs or desires; foods which satisfy local tastes; tropical drugs; and "stripped-down" refrigerators.

Rationale for Foreign Direct Investment and Its Impact on U.S. Employment and Exports

It is essential to any appraisal of the validity of the claims of Labor and others to examine

the rationale of direct foreign investment. The term "rationale," as used herein, means the reasons or motivations which result in a decision to invest or reinvest abroad and the beneficial or negative effects that such investments can have on an enterprise.

The reasons for investing abroad most frequently mentioned in the responses to the survey (without attempting to rank such reasons) are as follows:

- (a) to jump tariff and import barriers and regulations, including local-content regulations or a requirement that *local* exports be made in order to receive an import license;
- (b) to reduce or eliminate high transportation costs;
- (c) to obtain or use local raw materials;
- (d) to obtain incentives offered by host governments;
- (e) to maintain existing market positions;
- (f) to participate in the rapid expansion of a market abroad;
- (g) to control quality in the manufacture of specialized products;
- (h) to follow customers abroad;
- (i) to follow a competitor abroad;
- (j) to obtain foreign technical, design, and marketing skills;
- (k) to bid on foreign infrastructure projects.

Low labor costs were not mentioned as a factor in the decisions save in a very few instances; even if they exist—as they do in almost all countries compared to the United States—they are not decisive. Rather, low labor costs have existed for some time as between countries without inducing a significant movement of U.S. capital, technology, and management. It has only been since the rise of internal markets to levels making local production possible on sufficient scale or the reduction of trade barriers which opened the world market that factor movements have occurred in significant amounts.

In many cases, the investment abroad has been in an industrial sector that is not labor-intensive but capital-intensive. Since the affiliate uses U.S. processes, it does not gain from the fact that labor may be cheaper.

The experience of almost all of the companies

responding to the survey shows that the existence of a manufacturing, sales and distribution facility in a foreign market results in increased exports of more sophisticated products which are only still being made in the United States, or of other products of a company's manufacture, many of which the company had been unable to export previously.

The following excerpts taken from responses deal with matters considered in this part of Section III:

CASE 1 — “[Our company] had never been able to penetrate the market, despite the fact that Australia is an important minerals country. Chief reason was that equipment could be imported from the UK either duty free or at a Customs rate of 7½%. Duty on U.S. made machinery was 55½%. Australian mining firms often visited us in the U.S., informed us they liked our product and would buy it if we manufactured it in Australia, thus avoiding the import duty. We finally agreed and have built a good business.” (Heavy tool company)

CASE 2 — “We have found that the acquisition of complementary product lines and new technology in foreign countries frequently stimulates our domestic U.S. manufacturing and sales activities because it provides new products to be manufactured and sold in the United States.” (Industrial products company)

CASE 3 — “Without our international operations, it's doubtful that our export situation would be as favorable, and of course, our current favorable export picture is an affirmative factor in our U.S. employment.

“In the interest of brevity, I will list only one other example of how our international operations benefit the entire company. [This firm has] research and development facilities in England, France and Australia in addition to our main laboratories in the United States. From our international laboratories have sprung ideas resulting in products which have been—and are—produced in our U.S. manufacturing plants. For example, the research laboratory [in] France, developed a new [product] which is now being produced in this country.

“The global interaction of our research plays a key role in producing the ideas and insights that lead to the new and improved products

found on today's U.S. production lines. So, too, will our worldwide research effort spark the breakthroughs of tomorrow.”

(Consumer products company)

CASE 4 — “[We] established [a plant] late in 1954, ... currently employing approximately 230. This plant was established primarily to serve the Eastern Hemisphere at a time when Sterling Bloc Exchange restrictions were limiting sales of U.S. manufactured products in U.S. Dollars. Two of our major competitors took similar steps resulting in plants in England and The Netherlands. Factors which did influence our decision to locate in Northern Ireland were concessions granted by the Government of Northern Ireland, and a readily available work force at low cost.” (Tool company)

CASE 5 — “A chemical fertilizer plant was constructed in a developing country to supply the local market, primarily through contract sales to the government. The choice of this location was based on the following factors: the fertilizer industry is completely controlled by the local government, which was determined to establish local production facilities, with imports strictly controlled; the plant could be integrated with the Company's local feedstock production and the investment generated considerable goodwill for the Company in that country, thereby benefitting its other operations there. There was no alternative to local investment to serve this market. Wage rates were not a factor in the decision.”

(Petroleum company A)

CASE 6 — “A large steamcracker was established in a European country to produce ethylene for sale to a local plastics manufacturer. The European location was chosen for the following reasons: infeasibility of serving this market from the U.S. because of high transportation costs; the contract customers and the spot market for the output were located in this particular European country; customers were interested in security of supply; the local government would not permit further reliance on imports for a basic raw material for its plastics industry; and the minority partner in our petroleum affiliate in this country would not be content to allow supply of a petroleum-related product to this market from a 100 per-

cent-owned Company affiliate which was offshore. Wage differentials were not a factor in the decision to locate in this country."

(Petroleum company B)

CASE 7 — "In building overseas production facilities we have found that although export of the specific finished product probably decreases (which would happen under these conditions anyway), overall there is actually a gradual net enhancement of total exports. This is because export of the more sophisticated types or grades of product lines, for which the local production facility is usually not designed to supply, begin to grow even more rapidly as a result of our being a local producer. Again, we have found that simply through our physical presence in these foreign markets, and with a stronger, more effective local organization, we generate additional U.S. export sales for the corporation frequently unrelated to the product being manufactured in that country. Finally, export still generally continues with raw or semi-finished material being supplied to the foreign plant in partial replacement of finished product export. Under these conditions, if exports are higher than they otherwise would have been if a foreign facility is going to be installed anyway and we did not install it, it seems obvious that employment of American workers must have benefited."

(Industrial products company)

CASE 8 — "Our experience is directly to the contrary. We started our active manufacturing program [abroad] in 1965 and between then and 1970 our products manufactured overseas increased by 159%. However, it is our experience that operating a plant overseas increases export business from the United States in other products, and it is significant that our export sales from U.S. plants increased by 171% during the same period."

(Electric supply company)

CASE 9 — "Between 1960 and 1970, our overseas manufacturing employment rose by 140%, whereas our exports from the U.S. increased 750%, consisting of the more sophisticated, higher-priced equipment plus material inputs for assembly overseas."

(Office equipment company)

CASE 10 — "We have increased our U.S. exports since 1935 from \$817,000 to \$19,148,000,

with a corresponding increase in employment for exports; this would not have been possible in the absence of our overseas manufacturing facilities."

(Pharmaceutical company)

CASE 11 — "These statistics have been taken directly from our corporate records:

	1961	1970	Increase
Exports —			
To affiliates	\$ 1,046M	\$ 9,993M	\$ 8,947M
To others	13,164M	22,848M	9,684M
Total exports	\$14,210M	\$32,841M	\$18,631M
Employment —			
U.S.-based	35,537	52,239	
Foreign operations	9,200	18,004	

"Of the total foreign employment shown for 1970 over 90% represents foreign jobs already existing at the time [the firm] acquired its ownership interests in the foreign affiliates, and the remainder reflects normal growth of the foreign countries' economies.

"Of the U.S. based personnel, we estimate that non-U.S. business provides employment for the equivalent of between 1,500 and 2,000 full-time employees. That takes into consideration the production of ware for export, export marketing activities, servicing foreign technical assistance and licensing arrangements, and U.S.-based personnel concerned with our foreign affiliates' operations.

"As the statistics indicate, our investments in foreign affiliates definitely have had no adverse effect on export sales. To the contrary, most of the over \$52MM total export sales to our affiliates during the 1961-1970 period would not have occurred if [we] had not made the investments. In the period 1964-1970, exports of our machinery and equipment alone totaled over \$32MM; prior to [our] investing overseas, such exports were insignificant. [Our] investments have been made only where [our] export markets had been or were about to be lost irretrievably, or where it was not economically feasible to supply the foreign markets through U.S. exports. The major limiting factor on [our] exports is the high freight sensitivity of most [our] products.

"To complete the picture of our operation: Imports — From foreign affiliates — Less than \$100M for the entire period 1961 through 1970. Income from foreign affiliates, after foreign

taxes but before U.S. taxes \$1,186M to \$12,095M." (Industrial products company)

CASE 12 — "As a result of investments abroad, our marketing position has been strengthened and our sales have grown substantially around the world. Far from reducing exports of American goods, these have grown from \$7 million in 1961 to \$70 million in 1970. U.S. labor has produced approximately \$5 million worth of machinery shipped abroad and installed in our plants, a practice we expect to continue."

(Electrical equipment company)

CASE 13 — "During fiscal 1969, corporate orders totaled \$344 million. 30.5 percent of these, or \$105 million, were received from customers outside the United States. \$80 million, or approximately three-quarters of the international orders, were supplied from U.S. production. The remainder was supplied from three factories located outside the United States—two in Western Europe and one in Japan. Exports of finished products from our U.S. factories provided more than 3,000 jobs here in the U.S. Our foreign factories produced a total of \$25 million worth of goods. Over 25% of the value of the goods manufactured abroad consisted of components and sub-assemblies manufactured in our U.S. factories. This provided an additional 300 jobs here in the U.S."

(Industrial equipment company)

CASE 14 — "The most interesting situation now is that we find we are exporting [our] foods in substantially greater quantities than we were in 1959, even though we do not export our products to the countries or areas mentioned in the earlier part of this letter.

"Actually, our export volume today allows us to operate such plant approximately 16 to 18 workdays per year. Back in 1959 when [the] plant did not have the high speed, efficient operation they enjoy today, our export volume would have accounted for operating that plant only some 4 to 6 work days per year."

(Food company)

CASE 15 — "We have enjoyed very many years of product distribution in countries throughout the world. As an area example, fifteen years ago our brand of foods had a dominant share of market in ten Latin American countries. Today, we are excluded from eight of these same ten

countries which once were primary markets for our products. In the ninth country, we have survived simply because we chose to manufacture there. After years of primary marketing investment, these countries were foreclosed to us by trade restrictions.

"In the example of the one country where we now manufacture, a wall of trade barriers had been built before we decided in favor of local manufacture and, so, the sales we now enjoy in that ninth country are not a transfer but, rather, business that could not have been shared from a U.S. base of supply.

"Industries differ one from another and what holds valid for one business may not be applicable to another. Because of the efficiency of American agriculture and the U.S. food industry, American processed foods are generally lower costing than anywhere else in the world. In our particular experience, we can pack our products and deliver them to practically any country at less than the same product can be locally processed. Since, therefore, countries are closed to us through trade restrictions, any decision for local manufacture is not one of choice but, rather, one of necessity for survival in the local market. It is not a matter of a transfer or loss of U.S. sales.

"Some ingredients used in our overseas manufacture are supplied from the United States and food processing equipment installed in the plants is of American origin, adding to the country's exports.

"As a matter of record, although we presently manufacture in many countries outside the United States, our export sales are at an all time high. Even in the countries where we have local production, we enjoy some supplemental export sales from the U.S. that probably would not have survived without the catalyst of our local manufacture and marketing operations."

(Food company)

CASE 16 — "During the past few years we have secured two major contracts in Scandinavia, one in Africa and one in Australia for iron ore processing facilities. Because of tariff and import barriers, local content requirements and financing and currency preferences on the part of the buyers, none of these jobs would have been awarded to a U.S. bidder for equipment manufactured in the U.S. and calling for payment

in dollars. In fact, such bids were unacceptable to the buyers. By arranging for the manufacture and supply of most of the equipment in Sweden, Australia, Germany and the United Kingdom, and thus making it possible for the customer to pay the major portion of the job in local currencies, [we were] able to participate in this business. Roughly speaking, I believe we could estimate that the total value of U.S. equipment and services required for these contracts if manufactured in the U.S. could have amounted to approximately \$24,000,000. Keep in mind that had we pursued the policy of bidding on the basis of U.S. manufacture, the net resulting business would have been zero. Nevertheless, by proceeding in the manner generally described above, [we] received somewhere in the neighborhood of \$4,500,000 to \$5,000,000 (roughly about 20% of the U.S. equipment and services value) as payment for engineering services, know-how fees and certain special parts and components of U.S. manufacture all of which, I repeat, would have been lost had we insisted in offering U.S. manufactured goods."

(Machinery company)

CASE 17 — "The question of labor rates overseas has played virtually no role in our overseas investment policy. Our foreign production is mostly for sale within the country of manufacture, or to neighboring countries such as in the European Common Market. Just as wage rates vary from country to country, so do prices. There are other factors which are far more important in deciding to build or buy a plant overseas, such as the market. Wage rates are important only in calculating total cost and profitability of an overseas venture, generally."

(Chemical company)

CASE 18 — "The majority of our products are material, rather than labor, intensive. Therefore, low-cost labor has not been a significant factor in our overseas manufacturing program. Our factories abroad were established primarily to maintain and extend our competitive position within the three major world markets or free trade areas. In general, we tend to manufacture our less sophisticated products in these factories, products for which there is considerable local competition. Although we manufacture a relatively small portion of our total product line abroad, we find that in each country in which

we do manufacture, we gain the advantage of a local identity which substantially increases our total imports of U.S. products in that market. Without local production, the addition of import duties to our U.S. products would severely reduce our competitiveness and, thus, most of this important volume of business and all the U.S. jobs it provides would be lost."

(Industrial products company)

CASE 19 — "We would not be able to compete in overseas markets unless we produced locally. The labor content of our cost of goods sold is no more than 10% and the benefits enjoyed through these additional overseas payments and profits far override any possible theoretical loss to American labor."

(Industrial products company)

CASE 20 — "We have constructed the following table ranking the principal factors in determining foreign investment decisions, for your interest—ranked 1 (most important factor) to 5 (least important factor) :

	Canada	Other Western Hemis- phere	West- ern Europe	Far East	Rest of World
Trade Restrict- tions (e.g., tariffs, quotas, nontariff barriers)	2	4	1	1	4
Investment Reg- ulations (e.g., local content requirements)	4	3	5	5	3
Market Demands	1	2	2	4	2
Labor Cost Advantage	5	none	4	2	none
Other Factors— Investment Climate	3	1	3	3	1

"Nor have our foreign investments detracted from our domestic investments. We have expanded as fast as markets, funds and management have permitted in both the United States and overseas in general.

"Nor have our overseas investments had any significant adverse impact on United States exports. On the contrary, they have been beneficial through purchase of U.S. machinery. The markets we have filled would have been filled by

other manufacturers, and not by United States exports, for the most part."

(Chemical company)

CASE 21 — "In developing our response, we have analyzed each foreign investment we have made. . . .

"Japan — To enter into the Japanese consumer products market the only choice we had was to manufacture locally. High transportation and insurance costs made it practically impossible to compete with local firms.

"As a consequence of having a base in Japan [we have] gained export sales of other products that otherwise we would not have.

"India — India's foreign exchange laws precluded sales into that country, so that direct investment was the only choice. The difficulties of exporting from the U.S. into India meant that we had no sales in that market till we invested there, since most of [our] products fall in the 'luxury' category as far as import laws are concerned. It is obvious that when one has no export sales, one similarly cannot employ U.S. workers to manufacture for export.

"Pakistan — As in India, Pakistan's foreign exchange laws make it practically impossible to export products from the U.S. into Pakistan. Further, the only way to meet competition from Eastern European countries is to manufacture locally. Prior to investing, [we] did not sell in the Pakistan market.

"Argentina — Being a country that needs to protect local industry, Argentina has established tariff barriers for most products. In addition to that, the distance from the U.S. is another important factor in the cost of exporting. Therefore, we chose to invest in a manufacturing subsidiary.

"Some of the products we manufacture in Argentina are also very service sensitive (bottles, for example), making export sales impossible to sustain. Others, like ampules and flasks, [we do] not manufacture in the U.S.

"Investing in Argentina did not represent any loss of export sales or transfer of jobs abroad because neither before or after investing had [we] exported to that market.

"Brazil — The move to Brazil was forced by the establishment of a foreign competitor (non-

U.S. company) in that country. Had we not moved we would have lost the total market of which we now hold a good share.

"As a result of not losing the total market, we have been able to export parts and components to the Brazilian subsidiary.

"Mexico — Basically the reasoning for moving into Mexico was the same as to Brazil. However, in this case the Mexican government placed restrictions allowing only one [product A] manufacturer to enter the country.

"By manufacturing locally [we were] able to capture the whole market. Had we not entered Mexico, the competitor, who in this case was also a non-U.S. company, would have gotten the whole market. By doing so, [we] maintained the export of U.S. manufactured additional parts to Mexico.

"An investment in a laboratory glass operation was due to competition from Argentina, which has preferential tariff treatment in Mexico. Without the local manufacture, we would have lost the entire market. As in [our other] operation, [we were] able to maintain export of parts and components to supplement the local manufacture.

"England and France — Local competition as well as imports from other European countries with preferential tariff treatment forced [us] to invest in those countries.

"Export of supplementary parts from the U.S. were kept by having a share of the market.

"England — By acquiring an instruments company in England, [we] increased [our] export sales of similar products by marketing them through this company's distribution network. In addition to that, [we] acquired new technology that will be used in the U.S.

"France — With the advent of EEC, our U.S. position weakened relatively to EEC countries. This forced [us] to make direct investment in France to be able to compete with European companies, particularly on [product A].

"[Certain] products . . . have strong local competition that cannot be met by exporting from the United States.

"We have maintained strong exports of [product A] to our subsidiary in France.

"Netherlands — Tariffs on imports of finished products made it necessary for us put a finish-

ing operation in Netherlands. With that [we have] kept the market through exporting the semi-finished product from the United States for finishing in Netherlands."

(Manufacturer of glass products)

CASE 22 — "We would prefer to supply foreign markets directly from our U.S. plants. If so, we could better utilize our existing capacities; more easily and cheaply raise the capital for investments and at the same time minimize the risks; increase employment; etc. However, the decision to manufacture abroad or export from the U.S. is largely dependent on outside factors rather than on our preference. This is documented by the following few examples:

"In the case of [product A], some of our customers, the local vehicle producers and/or assemblers, who often are the subsidiaries of U.S. vehicle manufacturers, want to assure themselves of a steady supply of [product A] and require, therefore, local production. We must comply and build a plant in the country in question. If we do not, our competitors, Americans or others, certainly will.

"With rising vehicle population everywhere, many governments include a [product A] factory in their national plans. Our Company is often approached by such governments, government agencies, or private organizations and invited to build the plant. If we are reluctant to establish a manufacturing facility, the government signs a contract with our competitor. As a rule, if we do not build a local facility, we lose the country as an export market as soon as local production begins because higher tariffs and other trade restrictions are established to protect the new facility. The local market is often closed to imports, except for [certain] products not produced locally. These products may be brought in by the local manufacturer if a part of a multinational company.

"A similar situation concerns our major plastic material [product B]. The established versatility of this [raw material], of which we are the major producer, lures many governments and private investors into establishing production facilities for this material locally. In some cases, however, the lack of an adequate supply of raw materials needed for production of [product B] permits

the establishment of compounding facilities only, while the [basic ingredient] is exported by us from the U.S. Here again, should we fail to build a local plant, our competitors would undoubtedly do so and we would lose our exports to that market.

"All of these factors have enabled our Company to continue improving our export levels from the U.S. During the past decade, 1960-1970, tonnage exports of our plastic materials almost tripled. Our exports of other products during the same period increased by 35.6 percent. A growing portion of these exports went to our subsidiaries—from 16.3 percent in 1960 to 35.5 percent in 1970, for a total increase of 194.8 percent. These percentages reveal the importance of our manufacturing subsidiaries abroad to our exports from the U.S. Many countries permit us to export from the U.S. only because we have a local manufacturing facility but do not produce all types of products locally. Otherwise, we would be excluded from that market." (Supplier to automobile industry)

CASE 23 — "As a pharmaceutical firm, engaged primarily in the manufacture and marketing of ethical drugs, we have been subjected to increasingly strict regulatory procedures and economic pressures in almost every country in which we operate. Some of the restrictions we have encountered have been legitimately inspired by serious concern for the medical welfare of nationals. Others have been motivated by the desire to reduce imports, to favor national raw material suppliers, to favor locally-owned industry, to attract research to within national boundaries, and to compel the transfer of technology to nationals.

"There follows a representative, but by no means inclusive, listing of some of the problems we have encountered:

"a. A country insists that a local raw material be used. The borders are closed to any finished product which contains this ingredient. The raw material differs chemically from that used in the domestic (U.S.) product. Decision: Manufacture the product locally.

"b. A country enacts a law declaring that if a patent-protected product is not manufactured locally, the patent rights may be

ignored and the product may be purchased from patent infringers. Decision: Manufacture locally.

- "c. A country with a comprehensive social security system which includes the provision of free pharmaceuticals decrees that the 'lowest bidder' on a tender for a pharmaceutical is the in-country producer whose bid is no more than 10% higher than the lowest tender for the imported product. Decision: Manufacture locally.
- "d. A country decides that no foreign enterprise may be more than 55% foreign-owned. The only suitable local minority partners insist that their own manufacturing facilities be utilized to produce some products as part of the partnership agreement. Decision: Manufacture locally.
- "e. A country, by law, stipulates that finished goods of a company may be imported only if that company is engaged in some local manufacture. Certain finished goods which are widely accepted cannot for technological or cost factors be manufactured locally. Therefore some products must be locally manufactured to permit the import of others. Decision: Manufacture locally.
- "f. A common market organization establishes tariffs for pharmaceutical products entering from outside the market and eliminates tariffs within its boundaries. Price competition within the boundaries is very strong. Decision: Manufacture locally.

"The results of these pressures and the subsequent decisions to market locally include:

- "a. Each year the volume of goods manufactured abroad increases; each year the dollar and unit volume of goods exported from the U.S. to company subsidiaries increases.
- "b. While much of the volume increase in exports is in intermediates, the absolute volume of finished goods exported from the U.S. has also increased each year. Since 1952, when export sales amounted to less than 4% of total corporate sales, through 1970, when international sales amounted to 33% of total sales (sales five times as great as in 1952), the Company has established [many] overseas subsidiaries and has

built manufacturing plants in [various] countries with additional manufacturing plants currently under construction.

- "c. Sharply increased exports of intermediates has created highly-skilled jobs within the U.S.; the increase in export of finished goods has created new unskilled, semi-skilled and highly-skilled jobs in the U.S."
(Pharmaceutical company)

CASE 24 — "For the five year period 1966-71 our foreign investments can be grouped into three categories:

- "A. Investments which by their nature have no impact on U.S. exports: purchase of land, construction of office buildings, replacement and modernization of existing facilities, creation of business operations for products inherently foreign which could not be exported from the U.S. in any case.
- "B. Foreign investments which actually increase exports of U.S. made products such as marketing and support service operations, warehouses and distribution networks.
- "C. Foreign investments that *theoretically* substitute for U.S. exports.

"During this five year period the total foreign investments were about \$160 million of which Groups A & B accounted for 65% and Group C 35%.

"In the description of Group C items 'theoretically' is emphasized in defining the category as including investments for the production of products that substitute for U.S. exports. In reality none of the investments in this group were substitutes for U.S. exports. As a firm policy, we invest abroad in local facilities to supply host country markets only when these markets cannot be supplied from U.S. sources. There are many reasons why U.S. exports cannot be sold at a profit in specific markets; actual prohibition against them by quotas, exorbitant import duties, non-tariff barriers, host government subsidies to local producers, etc.

"As a matter of fact, the Group C investments almost always assist U.S. exports through:

- "a. export sales of capital equipment needed to establish manufacturing capabilities; and/or

"b. continuing export sales of raw materials and components used by the foreign facilities in assembling the end products."

(Electrical machinery company)

CASE 25 — "Exports of \$35,000,000 in 1970 compare with \$4,000,000 in 1961 — 11½ percent of sales over \$300,000,000 in 1970 compared to 3 percent of 1961 sales of \$133,000,000 — and now equal foreign sales from affiliates abroad."

(Equipment company)

CASE 26 — "We suggest that the path followed by American management of establishing local production facilities which would 'pull' exports of U.S. goods has proven to be for the benefit of U.S. industry and its production employees in the U.S.

"In our company the benefits received by our production employees in terms of full and expanded employment as a result of the development of our international business is striking. In 1935 when our company started its international expansion program we had export sales of \$817,000. By 1970 our export sales had reached the figure of \$19,148,000. The number of production employees engaged in producing goods for export has increased substantially over this period.

"The significant increase in export sales by our company in the years since 1935 could not have been accomplished without our foreign operations, including our overseas manufacturing facilities."

(Drug company)

CASE 27 — "Summary of U.S. Exports to Wholly-owned Subsidiaries, Joint Ventures, and Licensees

	1955 [000]*	1960 [000]	1965 [000]	1970 [000]
U.K. [A]	\$ 250	\$ 250	\$ 2,226	\$ 4,221
U.K. [B]	—	—	498	2,302
Germany	25	121	1,892	2,407
India	252	1,181	1,722	1,224
Japan	100	278	512	3,174
Mexico	2,307	4,542	6,259	9,869
	\$2,034	\$6,372	\$13,104	\$23,197
Employees	98	212	437	807

"[The firm's U.S.] sales per employee are approximately \$30,000 per year. Consequently, whereas in 1955 some 98 [U.S.] employees were

* (Original data rounded to nearest \$1000)

engaged in sales to the countries listed above, in 1970, 773 employees were engaged in these exports, an increase of 675 employees (689%)."

(Industrial products company)

CASE 28 — "With a local manufacturing approach, however, we were able to continue exporting to our subsidiaries in these areas components from U.S. production which are included in the local production and in addition, we are still able to export certain types of completely assembled units from the U.S. to those areas, which would not have been possible had we not been physically present in the area.

"The total international volume of our company outside of North America amounts to over 20% of the total corporate volume (approximately \$400 million in 1970). Our international volume has increased more than five times during the last nine years. Our growth in the foreign field has been possible only because of the increased investment we have made in foreign manufacturing. At least 30% of our total international volume is composed of components which are shipped from our U.S. manufacturing facilities."

(Industrial machinery company)

CASE 29 — "In many cases we must manufacture consumable supply products abroad because borders have been closed against import; this enables reliable support with quality supplies of those U.S. machines assembled locally from parts or those models which may have been imported fully assembled where quality and reliability may outweigh price considerations. This again is strategy to preserve maximum demand for U.S. made products.

"Obviously, if we do not choose to fully satisfy a market potential, someone else will fill the vacuum; and all our export business will go by default." (Electrical equipment company)

CASE 30 — "When we manufacture abroad, we manufacture the standard items that are typically manufactured less expensively. We need a sales force to sell these products abroad. This same sales force sells special products and new products which are manufactured in the United States and which cannot be manufactured economically in the foreign country. Without the foreign subsidiary sales force, very few of these products would ever be sold. Historically speak-

ing, we export more, in relation to the size of the market, to countries where we have subsidiaries than to countries where we do not.

"Since the foreign country subsidiary handles all the sales and administrative functions, and provides all the local standard threads and adapters, we are able to ship standard U.S. made products to the foreign subsidiary at a lower price than we could sell a customer. Thus where economic advantages due to long production runs do exist in the United States, we are able to supplement our foreign manufactures by exporting those products.

"The net result of this program is that over an 8-year period our exports have increased from \$4 million a year to \$6 million a year; our foreign sales have increased from \$12 million a year to \$46 million a year; and our imports have fluctuated below the \$1 million a year level, with no trend being apparent at the present time." (Electrical equipment company)

CASE 31 — "In all instances, we find that the existence of our own manufacturing facilities in a foreign country enhances the ability to export into that country from the U.S. high technology and specialty items which cannot be produced efficiently in the foreign country. We have enjoyed a steady growth in our exports of such products for several years.

"We make a substantial volume of intermediate products which are incorporated into a wide variety of finished items. A major portion of these intermediates are made in the United States which is the primary source of supply for our foreign subsidiaries. Without manufacturing facilities in foreign countries we would be at a serious disadvantage in maintaining the high level of production of such intermediates in the United States. We have considerably expanded our facilities here in the past 5 years for production of such intermediates." (Industrial products company)

CASE 32 — "In light of these many investments over the last 15 years, our domestic operations have received direct benefits through our overseas affiliates. In every case, a door has been opened for the sale of domestic products or raw materials, either through [our] sales offices, sales representatives or licensees abroad. In the period 1962-1970, [our] exports have increased 300% and have been supplemented by our pro-

duction facilities abroad. (It is important to note that the goods which are exported are not generally the same as those produced abroad.)"
(Materials company)

CASE 33 — "As a matter of fact, using the new Mexican plant as a base of operations, significant increases in sales of Product Line 'A', manufactured in the U.S. and exported to Mexico, have come about."
(Equipment company)

CASE 34 — "Setting up marketing organizations in the different countries resulted in increased exports from the U.S.—from approximately \$12 to \$15 million in the late '50s to in excess of \$65 million in 1970.

"Approximately 20% of our total sales are made in foreign countries. Of this 20%, 80% are exports from the U.S. to a foreign affiliate who makes the sale. Without the foreign affiliate our exports and direct subsidiary sales would be negligible." (Machinery company)

CASE 35 — "In 1970, through purchase orders to vendors and materials drawn from U.S. plants, [we] exported almost \$8 million worth of components, raw materials and products in various stages of manufacture. This does not include our export sales of finished goods from the U.S. which amounted to an additional \$1.17 million. To balance this figure, we imported a total of approximately \$126,000 worth of materials and product from abroad."
(Toiletries manufacturer)

CASE 36 — "Our plant in Holland does not manufacture a complete line, so we supplement it with items from this country. Sales today in Holland are larger than our exports to the Common Market were in 1957.

"The 'foot in the door' to the EEC also gave the company access to some newly independent African nations. The former French colonies are big users of [our product]. Had we not been in the Common Market, our sales there would have been zero—or a drop in the bucket. We had none."
(Tool company)

CASE 37 — "A distinction needs to be made between overseas investments in marketing affiliates and investments in production facilities. [Our] foreign investment in plant facilities has been made primarily in response to the competi-

tive forces encountered in our overseas markets. As most of the products with which we compete are produced overseas, it has been necessary to secure the same cost advantages they have over U.S. exports. These cost advantages include lower labor and transportation costs and more favorable tariff rates. Without these plants, it is estimated that at least 70% of the sales involving their production would have been lost to competition. That would have meant a loss to the U.S. balance of payments of the profit and royalty remittances associated with these sales and of most of the \$30-40 million in assembly parts exported annually in the last few years. Moreover, most of the 1,500 jobs associated with those exports would have been lost.

"The products produced in our overseas plants support U.S. export sales and jobs in another important respect. They provide a competitive base for selling the more sophisticated products now exported from our U.S. plants through our foreign sales and service organizations. Most of [our] overseas investment is in these marketing affiliates, which develop expanding local markets for our U.S.-made products around the world by maintaining extensive customer contacts and substantial [our] positions in keenly competitive environments. These affiliates supply our U.S. plants with local market requirements for new products. New technologies developed overseas are also incorporated in U.S. products for both foreign and domestic markets. These affiliates were responsible for the bulk of our international revenues, which comprised 45% of total 1970 corporate revenues.

"In 1970, [we] exported \$170 million in equipment, parts, and supplies from [our] U.S. plants. It is estimated that over 4,500 jobs were associated with these exports. Without the foreign investments which supported these export sales, many of those jobs would not exist. In 1970, when U.S. domestic demand was sluggish, the 25% increase in our export business took on added importance in providing U.S. jobs."

(Office machine company)

CASE 38 — "[Our] direct overseas investments have been uniquely tailored to achieve market penetration and growth under circumstances which at least in our estimation would not be possible through direct export from the U.S.

"Perhaps the most clear example of the above

statement is our investment in Mexico which was made in the latter part of 1957. Because of the protectionist attitude of the Mexican government toward local industry, importation into Mexico of many of our standard products which we consider the bread and butter items of our offerings were not permitted. Consequently, a market which while before World War II had been of some importance to [us] by 1955 had been reduced to virtually a market for replacement parts and some specialized items not at that time produced by our Mexican based competitors.

"In order to re-establish a position in the Mexican market, we did in 1957 establish a subsidiary company in which [we have] a controlling interest and Mexican shareholders a minority position. Our exports to Mexico prior to 1957 amounted to less than \$50,000 a year, but in 1970 exports in the form of parts, sub-assemblies and finished apparatus not currently produced by our Mexican subsidiary or competitors amounted to over \$300,000.

"I have not tried to make an evaluation of the production labor hours represented by our exports to Mexico in 1955 versus a similar statistic in 1970. It would be necessary, of course, to state these exports in terms of constant dollars in order to make an accurate comparison. I am positive, however, our costs have not gone up six times in the 15 years and that in fact we have increased employment here in the U.S. as a result of our investment.

"Perhaps the most telling statistic in terms of benefit in our overseas investment is the comparison of U.S. exports in 1957, the year in which we made our first overseas investment—the one in Mexico, with our direct exports in 1970. In 1957 our exports amounted to \$1,200,000, whereas, in 1970 our exports amounted to approximately \$6,500,000. In the years between 1957 and 1970 [we have] made investments, in addition to the one in Mexico, in Canada, India, South Africa, Costa Rica, France, Holland, Germany, Belgium, Italy, Spain and Sweden. Today over 50 percent of our direct exports are in the form of parts, sub-assemblies as well as finished apparatus to associate companies in which we hold either a controlling or minority equity position.

"I cannot state unequivocally that our exports would not have increased in these 15 years had

we not made the above mentioned investments. I am positive, however, our exports would not have increased as dramatically if it were not for these investments.

"I would like to cite another case where an investment was made in a market which could not be penetrated by another means. A 49 percent equity investment was made in [a firm in] India which has been operational for three years. Exports of complete apparatus to India are today not materially different than prior to our investment. These exports are to customers which have been customers of [ours] for a good many years. [Certain] products which are sold to Hindustan Aircraft are not manufactured by our Indian associate and are products we have sold in that market for a considerable period of time. We do, however, sell to our Indian associate parts and subassemblies in excess of \$150,000 annually—sales which did not exist prior to our investment."

(Electrical equipment company)

CASE 39 — "From the end of 1960 to date, eight manufacturing installations have been established abroad in Japan, Australia, Mexico, Argentina, Canada, Germany, France, and South Africa.

"Except as noted below, the primary motivating factor in establishing these manufacturing entities abroad was that competition had either already started or was about to start foreign operations with the result that any business which we enjoyed in that territory had either been lost or was about to be lost to a local supplier. In some cases these foreign competition activities were sponsored by U.S. based firms but in a number of cases such as Australia and Japan, local brands, locally owned were established. In other areas such as Germany, South Africa, France, and Australia, local activities—foreign owned—operating under license arrangements with U.S. firms were in operation.

"A second factor which lead to the undertaking of local activities was the limitation of export due to barriers imposed by high duty rates (Argentina 110%, Australia 57%) and import embargoes (Mexico).

"Results 1960-1971 — In the year 1960, the total amount of export business to customers abroad purchasing our completed devices for incorporation into their packages amounted to

approximately \$500,000. The bulk of these shipments was destined for Europe (primarily Holland, Switzerland, France, Germany, and Scandinavia). The industry had not been developed in Latin America, Africa or the Far East to any degree at that time. Clearly with the establishment of manufacturing facilities first in Germany in 1961, the volume of export of complete units to Europe declined sharply but was continuously replaced by increased exports to other areas notably South Africa, Argentina, Venezuela, etc. Just as had been the case in Europe with the establishment of the German plant, exports declined rapidly with the establishment of local production facilities by competitors. In the case of South Africa, a British owned competitor established manufacturing facilities there and, had we not set up a local production facility promptly, the entire export market and any possibility of supplying the market through local manufacture would both have been foreclosed.

"The loss of market potential is even more dramatically pointed out in the case of Australia. In Australia a local competitor was established which captured more than 50 percent of the total market and a second competitor—a licensee of a U.S. competitor, captured virtually the rest of the market. The result was that exports from the United States to Australia by our firm were less than \$5,000 in 1965.

"This whole situation can well be summed up by the statement that if you are not in the local market directly, you will lose the entire market as soon as someone else establishes there. Furthermore, the fact that the industry started in the United States does not give any complete monopoly to United States intelligence and many local organizations have proved themselves capable of competing with or without technical assistance from the United States.

"Despite the fact that large segments of the total world market are now serviced by us with local manufacturing facilities, exports of completed assemblies in 1970 exceeded \$650,000. In other words our export activities now center on shipments to other areas than they did in 1960, but are still substantially higher than they were at that date.

"While export of complete units has increased, the supply of component parts to our various manufacturing subsidiaries abroad in 1970 to-

taled well over one million dollars. In addition to the shipment of component parts and finished units, we have also exported equipment machine tools, and automatic assembly lines to our foreign subsidiaries in a total volume of some two million dollars.

"In summary, if we did not have manufacturing subsidiaries abroad we would still have exported something more than we did in 1960, but the tripling of the 1960 level of exports is due almost exclusively to the fact that we manufacture parts in the United States for shipment to our subsidiary companies thus providing exports which, without foreign subsidiaries would not exist.

"In view of the above it becomes apparent that:

"1. The amount of U.S. labor employed in manufacturing components and completed assemblies for export is substantially higher than it was in 1960.

"2. The fact that some 600 people are now employed in our foreign operations abroad has no bearing whatever on the use or lack of use of U.S. labor since that business would not be available to us or to any U.S. based manufacturer, but for the existence of foreign manufacturing facilities.

"3. Through actual calculations, we have determined that there is no such thing as a 'lower labor cost.' There are lower hourly wages paid in a number of countries in which we are in operation but 'lower labor cost' implies that productivity is of a similar nature to the U.S. productivity figure and therefore, labor cost per unit of production is reduced. This has not proved to be the case. We have found that the cost to produce one unit, i.e. the labor cost, is approximately the same regardless of the hourly wage paid. This is due to differentials in productivity. It must be noted that all of our manufacturing operations abroad are equipped with the same high speed mechanized equipment as we have in the United States. The difference in productivity is due to larger production runs in the U.S.A., shorter 'legal' vacations, better use of work time, lower illness and absenteeism, etc.

"4. In view of the absence of 'lower labor costs' and the presence of higher prices for raw materials, we have found that the cost of production in all areas is as high as or higher than in the United States. It follows therefore, that the export of foreign finished products to the United States exists only in small shipments of specialized items."

(Manufacturer of mechanical devices)

With the permission of General Motors Corporation, whose development of its worldwide operations covers a long span of exporting and manufacture, its response is quoted below at length:

CASE 40 — "Development of General Motors World-wide Operations.

"The history of General Motors clearly demonstrates that the extension of its operations outside of the United States was never in any way undertaken to the detriment of expanded investment and employment in the United States. Over the period 1950-1970, GM's total expenditures for plant and equipment (excluding special tools) amounted to \$14.3 billion, 80.8% of which was spent in the United States. Over this same period GM's total employment averaged 621,400 employes, and ranged from a low of 490,700 in 1952 to a peak of 793,000 in 1969. Employment in 1970 averaged 695,800. The ratio of employment in the United States to total world-wide employment averaged 77.7% over the last 21 years.

"The distribution, service, assembly and manufacturing facilities which General Motors has established and operates outside of the United States have as their objectives the achievement of sales which could not be effected by means of such facilities located only in the United States. The motivation for the establishment and operation of its world-wide facilities has been the challenge of competition for customers for its products throughout those areas of the world to which they are permitted access. The search for markets and not the search for low-cost labor or special investment and tax incentives has been and always will be the dominant factor in determining the location and course of action of its operations around the world. An examination of the evolution of General Motors from its earliest days to the present confirms this fact.

"General Motors began competing for sales in foreign markets by exporting fully assembled vehicles from the United States. Between 1911 and 1922, almost all of its sales abroad were made in this way. The largest number of such units exported in this period was about 80,000 in 1920.

"With rising incomes in Europe, motor vehicle demand increased rapidly during the 1920's, rising from about 250,000 in 1921 to around 1,500,000 vehicles in 1929. In unit terms, 1929 represents historically the peak year in U.S. automobile exports. Close to 750,000 U.S. source cars and trucks were sold in foreign markets that year, of which General Motors supplied about a third.

"During this decade of the twenties, European countries were beginning to develop their own automobile manufacturing industries and in doing so imposed tariffs and other restrictions to provide protection against imported U.S. source vehicles. Import duties on fully assembled cars and trucks were generally set higher than those on parts and components for assembly, and local producers had the added natural advantages of location and lower transportation costs from factory to customer. To meet these conditions General Motors, between 1923 and 1928, opened nineteen assembly plants in fifteen overseas countries. By 1929 over 65 per cent of the GM cars and trucks exported from the United States were shipped as parts and components to its foreign assembly plants. Without such assembly plants abroad neither General Motors nor the rest of the U.S. automobile industry could have achieved the high export volumes for U.S. motor vehicles recorded during the second half of the 1920's against intensifying foreign competition.

"By the end of the 1920's, however, it became evident that although local assembly abroad greatly assisted the continued sale of U.S. source vehicles in export markets, the preponderance of demand in the principal foreign markets increasingly would be tending toward product types differing from those required to meet the demands of U.S. consumers. In 1930, U.S. passenger cars in the high sales volume low-priced group averaged 108 inches in wheel base, 180 inches in over-all length, 188 cubic inches in engine displacement and about 2,500 lbs. in curb weight. Their average retail price

was the equivalent of about 22 per cent of per household national income. In contrast, the most widely sold passenger cars in Europe had an average wheel base of 95 inches, an over-all length of 150 inches, engine displacement of 58 cubic inches, and curb weight of 1,650 lbs. Annual vehicle registration fees and insurance premiums in Europe were sharply progressive in relation to engine displacements. These factors, combined with high gasoline taxes, kept engine sizes small. Even so, the retail prices of such cars, equal to some 70 per cent of per household national income, made them relatively much more expensive to foreign buyers than were the larger, more comfortable and better performing U.S. cars to American buyers.

"These wide gaps in retail prices and operating costs relative to consumer incomes and the great differences in driving conditions between the United States and most other countries accounted for the foregoing differences in product concept and design. Americans who could in increasing numbers afford the larger type vehicle did not accept the smaller foreign type in any significant volume. Thus the United States did not provide the large volume domestic market base required for a U.S. source product to be manufactured on a sufficiently large scale to compete effectively with the smaller vehicles produced abroad to meet the demands there.

"The world-wide economic difficulties of the early 1930's induced extensive distortions in international trade. Industrially advanced countries abroad invoked high tariffs, discriminatory taxes and other measures to protect and promote the domestic market interests of their own developing automobile industries. In the period 1920 through 1924, the four principal foreign automobile manufacturing countries at that time—France, Germany, Italy and the United Kingdom—supplied an average of 75 per cent of their domestic demand for automobiles and imported 20 per cent from the United States and 5 per cent from other sources. In the period 1930 through 1935, however, these countries supplied an average of 95 per cent of their own requirements and imported only 4 per cent from the U.S. and 1 per cent from other sources.

"General Motors' reaction to these trends, which became increasingly evident as the nineteen twenties progressed, was that to assure for itself a competitive capability to meet con-

sumer demand for automobiles in expanding world markets outside the United States, it would have to acquire manufacturing facilities abroad. Consumer demand considerations prompted the General Motors' acquisition of two motor vehicles manufacturing facilities, one in England in 1925 and one in Germany in 1929. The objective of these major extensions of GM's world-wide operations was most emphatically not to replace exports from the U.S. by cars produced in other countries. It was obvious that unless General Motors had economic sources of non-U.S. type products, its participation in overseas markets would decline when confronted with the natural advantages enjoyed by foreign manufacturers and the protective policies of their governments.

"The pre-war trend continued after World War II with most foreign economies disrupted and seeking to re-establish their competitive bases. The divergence of American and foreign vehicle types persisted, as did restrictive import quotas, high import duties and other tax and non-tariff barriers.

"Australia, formerly a relatively large export market for U.S. source automobiles (1935-39 annual average of 50,000 total American source and 21,000 GM American source cars and trucks) in October, 1944 addressed a communication to the local General Motors assembly operation requesting an indication of any interest it might have in undertaking the manufacturing of a motor car in that country. It further requested that if General Motors was interested, it should submit a proposal at an early date for consideration by the Australian government. Following are some excerpts from the proposal GM submitted in January, 1945:

'We would undertake to manufacture in Australia a five seater sedan car and related utility (a small passenger and cargo carrying vehicle) which would be specifically designed for the economic and operating conditions of Australia.

'The objective of General Motors-Holden's Ltd. is to manufacture Australian motor vehicles in the low price group to sell competitively with imported vehicles without subsidy and without increase in the customs tariff rate prevailing in 1939.

'General Motors-Holden's does not request

that any special advantages be extended to them. This recognizes that any other concern will be equally free to enter into manufacture of any type under the same conditions as are accorded by the Government to General Motors-Holden's.'

"It was obvious to General Motors that since the Australian government had addressed its request to a number of world-wide manufacturers, the chances were that if it did not accept the challenge, some other manufacturer or manufacturers would. The consequence would have been to accept withdrawal from or severely curtailed participation in a motor vehicle market with substantial growth potential. General Motors, by accepting the challenge has seen its production of cars and trucks in Australia increase to 190,000 in 1970, and its continuation as a major supplier of the Australian motor vehicle market—35% annual average 1965-70.

"A number of other countries, such as Argentina, Brazil, Mexico, Republic of South Africa and Venezuela, which had been large export markets in the past for U.S. produced motor vehicles, have followed Australia's lead and are currently engaging in local automobile manufacturing to increasing or virtual exclusion of imported vehicles. Continued participation in these expanding markets by General Motors has been possible only by investments in facilities required by government-imposed local manufacturing programs.

"Before World War II, Argentina was one of General Motors' best export markets outside of Europe with average annual sales of 12,300 cars and trucks over the period 1935-39. While Argentina was moving ahead with general industrial expansion, General Motors was of the opinion that because it lacked strong supporting industries and was short of essential raw materials, its overall economic development would be advanced more effectively in the automotive sector by continued reliance on a combination of the economies of local vehicle assembly with the efficiencies of outside parts and component manufacture. However, in 1958 and early 1959, Argentina moved rapidly in the direction of local automobile manufacturing and General Motors had to reconsider its position in that country. Prohibitive import duties, surcharges and licensing requirements were insti-

tuted in 1959 aimed at an early phasing out of vehicle importation and assembly. For example, a Chevrolet passenger car then selling for around \$2,500 in the United States would have cost over \$20,000 with duty and surcharges. These import restrictions were followed by governmental decrees requiring the imported content by value to be reduced to 30 per cent for trucks and to 10% for passenger cars by 1964, and the institution of prohibitive surcharge scales—up to 200% of c.i.f. value for trucks and 400% for passenger cars. By 1969 the Argentine program effectively limited the maximum allowable import content to 2.5% for passenger cars and to 10% for commercial vehicles.

"For manufacturers with approved programs, machinery, tools and equipment could be brought into Argentina duty-free, and protection against imported products was provided through surcharge schedules favorable to local manufacturers. The decision confronting General Motors under these circumstances was whether to go along with the Argentine vehicle manufacturing program or to abandon participation in that market. Its decision was to conform with the program, and it reflected primarily the desire on the part of General Motors to retain a position in one of its important traditional markets and one which it considered to hold promise of substantial future growth. In 1970 GM manufactured 34,700 cars and trucks in Argentina.

"In 1956 the Brazilian government decreed that by 1961 motor vehicles had to be produced almost entirely with locally manufactured parts and components. General Motors again decided not to abandon its participation in a market which showed signs of developing, in the years ahead, into not only the largest vehicle market in Latin America but also into one of the largest in the world. In 1970 the total market in Brazil was 417,700 units and GM's production was 70,100 units.

"In the cases of Mexico, the Republic of South Africa and Venezuela, local content requirements have also been instituted but not to the extent of Argentina and Brazil. Mexico and South Africa require the local manufacture of engines but not Venezuela. However, the local content percentages are in all cases being progressively increased. While they are not likely, at least for some time, to reach the levels of Argentina and Brazil, they nevertheless compel

investment decisions determining continuing market participation. General Motors decided not to forego the opportunity to participate in these markets (1970 total unit sales: Mexico 191,600; Republic of South Africa 297,600; Venezuela 76,400) and accordingly has made and will continue to make investments in facilities required under the respective automotive industry development programs.

"Japan has become the focus of a great deal of interest recently by the American automobile industry. General Motors has shared in that interest. Japan's motor vehicle production, domestic market sales and exports have in recent years significantly outperformed the phenomenal growth of that country's overall economic growth. Japan by 1970 had become the world's second largest manufacturer of cars and trucks as well as the second largest market for motor vehicles. In contrast to all other major automobile manufacturing countries which by 1970 had become fairly large importers of motor vehicles, (imports as a percentage of total passenger car market: U.S. 14.7%; U.K. 14.2%; France 19.8%; Italy 27.7%; Germany 22.5%; Australia 28.1%) Japan's market remained virtually closed to outside competition. Foreign source products accounted for but 0.7% of the total Japanese passenger car market in 1970. Thus while Japan was successfully keeping foreign manufacturers from participating in its large and expanding market through either investment or trade, its own automobile producers were in a position to compete freely in the United States and most other major markets of the world. This lack of reciprocity and denial of access to the Japanese market has constituted a major complaint of the U.S. automobile industry, including General Motors.

"Japan's rapid economic growth and expanding exports, together with increasing pressures from foreign governments and industries, have worked to bring about some relaxations in its import restrictions. In the case of the Japanese motor vehicle market, the absence of import quotas and duties would not necessarily open up opportunities to outside manufacturers for any significant sales volumes of foreign source products. High costs of transporting cars and trucks from North America and Western Europe to Japan; a well-developed, efficient and high volume domestic manufacturing industry; and,

the unique feature of a large demand (700,000 units or 30% of total passenger car market in 1970) for 'mini' cars of under 22 cu. in. engine displacement produced nowhere else, provide that country with a high degree of special insulation from import competition. For General Motors to participate in the Japanese automobile market thus requires more than equitable entry terms for its cars and trucks produced in the United States or other countries. It requires access through investment in facilities for the manufacture in Japan at Japanese cost of types of vehicles that can compete for sales in that country against the products of other local manufacturers. Without such facilities General Motors has been denied the opportunity to compete at all effectively in a market that in 1970 had reached 4,200,000 cars and commercial vehicles and that is projected to increase to around 4,800,000 in 1975. In July 1971 GM reached agreement with Isuzu Motors, a Japanese motor vehicle company, on terms for an equity participation in manufacturing and distribution facilities in Japan. That agreement is now awaiting what is expected to be early formal approval by the Japanese government.

"The basic objective of the arrangement now governing trade in automotive products between the United States and Canada has been to enable Canada to develop and maintain a North American manufacturing position in this product area more commensurate with its consumer role. Neither the U.S. automobile industry as an industry nor General Motors as a company took the initiatives that culminated in the United States-Canadian Automotive Products Agreement of 1965. However, both the industry and General Motors have cooperated with the governments of the United States and Canada in implementing the terms of that Agreement and its related legislation. Total trade in motor vehicles and parts, components and accessories expanded from \$1.2 billion in 1965 to \$6.7 billion in 1970, with U.S. exports to Canada increasing from \$931 million to \$3.2 billion and Canadian exports to the U.S. rising from \$227 million to \$3.5 billion. The agreement is regarded as a trade-expansive solution to a trade imbalance problem Canada was determined to cope with. The alternatives being considered were negative in nature and would have resulted in sharply reducing the exports of U.S.

automotive products to Canada. The United States would have experienced a major negative impact upon its annual automotive trade balance with Canada through greatly reduced export volumes. Canada would have succeeded in reducing its large trade imbalance with the United States, but at the high price involved in promoting import substitution for products whose unit manufacturing costs are closely correlated to output volumes.

"It is the challenge of the world motor vehicle market and not just the challenge of the United States market that has been the primary influence in determining the allocation and location of General Motors resources around the world. It is that challenge that has determined its evolution from a national company into a worldwide enterprise. The use of its resources to meet specialized consumer demand for motor vehicles has been influenced in certain instances by tariff and non-tariff barriers and national requirements to undertake local manufacturing. In no instance has the motivation been to seek and use low cost labor and substitute foreign production for U.S. production to supply that specialized demand.

"Finally, the General Motors responses to the 1959 (10%) and current (15%) import penetrations of the U.S. passenger car market were not those of drawing heavily on the outputs of its overseas subsidiaries to meet the competitive challenges. The responses to the earlier import thrust was a peak import of some 63,300 units from Germany and U.K. in 1959. In the meantime it was developing its U.S. source compact cars. This was also the course taken by other U.S. automobile manufacturers. By 1968 imports of Opel and Vauxhall cars by General Motors had declined to 482 units. Imports as a whole had declined to 4.9% of the U.S. market by 1962. They stayed below 10% until 1968, the first year in which Japanese source passenger car imports exceeded 100,000 units. By that time it also became evident to General Motors that Japanese manufacturers, with access to the U.S. market free of any arbitrary restrictions on trade and investment and at low import duties (5.5% in 1968; 3.5% in 1971; and 3% after January 1, 1972), would become large suppliers of cars in the American market.

"The General Motors' response was to resume the importation of some of its Opel passenger

cars while designing and engineering a competitive car for efficient low cost production entirely in the United States by American labor and almost completely of U.S. parts and componentry. This was the concept of the Chevrolet Vega introduced in 1970. Despite interruption of production during a long strike that same year, Vega ended its first model year production run at 269,900 units. Sales of Opels declined from 91,200 in 1969 to 83,200 in 1970. General Motors, while highly satisfied with the initial results of its second major effort to confront foreign competition head-on in the U.S. market, is, nevertheless, not complacent about the longer term implications of escalating costs in the United States in maintaining that successful competition. The comparative cost handicap of the United States in the manufacture of small import type cars is only too evident from a reading of the current cost of an hour of labor in the U.S. of \$6 vs. \$3 in West Germany and under \$2 in Japan.

"General Motors, in its role as a world-wide automobile manufacturing enterprise, will in the future, as it has in the past, exert its maximum efforts to compete for customers for its products in as many different countries as possible. It will use its resources as efficiently as it can to provide the types of cars required to satisfy consumer demand. It does not expect any market to be more open or to offer more opportunities for substantial sales of a greater variety of motor vehicles than the United States. The extent to which General Motors or any other U.S. manufacturer will be able to supply that market over its entire product range from U.S. facilities will in the final analysis depend upon the degree to which cost and productivity increases can be kept in reasonable balance."

All the above Cases argue strongly for the *a priori* case that investment is needed to expand exports, particularly where governmental restrictions dictate a relocation of production and where local markets abroad are expanding rapidly enough to warrant the establishment of production facilities in the actual market.

Transfer of Technology and Low-Wage Imports

The basic issues with respect to the second claim of Labor and other groups are: what

constitutes "advanced technology," what constitutes "low labor costs" and the extent to which products that are manufactured abroad incorporating advanced technology and low labor costs are exported to the United States. Where such technology is employed at overseas manufacturing facilities having lower labor costs, such facilities are referred to as "run-away plants." The results of the NFTC survey show that the problem of runaway plants is centered in a very few industrial sectors and in a few components or relatively simple products. Here again, as with the analysis of whether export reductions result from foreign investment, we must exclude from this claim of Labor imports which arise from investment in certain industrial sectors abroad such as raw materials and items not produced in the United States.

Fifty of eighty companies responding to this question reported that they had no imports whatsoever from their foreign affiliates. One company reported it had traditionally imported from its affiliates, but that the volume had declined some five per cent during 1960-1970. Seven companies reported they were importing from their affiliates but the volume was exceedingly small: "components and materials equal 0.4% of sales, of which only a small fraction was from affiliates"; "infinitesimal amounts"; "less than \$1 million on over \$1 billion of sales"; "insignificant amounts of products, not formerly produced in the U.S."; "less than 1% of sales, of items not in the U.S. line"; "less than 1% of sales, with 1/4 of this exported"; "1/2 of 1% of total overseas business, specialty items."

The phenomenon of importing items not in the U.S. line was illustrated by still more companies: tires of "foreign" sizes, household items, some office equipment, and machinery. These are items produced in volume for a different market and for which the market in the United States is not sufficiently large to justify local production. Two companies reported, however, that as soon as U.S. production was large enough, they would introduce production in the United States. One company, instead of exporting advanced technology so as to produce abroad, bought such technology abroad, is cur-

rently producing the item only abroad but will start up in the United States as demand increases.

The remaining companies were importing what they considered to be significant amounts (unstated) of components or final items for a variety of reasons. But none considered that the technology being transferred to support such production could be classified as "advanced." On the contrary, nine companies categorically stated that the technology was quite low; another that the low-wage countries could not undertake the highly-advanced technologies within that industry; and still another that the imports were not from low-wage countries. Examples are as follows:

CASE 1 — "The repurchase by us of certain parts and materials produced in such facilities to our quality standards enables us to offset some domestic inflationary pressures providing a more competitive product to our local customers who can, in turn, remain more competitive with their overseas competition in the U.S. market.

"While advanced technology is available for export, the conditions in overseas countries do not often permit the rapid incorporation of such technology in their products. The time phasing is generally such that new technology is kept on the favorable side of U.S. produced products." (Auto equipment company)

CASE 2 — "[Our] imports, which have consistently been very low in relation to our exports, are primarily of older technology, labor intensive products. If we did not produce these products in lower cost areas we would be driven out of this market sector both in the U.S. and overseas by foreign competitors who would therefore become larger and stronger and more able to compete with us in other market sectors. The imports would, of course, come in anyhow in a price competitive environment; the question is whether the profits are to go to the U.S. or foreign companies. It is also true that our purchases of other countries' products provide the wherewithal for them to purchase our products.

"We feel there is a confusion in the charge of possible damaging effects to U.S. jobs of advanced technology being 'transferred' over-

seas and then incorporated in products to be imported into the U.S. Overseas manufacturers are offered the greatest economic advantage with labor intensive products. Characteristically such products embody relatively old technology — conversely the latest technology products — minimize labor inputs and hence offer less of an advantage to overseas manufacturers, particularly when weighing up the prospects of jumping the U.S. tariff barrier to import into the U.S. In other words, the economic considerations are essentially in the area of relative quantity of labor input rather than technology per se. It should be pointed out that even products popularly thought of as being of 'advanced technology' are manufactured in stages and contain a number of levels of technology, some of which require very unskilled labor representing an older technology. In our case, we have found that when advanced technology is developed in the U.S., as a practical matter it is essentially impossible to transfer it abroad during the years when it remains relatively new. It is only when the technology matures that it can be successfully systematized and, if economic, transferred. There are of course many examples of the import into the U.S. of technology, including early work done in England and Germany on such advanced products as computers, radar and jet aircraft. Presumably a ban on export of technology would imply restrictions on import of technology."

(Business equipment company)

CASE 3 — "We manufacture one of our diesel fuel injection systems now overseas. This move was basically made for two reasons:

- "a. to improve our competitive position in the U.S.A.
- "b. to give us access to foreign markets at the original equipment level.

"Since its invention the diesel engine has been produced in much larger numbers abroad than in the U.S.A. For example, the publication 'Automotive Industries' stated in its March 15, 1971 issue that U.S. production of diesel engines in 1969 was 253,732 units. By comparison, the estimated production in 1969 in major producing countries abroad as published in the De-

ember 1970 issue of 'Diesel and Gas Turbine Progress' was:

England	829,607
Japan	820,000
Germany	392,000
India	223,000
France	167,750
Italy	154,100
Spain	115,000
Brazil	62,000
Scandinavia	45,000

"While the U.S. market has showed growth, it has shown nothing compared to the growth of the market for diesel engines abroad. This trend was probably accelerated by the shift in market requirements. The trend in the U.S.A. has been generally to heavy-duty, higher horse power diesel engines for all applications. In the farm tractor market the U.S. trend has been to larger and larger farms and therefore requirements for larger tractors which are far too big to be efficiently used on the small European farms. As a result, the U.S. farm tractor manufacturers have gone abroad to manufacture foreign models and have imported from foreign sources their relatively limited number of smaller units required in the U.S.A.

"Our foreign competitors have therefore had not only the advantage of lower labor costs but also particularly of much larger production volume.

"If we wanted to obtain any OE business abroad from the U.S. we would have to develop fuel injection equipment suitable for European or other foreign engines, at U.S. engineering costs, produce it at a competitive price, sell in foreign markets without having the benefit of a large volume domestic market for the same items. This simply was not feasible from a cost standpoint.

"As a result of the large volume production benefits, our European competitors began to invade the U.S. market on a larger and larger scale. Thus we found ourselves forced to go abroad to try to recapture or retain our U.S. customers.

"If we had not moved abroad, then we would not enjoy the new business which we have obtained as a result of this move because we could not have produced this equipment at acceptable prices here in the U.S.A."

(Automotive equipment supplier)

Eight of a total of eighty companies replying to this question reported situations that might be characterized as falling within Labor's second claim. Of these, however, one asserted that, though imports based on high-level technology were made in low-wage countries the components were not in fact low-cost because of the high fringe benefits and governmental costs imposed on the operation. One reported that it imports a single component produced in volume abroad; two reported that they import several components or simple products.

Of the remaining four, one acknowledges that there is some basis for the claim of Labor, but states it finds itself in strong competition straits because of the ability of low-cost producers of final products to enter the U.S. market.

The second^a company reported that it had found the analysis of the U.S. Tariff Commission concerning Sec. 866.30 and 807.00 correct; namely that foreign components had to be used at times to keep costs down so as to permit production of the final product within the United States.

The third^b and fourth^c stated that the problem arose from third-country competitors and there was no way to handle it save to shut out these final producers.

Rather than there being a widespread escape of high-technology production abroad under the aegis of multinational companies, the NFTC survey has revealed only a handful of cases in which componentry or single products are imported by the parent company from affiliates abroad. Not all of these are in "low-wage" countries. Only a few embody what could be called "advanced technology."¹¹ In some instances, the items are not and were not produced in the United States previously. And in one case, the technology exchange was forced under an Antitrust Consent Decree, which opened the patents of the parent to all comers.¹²

The survey shows that very often the reality of the situation with respect to this claim of Labor is that no choice exists between exporting from the United States and producing locally abroad. For as one respondent stated:

"In summary, if U.S. companies want to sell products in many of the better foreign markets, the only practical means is through local production operations in these markets

which require foreign investments. It is not a question of choice between exports from this country and local production abroad; the only choice is between foregoing the business altogether and making the foreign investments.

"With regard to foreign investments made for the purpose of bringing manufactured products back to this country (aside from raw materials or extractive products), the solution is political, not a question of management choice or decision.

"Until U.S. productivity improves to at least equal that of leading foreign manufacturers; and unless political restraints are imposed against imports, U.S. manufacturers will have to resort to any and all means of achieving cost production including off-shore operations, in order to stay in business."

(Electronics company)

Another answer was suggested in the response of another company which urges the United States to keep ahead rather than try to retain what is essentially a wasting asset. This respondent commented:

"One might say, 'Why not do more overseas?' The biggest drawback to this in our case is the loss of flexibility and the increased reaction time for change. We expect technology to originate in the U.S. for the foreseeable future. The rate of change of technology is rapid enough in our business that it simply cannot be transferred overseas rapidly enough to significantly increase the foreign percentage of our production. This phenomenon might not be the case, of course, for a technologically stable industry. I would say that any industry producing the same product with the same technology for five years is going to feel foreign competition or the need to import from foreign manufacturing facilities."

(Electronics company)

Balance of Payments Effects

With respect to the claim of some Labor groups and others that direct foreign investment and the transfer of technology resulting in low-cost imports are damaging to the U.S. balance of payments, the NFTC survey requested information as to whether this asser-

tion is supportable in terms of the respondents' operating experience. As stated earlier in this Section III, member companies were asked for narrative responses. Every such response with respect to balance of payments effects, clearly shows that the company had a favorable balance of payments in its total overseas operations.

Cited below are some case examples illustrating impressive results over the past decade which have been taken from some of the data:

CASE 1 — "Our exports from domestic plants to foreign customers have increased by \$1,980,000 or 47.2% in 1970 over 1960. Also our exports to our affiliates increased \$500,000 or 53.6% in 1970 from 1960. During this period we have received \$10,368,000 in foreign source income from dividends and royalties from our subsidiaries and licensees."

(Transportation equipment company)

CASE 2 — "Comparing the total inflows resulting from dividends, royalties, interest and export sales to the total outflows through investments, loans, and imports shows that [our] position has been the following:

	1967	1969	1970
Inflows exceeded outflows by	4.8 times	10 times	16.3 times"
	(Glass products company)		

CASE 3 — "We feel that because of direct investments overseas we have contributed in a positive fashion to the U.S. balance of payments.

"(1) Over the last 10 years, exports of [our] U.S.-produced products have increased at an average rate of 10%/year compounded. In 1970 the figure was approximately \$230-million.

We could not have afforded the marketing and technical service organizations to do this, had we not also had the business resulting from overseas production.

"(2) Profits generated from overseas production and returned to the U.S. parent company in the form of dividends certainly also support the U.S. economy.

"(3) In 1970, a particularly distressing year for U.S. business, our international business made a significant contribution in enabling our company to maintain the level

of production in U.S. plants and therefore employment that we did."

(Chemical company)

CASE 4 — "In the 10 years 1961 through 1970, [this firm] contributed \$4.7 billion to a favorable U.S. balance of payments. Our investment in overseas markets has been accompanied by a 150% increase in employment over that period of time contrasted to a 200% increased contribution to the nation's balance of payments.

	Contribution to U.S. Balance of Payments	Overseas Employment
1961	\$263.1 million	5,294
1962	263.8 "	5,416
1963	332.8 "	5,966
1964	384.1 "	7,313
1965	461.1 "	7,975
1966	443.7 "	8,649
1967	484.2 "	9,500
1968	582.6 "	10,948
1969	687.4 "	12,595
1970	791.2 "	13,605

"The contribution toward the U.S. balance of payments shown above consists chiefly of exports with, for example, \$767 million exports in 1970 vs. the remainder of but \$24.2 million in licensing fees, royalties, and return on investment."

(Heavy equipment company)

CASE 5 — "Combining net exports and net earnings remitted and capital transactions, the resulting total positive contribution to the U.S. balance of payments from General Motors* operations outside the United States during the period 1946 through 1970 was in the amount of \$13,191 million.

"The performance indicated by the General Motors data can be construed in no other way than as highly beneficial for the United States balance of payments. These favorable results derive from the capabilities which General Motors has been able to develop as a world-wide enterprise in organizing and utilizing resources to manufacture and aggressively compete in a variety of automobile markets around the world."

* Attribution has been permitted by the respondent company.

CASE 6 — "We have calculated our contribution to the United States balance of payments in 1960, 1965, and 1970 as follows:

(\$ millions)	1960	1965	1970
U.S. PAYMENT INFLOWS			
Merchandise Exports —			
To Affiliates	5 (E)	7	12
To Others	40 (E)	25	29
Purchases by Affiliates			
from other U.S. sources	50 (E)	51	9
Subtotal	95 (E)	83	50
Income from Fees, Royalties, and Misc. Services —			
From Affiliates	1 (E)	3	4
From Others	1 (E)	1	1
Subtotal	2 (E)	4	5
Direct Investment Income			
(Dividends, Branch earnings and Net Interest)			
	6 (E)	6	21
TOTAL INFLOW	103 (E)	93	76
U.S. PAYMENT OUTFLOWS			
Merchandise Imports—			
From Affiliates	3 (E)	12	28
From Others	8 (E)	10	11
Sales by Affiliates to			
Other U.S. Producers	5 (E)	7	3
Subtotal	16 (E)	29	42
Payments for Fees, Royalties, and Misc. Services —			
To Affiliates	—	—	—
To Others	—	—	—
Subtotal	—	—	—
Capital Outflows:			
Net Investment in Affiliates	(3) (E)	39	2
Net Loans to Affiliates	2 (E)	8	2
TOTAL OUTFLOWS	15 (E)	76	46

"Thus, [our] net contribution to the United States balance of payments has been as follows:

(\$000)	1960	1965	1970
Total Inflow	\$103,000	\$93,000	\$76,000
Total Outflow	15,000	76,000	46,000
Net Benefit	\$88,000	\$17,000	\$30,000

"The foregoing benefits to our balance of payments have been achieved in a company which has been as aggressive as most, I think, in investing overseas. We have been very aggressive in particular over the last ten years in European investments.

"You may also find useful the statistics on our investments since the 1920's in [Country A].

Between 1926 and 1968 the significant figures were as follows:

	<i>Million</i>
Original Investment—1926	\$ 4.6
Investment by end 1968	60.0
Taxes Paid to [Country A] 1926-1968	40.0
Wages and Benefits 1926-1968	90.0 (including 10.0 in 1968)
Local Purchases 1926-1968	63.0
Exports 1926-1968	75.0
Imports replaced 1926-1968	290.0
Net Dividends Remitted to U.S. 1926-1968	24.0 (none since 1963)
Purchases of U.S. Machinery and Other Products 1926-1968	73.0
Cash Contributions to [Country A's] Economy 1926-1968:	
Taxes plus wages and benefits plus local purchases	193.0
Benefits to [Country A's]	
Balance of Payments 1926-1968:	
Original Investment plus exports plus imports replaced less Dividends less U.S. and estimated other foreign purchases	200.0 estimated
Benefits to U.S. Balance of Payments 1926-1968:	
Dividends remitted plus U.S. purchases less original investment	90.0 estimated

"For the purposes of your study the last figure may be of interest; that is, despite the enormous investment over a period of 40 years in this major installation (with 3,500 employees and a town of 20,000 people) the net benefit to the United States balance of payments was \$90 million.

"[Country A's] balance of payments also benefitted heavily as shown above. In other words, both sides benefitted. Neither side took money out of the other's hide. Wealth was created for everyone concerned. This is the point which the 'liberals' never seem to understand; they think that if somebody makes money it has to come out of someone else. They don't understand that a good investment actually creates wealth."

(Diversified chemicals company)

References

¹ "Our experience has shown that direct investments overseas have resulted in an increased market for our products overseas while causing an increase in domestic employment. Our foreign investments have increased our exports rather than decreasing them. A few pertinent factors may help in visualizing our operations. Approximately 30% of our sales are made overseas and

virtually all of these sales are made through foreign subsidiaries. In general, the products manufactured overseas are the higher volumes and more simple products. Even with foreign manufacturing, our exports of the products manufactured overseas have continued to grow as foreign markets are enlarged."

(Electronics company)

² "Building a mineral fiber ceilings plant in Great Britain reduced the amount of mineral fiber ceilings exported from the U.S. to Europe for the simple reason that ocean freight and duties on such shipments represented from 50% to 100% of the manufactured cost of the products. On the other hand, certain higher priced U.S.-made resilient floors now sell in greater volume in these markets, even though we have some kinds of flooring manufacturing facilities there, too. In the Far East, where we built a flooring plant in Australia during this period, our sales of U.S.-made flooring more than tripled."

(Building materials company)

³ "Placement of the manufacturing facilities of any international integrated aluminum company is dictated by several imperatives (none of which, incidentally, has anything to do with labor costs), e.g.:

"1. The location, quantity and quality of its raw material reserves, that is, bauxite. The bulk of world bauxite reserves are located outside the U.S. The U.S. has extremely limited bauxite reserves, and supplies an extremely small proportion of the total bauxite needed to support the U.S. aluminum industry.

"2. Requirements imposed by most bauxite-owning nations that make it necessary to process much of the bauxite into the intermediate product, alumina; and, in a growing number of instances, into crude aluminum and even into semi-fabricated and fabricated aluminum products. Generally, processing of the raw material is required as a condition for mining the reserve.

"3. Logistics requires the siting of plants in an integrated aluminum complex to obtain the lowest possible transportation costs (a major cost element in an industry such as the aluminum industry). Unless this is done efficiently, no aluminum firm can survive.

"4. Tariff walls that make it mandatory to build a facility in the country or economic bloc that has erected the wall in order to be able to compete in that marketplace.

"5. Growing nationalism, particularly among the developing nations, which is leading them to establish their own aluminum industries as a matter of national pride. In these cases, there is no choice. An international aluminum company must either forego the market, or join with local partners in building an industry within the developing country. In many instances the national government requires that local partners own a majority interest in the business.

"Our participation in these ventures is not essential to their going forward. If we do not, our foreign competitors will. In other words, U.S. firms do not have the power or influence to stop this type of growth.

"6. The market for aluminum outside the U.S. is larger than in the U.S., and, in addition, is growing at a more rapid rate. This fact, plus the situation outlined in the above points, makes it essential for any international aluminum firm to produce its product in the international marketplace if it wishes to participate in this growth." (Aluminum company)

"4 If we take the case of an economically essential and relatively cheap building material such as cement, requiring a large capital investment, and not lending itself to long distances of transportation, employment abroad is certainly created, but not at the expense of either U.S. exports or the employment of American workers. On the contrary, the need for the capital machinery creates the very same things that labor says are by-passed. Add to this the economic benefits accruing to the host country and the inflow to the United States as a result of both the export and investment; and you have a balanced situation benefitting all parties." (Cement company)

"5 "Pharmaceuticals are highly regulated products, and our reasons for establishing manufacturing installations have usually pertained directly to local regulations. Many countries, for example, ban the importation of finished pharmaceuticals, and others maintain a duty structure that, in effect, accomplishes the same result. This is to say that, more often than not, we manufacture abroad more out of necessity than choice. Local labor cost advantages have never been a critical consideration.

While our employees abroad number almost 10,000, fewer than one third of these are engaged in production jobs that in any sense could be construed as substituting for U.S. employment. The others — professional representatives, accountants, executives, physicians, lawyers, secretaries, clerks, etc. — are engaged in servicing a local market." (Pharmaceutical company)

"6 "Because of the complex nature of our products, it is only through self-owned fully responsive outlets that market coverage and product performance is maximized — thereby providing maximum demand for U.S. goods. Independent Dealer support has not been satisfactory.

"Some less economically developed areas offer a market for less sophisticated and less costly equipment — if expertly covered by a sound local marketing base. This provides an opportunity for export of those of our products approaching obsolescence in the domestic market extending the demand for U.S. labor."

(Equipment company)

"7 "We have in two or three instances invested in assembly operations designed to take advantage of low labor rates outside this country. A prime consideration in each case was the existence of foreign competition, often Asian, which exported to the U.S. in quantity in

product areas where voluntary quotas or other restrictions were unlikely. Without assembly operations at competitive rates, we would have been forced out of the business and some U.S. jobs would have been dropped as a result. The value added in this type of operation in our particular case is negligible in view of our total volume." (Electronics company)

"8 "In the event that a product is substantially less expensive overseas, and the economics are such that after paying freight and tariffs, the goods can be priced competitively in the United States, we at least are in a position to compete on a basis no less favorable than our foreign competitors. This is a protection to us, and it is also a protection to our work force."

(Industrial products company)

"9 "The operation in Taiwan was organized in 1967. It was formed for an entirely different reason. The purpose was to secure a base from which to compete in this country with the Japanese product being imported in ever increasing quantities.

"A substantial portion of the material incorporated in the Taiwan product originates in the U.S. However, it has been the trend to seek to replace U.S. material with local material and/or material from other Far East sources." (Electronics company)

"10 "As we view the situation today with some of our plants (by no means the majority), the choice is fast becoming one of either liquidating the business or restructuring the business so that a portion at least, if not all, of the products sold by the business are manufactured abroad and brought back to the U.S. At least under the latter condition we maintain our sales and profits. An alternative, of course, is a tariff wall high enough to keep out foreign-made products of all kinds, and this means passing on to the public the relatively higher cost of U.S. labor. Carried to its ultimate, such a course eventually defeats the consumer and labor as prices begin to exceed the consumer's ability to pay." (Equipment company)

"11 "Here again a distinction needs to be made between technology transfer intended primarily to supply host country markets and that involved in countries and operations intended primarily for exports back to the U.S.

"Within each of these two categories there is also involved the definition of what constitutes 'advanced' technology as distinguished from 'mature' technology." (Electronics company)

"12 "Another general point relates to the fact that under U.S. anti-trust regulations, Department of Justice rulings and Consent Decrees, American companies must freely license their patents to all applicants, foreign or domestic, to avoid implications of divisions of markets, divisions of territories, etc."

(Electronics company)

**ECONOMIC IMPLICATIONS OF PROPOSED CHANGES
IN THE TAXATION OF U.S. INVESTMENTS ABROAD**

**NATIONAL FOREIGN TRADE COUNCIL, INC.
10 Rockefeller Plaza, New York 10020**

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FOREWORD

This report is designed to supplement and update a previous study by the National Foreign Trade Council, published in November, 1971, on "The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade."

Studies issued subsequently by a number of other business organizations as well as by Government, academic institutions, and individual businesses also provide important sources for the conclusions presented herein.

In view of the continuing campaign by certain labor groups and others against U.S. private foreign investment, and the proliferation of proposals to restrict the international operations of U.S. business, exemplified particularly by the proposed tax provisions of the Burke-Hartke bill, we are giving wide circulation to this paper as a further contribution to public understanding of a complex subject.

ROBERT M. NORRIS
President

June, 1972

INTRODUCTION

"The Foreign Trade and Investment Act of 1972...is designed to put our domestic industry on an even footing with foreign competition and make domestic investment just as attractive as investment abroad... Profits earned by a foreign subsidiary of an American firm are not taxed until they are repatriated. To the extent that the firm does pay taxes to a foreign government, these taxes count as a dollar-for-dollar credit against any Federal tax liability.

"Profits made in Indiana are taxed when earned. And taxes paid to the State of Indiana can only be taken as a deduction against gross income rather than a Federal tax credit. The Foreign Trade and Investment Act will plug both of these gaping loopholes through which American capital, technology and jobs have poured."

Senator Vance Hartke, February 27, 1972

In hopes of reducing domestic unemployment, the sponsors of the Burke-Hartke bill would curb direct investment abroad through tax increases and direct controls, prohibit or tax the international transfer of technology, and severely cut back the level of imports by means of tight quantitative restrictions. These changes would mark a fundamental departure from the traditional U. S. policies of promoting the two-way expansion of trade and furthering the free flow of capital. This paper principally examines the proposed changes in the taxation of foreign earnings. Although it strongly supports the objective of increasing employment, the paper concludes that the means proposed in the Burke-Hartke bill would be self-defeating.

The paper makes a comparison of international tax burdens in eight countries where U. S. direct investments loom large. Further, it analyzes the tax principles underlying existing U. S. treatment of foreign subsidiary income. Even though tax differentials have seldom, if ever, been a significant reason for foreign direct investment in the past, it is emphasized that tax increases could force the liquidation of foreign direct investments and the forfeiture of foreign markets both in the country of investment and in third countries and put an end to investment abroad in the future. Accordingly, the

paper examines the domestic employment record of multinational companies and analyzes the question whether less investment abroad would mean more jobs at home. It discusses the likely impact of the Burke-Hartke bill on the American economy and — finding that it would be adverse — concludes with the outline of a positive economic program to accomplish what Burke-Hartke would fail to do — increase the level of employment and raise the general prosperity of the U.S. economy.

SUMMARY

The tax provisions of the Burke-Hartke bill are founded on the mistaken premise that foreign direct investment is largely made because of tax advantages abroad. This is not borne out by the facts as evidenced by the comparison herein of U. S. income tax burdens with the comparable burdens borne by U. S. subsidiaries incorporated in eight major foreign countries. In addition to the levying of income taxes at national and local levels abroad, the subsidiaries' earnings are subject to withholding tax when they are paid out as dividends to the U. S. parent and, in turn, such dividends may also be subject to U. S. income taxes. The comparisons show that foreign direct investment entails no tax advantages relative to U. S. investment, in a number of major countries such as Canada, where the burden is 56.2%, compared with 50.9% (federal and average state taxes) in the United States. Where there is an advantage abroad, it is not great. For example, the effective rate is 45.8% in Germany. The weighted burden for the eight countries studied was 51.1%, which is slightly higher than in the United States. Thus, taxes have generally not been the motivation for the establishment of foreign operations or for their local incorporation. Rather, there are other and fundamental reasons which govern the rationale for making foreign direct investments. (See N F T C study.)¹

The United States uses the nationality principle of taxation, namely, that U. S. residents are liable for the same U. S. income tax whether their income originates at home or abroad. This principle further tends to eliminate taxes as a factor in the determination of investment locations. A problem of double taxation arises, however, because other countries impose a tax on the income of U. S. residents originating within their borders. To mitigate this problem and to recognize the prior claim to taxation by the nation in which the income arises, the industrial nations of the world have adopted one of two systems. One is to allow a credit for foreign taxes paid, the other is to exempt foreign income from home country taxes. The United States uses the former system as do Canada, Germany, Japan, Mexico and the United Kingdom. The credit is limited to the U. S. income tax liability associated with foreign source income, assuring that the tax burden will be the higher of the U. S. or the foreign tax on such income.

¹"The Impact of U.S. Foreign Direct Investment on U.S. Employment and Trade - An Assessment of Critical Claims and Legislative Proposals," National Foreign Trade Council, Inc., November, 1971.

The provisions of the Burke-Hartke bill pose the question of why foreign income taxes should be allowed as a tax credit rather than as a deduction from income as are state income taxes. We would agree as a matter of tax neutrality that a credit should be granted for state income taxes to eliminate their role as determinants of investment location; however, the crediting of state income taxes without strict limitations would tend to eliminate pressure on the states to control expenditures and taxes. The credit for foreign taxes does not have this tendency because tax increases by foreign governments are borne mostly by their own nationals and this operates as an effective restraint on escalation.

The deductibility for foreign taxes that would result under the Burke-Hartke bill would enormously increase the tax burden on the earnings of foreign subsidiaries (from about 50% to 75%) and would render U. S. investments abroad uncompetitive.

In addition to eliminating the foreign tax credit, the Burke-Hartke bill would compel a U. S. parent corporation to report as taxable income not only the foreign subsidiary's earnings it actually receives as dividends but also the earnings which are not distributed but are reinvested abroad. This would be a breach of the fundamental U. S. tax principle of treating a corporation as a separate entity from its shareholders. There would be no justification for the corporate tax if shareholders were taxed on undistributed corporate earnings, since such treatment would amount to defining shareholders themselves as the corporate entity, paralleling the treatment of partnerships. If U. S. shareholders were required to pay taxes on the reinvested as well as the distributed earnings of their foreign corporations, they would be discriminated against in comparison with shareholders in domestic corporations, whose taxes on corporate earnings apply only to the portion of those earnings actually distributed as dividends. Today no country taxes the undistributed earnings of a foreign operating subsidiary.

The domestic economic performance of multinational corporations belie the underlying assumption of the Burke-Hartke bill that foreign direct investment results in the export of jobs. Survey studies clearly indicate that multinational manufacturing enterprises expanded their U. S. employment faster than U. S. manufacturing employment as a whole during the decade of the sixties. The same holds for their domestic output, investment and exports. The charge that they invested abroad in order to supply the U. S. market is inconsistent with the facts. Not only are U. S. imports from foreign affiliates small - less than 8% of their total sales - but U. S. foreign investments have been relatively small in most product areas such as steel, textiles and footwear where import competition has been particularly intense.

Notwithstanding these facts, would multinational corporations have expanded their domestic employment even faster had foreign investment been

precluded? For employment to have been higher in the absence of foreign investment, exports or domestic investment would have had to have been greater. But there is compelling evidence that neither exports nor investment at home were reduced by reason of foreign investment. American-made products are often not competitive abroad — whether because of free market factors or government restrictions — so that foreign direct investment is essential if the United States is to have a hand in serving such markets. And if U. S. investors were precluded from capitalizing on investment opportunities abroad, those opportunities would be seized by the investors of other countries. The realistic question is not whether foreign investment is to occur, because it will in any event, but whether its advantages will accrue to the United States or to other countries.

The Burke-Hartke bill would not achieve job expansion and domestic economic growth. On the contrary, the provisions of the bill are so burdensome that they would not simply restrain U. S. foreign direct investment but would seriously disrupt American investments abroad — old as well as new — and in the process both undermine the health of the domestic economy and reduce its job-creating potential.

The bill would raise the tax burden on foreign earnings in the eight countries compared from the present range of 45.0% - 56.2% to a range of 71.4% - 77.2%. At these tax levels, U. S. foreign affiliates would no longer be able to compete with foreign-owned firms. The alternatives for their parent companies in the United States would be grim. To survive, some might be compelled to liquidate or sell their foreign affiliates. Others would lose their competitive positions as higher remittances from abroad to pay the new taxes would reduce funds available for modernization and expansion abroad, possibly even to the extent of interfering with the amortization of outstanding loans.

Enactment of the regressive provisions of the Burke-Hartke bill could trigger reprisals against U. S. investments abroad by countries already resentful over the extraterritorial application of certain U. S. laws. The bill would impair the significant contributions that foreign direct investments make to our balance of payments. Direct investment outflows would be replaced by foreign borrowings in the United States, to permit foreigners to seize upon opportunities denied to American companies through the traditional foreign direct investment process. Moreover, U. S. purchases of foreign equities would probably rise as individual American investors endeavored to participate in growth opportunities abroad that would be closed to U. S. multinational companies.

The Burke-Hartke bill does not address itself to the fundamental causes of unemployment. These are mainly the economy's cyclical downturn, the loss of international competitiveness through inflation, the shift in national priorities away from defense-oriented activities, and the changed composition

of the labor force. A positive economic program for increasing employment must be responsive to these basic causes, which do not include investment abroad.

Fundamentally, expansive monetary and fiscal policies are called for — and are being implemented — to remedy cyclical unemployment and bring the economy back to the full utilization of its human and industrial resources. Structural unemployment should be eased through effective programs to improve the functioning of labor markets and provide adjustment assistance. The already negotiated currency realignment should be instrumental in paving the way for a restoration of the U.S. international competitive position. These policies should be supplemented, as appropriate, by programs to moderate inflationary expectations and excessive wage and price increases.

It can be argued that transitional import restrictions, imposed as a result of escape clause determinations, can play a role in easing the burdens of adjustment to changing international competitive forces. So-called "orderly marketing" quotas or other restrictive measures, however, could threaten the whole climate, both here and abroad, for maintaining sound international trade and investment policies. These should be carefully appraised not only in terms of their effect upon the particular industry concerned but also in terms of their effect on our national security and on our economy as a whole. The true national interest lies in an open, multilateral trading and investment system and not in adopting policies of defeatism and isolationism.

**ECONOMIC IMPLICATIONS OF PROPOSED CHANGES
IN THE TAXATION OF U.S. INVESTMENTS ABROAD**

I. "GAPING LOOPHOLES" ? — THE FACTS

The issue of "gaping tax loopholes" raises a question of fact. The basic relevant question is whether U.S. corporations invest abroad because of the prospect of paying lower taxes than would be required at home. The answer to this question requires an international comparison of total income tax burdens on investment. Such a comparison, using current statutory tax rates for nine leading countries, is provided in TABLE A. The table does not attempt to quantify the impact on tax burdens of differences in tax accounting rules among the various countries because of the practical difficulty of securing reliable data for relating such rules to representative business transactions and investments.

The aggregate taxes shown in the table consist of the income and dividend withholding taxes of the subsidiary's country of operation and incorporation plus the income tax levied by the parent company's country on dividends received. In the second line of the table, for example, the Canadian subsidiary of a U.S. corporation is compared first with a Canadian-owned corporation operating in Canada, and with the Canadian subsidiaries of parent companies in each of the other eight nations.

The comparisons in the table refute the notion that foreign investment is motivated by the desire to avoid high domestic taxes. U.S. direct investments in most of the countries shown bear roughly the same tax burden as do domestic investments. Significantly, the heaviest burden of all — 56.2% vs. 50.9% in the U.S. — results from investments in Canada, where the book value of U.S. manufacturing investments is more than twice as high as in the next ranking foreign center for such investments. The average of total tax burdens on U.S.-owned foreign subsidiaries in the eight countries compared, weighted by the book value of U.S. manufacturing investments in 1970, is 51.1%, which is slightly higher than the U.S. burden of 50.9% counting both federal and average state income taxes. Even where the tax burden is lower — as for example in Germany (45.8%), Britain (45.0%), and Japan (47.8%) — the differences relative to the U.S. rate are too small to constitute significant incentives for foreign investment. (See TABLE A.)

These modest differences moreover are offset by the general propensity of other countries to apply higher indirect taxes than prevail in the United States. This is an element of tax burden not included in the data shown on TABLE A. Tabulated below are the percentages of tax revenues derived by the U.S. and foreign governments from indirect taxation which emphasize the dimensions of this burden.

United States	30.4%
Canada	48.4
France	42.9
Germany	39.4
Italy	41.3
Japan	39.6
Mexico	N.A.
Netherlands	29.6
United Kingdom	47.2

TABLE A

**A COMPARISON OF THE CURRENT EFFECTIVE TAX RATES ON INCOME EARNED BY
WHOLLY-OWNED MANUFACTURING SUBSIDIARIES OPERATING IN SELECTED
COUNTRIES WITH SUBSTANTIAL U.S. INVESTMENT
(All Amounts Expressed in Percentages)**

Subsidiary's Country of Operation and Incorporation	Parent Company's Country of Operation and Incorporation									Net In- come Dis- tributed
	United States	Can- ada	France	Ger- many	Italy	Japan	Mex- ico	Nether- lands	Uni- ted King- dom	
United States	50.9									
Canada	56.2	53.0	56.2	56.2	56.2	56.2	56.2	56.2	56.2	45.8
France	51.2	56.2	50.0	50.0	53.7	53.7	56.2	50.0	51.2	49.1
Germany	45.8	45.8	43.6	39.1	45.8	50.3	50.3	50.3	50.3	73.2
Italy	53.9	57.0	57.0	61.8	52.3	61.8	61.8	52.3	52.3	66.2
Japan	47.8	48.7	48.7	47.8	49.6	46.0	49.6	49.6	47.8	32.9
Mexico	48.5	48.5	48.5	48.5	48.5	48.5	42.0	48.5	48.5	55.7
Netherlands	48.6	47.5	47.5	49.7	47.5	53.0	53.0	47.5	48.6	41.9
United Kingdom	45.0	45.0	41.7	45.0	40.0	43.3	52.8	41.7	40.0	55.0

Notes: The 50.9% rate for a U.S. corporation operating domestically takes into account the Federal income tax of 48% and average state income taxes of 5.6% as reduced by the federal income tax deduction. Likewise, the rates shown for other countries include local income tax effects.

Because withholding and home country taxes depend on amounts remitted, it was necessary to consider the percentages of after-tax earnings distributed to the parent companies (payout ratios). To make the table as realistic as possible, the payout ratio underlying the calculations for each country is the arithmetic average of actual payout percentages of U.S.-owned manufacturing subsidiaries incorporated in that country in the period 1960-1970, as shown in the last column (source: unpublished Commerce Department data). For the sake of comparability, the same payout ratios were applied to all companies operating in the same country. In Germany, when subsidiaries simultaneously pay out earnings and increase their debt or equity capital, an added 10% withholding tax is applicable to any portion of distributed earnings that is deemed to be reinvested. Typically the German authorities apply this added 10% tax when the percentage of net income distributed is as high as the 73.2% shown in the table. If 23.2 percentage points of this payout is deemed to be reinvested (implying a 50% net payout ratio), the effective tax rate is 47.2%.

Differences in the rates paid by the various nationalities reflect variations in tax-treaty dividend withholding rates between countries.

It has been assumed that the total income of the wholly-owned subsidiary was earned within the taxing jurisdiction in which it operates.

Of the countries shown above and, indeed, of 43 countries ranked according to the percentage of tax revenues from indirect taxes, only the Netherlands has a lower percentage than the United States.² These facts and the earlier comparisons of income tax rates scarcely support the notion that American investments abroad can be explained in terms of attractive foreign taxes. Many of the countries where U.S. investments loom large levy taxes higher than those at home. Thus, the contention that U.S. companies go abroad to avoid U.S. taxes is implausible on its face. In fact, numerous foreign subsidiaries were established long before the advent of the U.S. income tax.

Fundamental business considerations typically dictate foreign direct investment as the only way of gaining access to foreign markets that would otherwise be closed to the United States. As explained more fully in Section IV, where the job effects of overseas investment are discussed, there may be no alternative to manufacturing abroad in the face of large differences between domestic and foreign production costs, high transportation costs, currency controls, foreign trade barriers made more effective by the creation of common markets and free trade areas, local content requirements, perishable products, discriminatory government procurement practices and on-site inspection requirements.

The proponents of the Burke-Hartke bill are mistaken in contending that, when U.S. companies venture abroad, they choose to incorporate their foreign operations so that foreign earnings "are not taxed until they are repatriated." There are compelling legal reasons for choosing the corporate form of doing business abroad. An increasing number of countries require local incorporation by all foreign investors as a prerequisite for doing business. Those who do not go so far may require local incorporation as a condition for operating in such areas as mining, petroleum, real estate, pipelines, transportation, public utilities, shipping, banking and insurance. Operational reasons for incorporating abroad include such basic considerations as gaining favorable access to local money and capital markets; identifying with the local markets for goodwill purposes; qualifying for financial advantages available only to local corporations; conducting operations not permitted to other than local corporations; gaining such exchange preferences as may be available to local companies; lessening adverse criticism directed at foreign companies; and accommodating the preferences of host governments, employees, and customers, all of whose attitudes and actions can determine the success or failure of the enterprise.

²"Fiscal Figures", by David Perry, *Canadian Tax Journal*, July-August 1971.

II. "GAPING LOOPHOLES"? — THE PRINCIPLES INVOLVED

A. Tax Credits

One of the underlying principles of the U.S. tax system is that residents are taxed on their incomes regardless of whether the source is domestic or foreign. The objectives are broadly twofold, namely, to achieve equity by applying equal income taxes to U.S. taxpayers having the same amount of income irrespective of the country in which that income is derived, and to minimize the role of taxes as determinants of industrial location by striving for tax neutrality as between investments at home or abroad.

The application of this U.S. principle to the foreign source income of U.S. citizens is complicated by the exercise of the primary tax jurisdiction over such income by host countries. As does the United States, other countries exercise their fundamental and prior right to tax all income generated within their borders regardless of owner nationality. Thus, when the United States asserts tax jurisdiction over foreign-generated income, international accommodation among countries is required to prevent the pyramiding of different layers of taxation on the same income base. This problem, commonly known as double taxation, would tend to destroy the neutrality of our tax system by raising the combined tax rates on U.S. foreign source income above the domestic rates. To avoid this problem of double taxation and to recognize that the nation where the income arises has a prior claim to tax income, industrial nations of the world have adopted either one of two systems. One method, employed by the United States, as well as Canada, Germany, Japan, Mexico and the United Kingdom, is to apply generally the same tax structure to the worldwide income of its citizens but to allow a credit for foreign income taxes paid on income earned abroad to the extent of the home country tax on such foreign income. The use of the credit system by the United States, in effect, assures that a U.S. resident will pay the higher of the U.S. or the foreign tax on his income from abroad and is consistent with our goal of tax neutrality. The system used by some other countries is to exempt from home country tax all foreign source income realized by their nationals. This approach is generally employed by France, Italy, and the Netherlands, for example.

The Burke-Hartke bill raises the question of why foreign income taxes should not be treated in the same way by the federal authorities as are state income taxes, namely, as deductions from taxable income rather than as credits against tax liabilities.

As a matter of tax equity, state income taxes should be treated in the same way by the federal authorities as are foreign income taxes. But in principle the equality of treatment should be achieved by making state income taxes a credit rather than by making foreign income taxes a deduction. The existing system of the United States amounts to double taxation of the same corporate income. And it has led the states to use their corporate tax rates as instruments of competition in attracting corporations to their territories. As a result, taxes in the United States are not neutral with regard to location, a fact which militates against optimal efficiency in resource allocation. The system has been tolerable only because state income taxes are relatively low — five states have none, and rates range from 2% to 12% in the other 46 jurisdictions among which the District of Columbia is included.

However, there is a practical difficulty in shifting from the present system of deduction to allowing a tax credit for state income taxes. If not accompanied by strict limitations, it would tend to eliminate pressure on the states to control expenditures and taxes and they could and undoubtedly would force the federal government into uncontrolled revenue sharing by raising their taxes without, at the same time, risking taxpayers' revolts. On the other hand, experience shows that the credit for foreign taxes does not have this tendency because tax increases by foreign governments are borne mostly by their own nationals and this operates as an effective restraint on escalation.

The case for keeping the foreign tax credit is compelling. Foreign income tax rates, unlike state income tax rates, are generally as high as the U.S. rates. If these income taxes were treated as a deduction rather than a credit, American companies would no longer be able to compete in operations abroad. Through no fault of their own, companies who, in good faith, based their prior decisions on long-standing, generally accepted tax principles would suffer an impairment of earning power and a destruction of capital value. To illustrate this point, the following tabulation (based on the same payout ratios used in TABLE A) shows the total effective tax rate of a U.S. parent company operating a wholly-owned foreign subsidiary in each of the eight foreign countries.

<u>Local Tax Jurisdiction Of Subsidiary</u>	<u>Effective Tax Rate</u>		
	<u>Under Burke- Hartke Bill</u>	<u>Under Present Laws</u>	<u>Percentage Increase</u>
Canada	77.2	56.2	37.3
France	74.6	51.2	45.7
Germany	71.8	45.8	56.8
Italy	76.0	53.9	41.0
Japan	72.9	47.8	52.5
Mexico	73.2	48.5	50.9
Netherlands	73.3	48.6	50.8
United Kingdom	71.4	45.0	58.0

The result would be to eliminate American business ventures in foreign countries. This is recognized by both sides of the aisle in Congress. For example, the then Assistant Secretary of the Treasury for Tax Policy, Stanley S. Surrey, in testimony in the late 1960's at hearings before the Senate Foreign Relations Committee with respect to the proposed United States-Brazil income tax treaty, reiterated a fundamental and accepted premise:

"American investment would not proceed at all without the foreign tax credit because then, as the Chairman pointed out, two taxes would be imposed and the over-all burden of two taxes would be so great that international investment would practically cease."

B. U.S. Taxation of Controlled Foreign Subsidiaries

Is the U.S. principle of taxing income regardless of source breached, as the Burke-Hartke proponents contend, by taxing U.S. shareholders on the income of their foreign subsidiaries when distributed to such shareholders rather than when earned by the subsidiary?

In our view the answer to this question is no, for what is at issue here is not whether foreign source income should be taxed, but whether such taxation should occur before the income to which it applies is actually realized. The earnings in question are the earnings of foreign corporations owned by American corporate shareholders. The United States does not now tax these earnings and the Burke-Hartke bill does not propose to do so. It is therefore not meaningful to speak of "deferred" taxes in this context. Moreover, there is no tax deferral when the foreign subsidiaries pay dividends to their U.S. parent companies, because then U.S. income taxes apply fully. In seeking to tax a U.S. parent company's share in the earnings of its foreign subsidiary before dividends are received, the Burke-Hartke bill would actually accelerate the payment of U.S. income taxes, not eliminate any deferral of taxes. The Burke-Hartke proposal is really an attempt to tax indirectly undistributed earnings of operating subsidiaries abroad which the United States cannot tax directly because they are foreign corporations.

Today there is no country which taxes undistributed earnings of a foreign operating subsidiary. In fact, more than 25 countries never tax earnings of foreign subsidiaries regardless of whether such earnings are distributed or not.

In seeking to tax undistributed earnings of foreign subsidiaries, the Burke-Hartke bill would discriminate against U.S. shareholders in foreign corporations as against shareholders in domestic companies. The latter would continue to be taxed only on their dividend income, not on the undistributed earnings of the corporations in which they have an equity. This is consistent with sound tax principles. A corporation is, and should be, treated as an entity separate from its shareholders. There would be no justification for the corporate tax if shareholders were taxed on undistributed corporate earnings, since such treatment would amount to defining shareholders, themselves, as the corporate entity, paralleling the treatment of partnerships. This reasoning applies to individual and corporate shareholders alike.

Nor can it be reasonably urged that the proposal for taxing undistributed earnings is needed to prevent tax abuse. Existing sections of the Internal Revenue Code dealing with foreign personal holding companies, tax haven situations and allocation of income and expense items are in fact preventing abuses. Moreover, as pointed out earlier, when foreign tax rates are considered in the areas where U.S. foreign investments are concentrated, there is on balance no tax advantage. Thus, there is no justification for departing from the well-established principle of taxation and the universal practice of other countries that a parent company should not be taxed on the undistributed earnings of its foreign subsidiaries.

Not only would the Burke-Hartke bill violate the principle that income should be taxed only when received, but also it would violate the principle that income should be taxed equally whether domestic or foreign. The bill would not allow foreign subsidiary

income in one year to be adjusted for events in a subsequent year, such as operating losses, devaluations, expropriations, and exchange controls. These could reduce the number of dollars ultimately remaining for payout below the amount actually required to pay the U.S. tax. In contrast, adjustments to domestic income are permitted to recognize such developments. One example is the operating loss provisions which permit business losses in one year to offset taxable income in other years.

The principle of equal taxation of income regardless of source would also be violated by the Burke-Hartke bill which would deny accelerated depreciation on property located outside the United States, while such depreciation would continue to be permitted on property at home.

Finally, the same principle of equal taxation would be at stake in the proposal to tax the gain on the transfer of patents, inventories, etc., to a foreign subsidiary in an otherwise tax-free reorganization whereas a similar transfer to a domestic subsidiary is and would remain tax free.

III. HAVE JOBS BEEN EXPORTED?

The attacks on investment abroad for allegedly exporting jobs, which began a number of years ago, have resulted in proposals to change the taxation of U.S. foreign direct investment, such as those in the Burke-Hartke bill. Effective refutations of such attacks have been developed by our Government, academic groups, various trade organizations, and individual businesses.

Recent studies have revealed that, far from exporting jobs, American companies actively expanding their foreign investments actually increased jobs at home at above average rates — a result of their pacesetting growth in domestic output, both for home consumption and export, and of their rapid increase in home investment. This finding stems from the fact that in today's integrated world economy opportunities for expansion abroad go hand in hand with similar opportunities at home. The ability of the same companies to expand simultaneously at home and abroad is largely explained by this synchronized development of opportunities, together with dynamic, aggressive managements able to capitalize on such opportunities and positive linkages between overseas investment and U.S. exports.

A recent survey by the Emergency Committee for American Trade (ECAT)³ shows that 74 leading multinational corporations in manufacturing expanded their United States employment by 36.5% between 1960 and 1970, not counting increases through acquisitions, nearly two and a half times as rapidly as the 15.3% increase for all manufacturing industries over the same period.

Domestic sales by the ECAT respondents rose 99% from 1960 to 1970, whereas the total value of shipments of manufactured products in the United States grew by only 71%. Only one of the ten ECAT industry groups failed to expand its domestic sales as rapidly as the average for all U.S. manufacturing. And this failure may be only apparent, not real, for the survey covered only 5% of the industry concerned — primary and fabricated metal products — too small a sample to yield reliable results.

This survey also shows that these companies increased their investments in the United States more rapidly than did all manufacturing industries. Cumulative expenditures for plant and equipment, not counting acquisitions by the 74, grew 93% between 1961-65 and 1966-70, compared with 71% for the U.S. industry total. One-third of the respondents stated that foreign investments had been a cause of greater investment at home by stimulating exports. Only 5 of the 74 firms stated that foreign investment had resulted in lower domestic investment by reducing potential export growth.

The ECAT survey further shows that the 74 multinationals increased their exports of manufactured products by 181% between 1960 and 1970 — substantially faster than the 124% growth of total U.S. manufactured exports in the same period. Between 1965 and 1970, their exports grew 85%, compared with 64% for the country as a whole.

³ "The Role of the Multinational Corporation in the United States and World Economies," Emergency Committee for American Trade, Washington, D. C., February 24, 1972.

A detailed industry analysis by Professor Robert G. Hawkins⁴ both confirms and further emphasizes the positive relationship between investment abroad and domestic expansion that has been noted in other surveys. An examination of comprehensive Commerce Department data for 19 manufacturing industries led to the conclusion that the industries with the highest rate of expanding investment abroad tended to have the most rapid growth in domestic output and employment. Conversely, the industries with the slowest investment growth abroad tended to experience the least expansion in home output and employment. Analysis of 39 sub-industries containing the largest foreign investments in manufacturing generally supported the results of the more aggregated comparisons. In Professor Hawkins's words, "It appears that MNC operations abroad are more a product of the relative dynamism of the industry and the firms involved — both domestically and overseas — than of the switching of the locus of production of a fixed level of output among countries."

Finally, as demonstrated in the NFTC survey, supra, and corroborated by other studies, there is no support in the facts for the contention that to a significant degree U.S. companies have shifted plants or high-level technology abroad for the purpose of supplying the U.S. market with the output of low-wage foreign labor.

The ECAT survey, supra, discloses that only 2.5% of the total sales of American-owned manufacturing subsidiaries abroad were made to the U.S. in 1970, excluding increased motor vehicle trade, mainly under the 1965 Canadian-American auto pact which aimed at expanded two-way trade in autos and parts. Inclusion of the auto trade would raise that figure to 8.9%. These survey results are generally confirmed by more comprehensive data collected by the Commerce Department. In 1968, the latest year available, sales to the U.S. by foreign manufacturing affiliates of domestic firms were 5.9% of their total sales, excluding autos from Canada, and 7.9% including those autos. These low percentages effectively refute the notion that foreign investment is a vehicle for transferring from the hands of Americans to foreigners the work of supplying the home market.

Moreover, the sectors where the inroads of imports into the domestic market have been most rapid and extensive are not generally sectors where U.S. direct investments abroad loom large.

Evidence from the NFTC survey indicates that foreign investments giving rise to imports back to the United States are concentrated in a few industrial sectors and a few components or simple products, and not ones incorporating high technology. This was confirmed in a recent publication by the Commerce Department which noted that:

"...the rapid growth of U.S. imports in recent years has not been due solely, or even mainly, to the multinational corporation. Most of the increase has come from sources other than the foreign affiliates of U.S. firms. German, Japanese, and other exports of automobiles, steel, textiles, footwear, and electronic goods

⁴ "U.S. Multinational Investment in Manufacturing and Domestic Economic Performance," Occasional Paper No. 1, Center for Multinational Studies, Washington, D. C., February 1972.

have very successfully entered the American market without the benefit of ties with U.S. corporations." ⁵

In a current report, moreover, the U.S. Tariff Commission states:

"...industries characterized by heavy overseas investment in productive facilities appear also to be those which not only contribute most heavily to U.S. exports but also have had the least impact on the upsurge of U.S. imports--with exactly the reverse results appearing for those industries in which strong foreign investment activity is not characteristic." ⁶

Additional evidence challenging the labor viewpoint that the operations of multinational corporations adversely affect the growth of employment can be found in a 1970 detailed study by the Tariff Commission ⁷ concerning tariff items 807 and 806.30. These items, which permit certain duty-free exemptions for U.S.-origin goods re-entering the United States have been under sharp attack by organized labor groups, which have advocated repeal of the duty-free exemptions. In its study, the Tariff Commission reported that the repeal of these two tariff items:

"...would not markedly reduce the volume of imports of the articles that now enter the United States under these provisions. Rather, the products would continue to be supplied from abroad by the same concerns but in many cases with fewer or no U.S. components, or by other concerns producing like articles without the use of U.S. materials. ... Repeal would probably result in only a modest number of jobs returned to the U.S., which likely would be more than offset by the loss of jobs among workers now producing components for exports and those who further process the imported products." ⁷

⁵ "The Multinational Corporation - Studies in U.S. Foreign Direct Investment," U.S. Department of Commerce, Volume I, March 1972.

⁶ "Competitiveness of U.S. Industries," Report to the President, U.S. Tariff Commission, Publication 473, Washington, D. C., April 1972.

⁷ "Economic Factors Affecting the Use of Items 807.00 and 806.30 of the Tariff Schedule of the United States," Tariff Commission Publication #339, September 1970.

IV. WOULD THE BURKE-HARTKE BILL LEAD TO MORE JOBS AT HOME?

In further considering the basis for the proposed tax measures, one must analyze the critics' claims that, even if foreign investment is not a cause of domestic unemployment, curbing such investment can lead to job expansion at home. In their view, the demonstrable expansion of domestic employment by firms investing abroad illustrates merely that the firms concerned are enjoying rising demand for their products in several areas of the world and not that their foreign investment is a direct cause of higher employment at home. Reasoning further that production abroad is a substitute for exports as a means of supplying foreign markets, these critics conclude that, no matter how rapidly U.S. foreign investors expanded their exports from the United States, their export performance would be better still if foreign investment were discouraged. Larger exports would, of course, mean greater domestic production and this, in turn, would mean more jobs.

But would lower foreign investment really mean more jobs? It is easy enough to see, on balance, that foreign investors did not cut U.S. employment. That is a simple matter of fact easily verified by the empirical evidence. There is no comparable way, however, of settling the question at hand, which deals with what might be if things were different from the way they actually are. The only effective way of resolving such a question is to make detailed, in-depth studies of individual investment situations and attempt to trace through the job implications of alternative courses of action.

Studies that have been made establish that curbing foreign investment would not increase jobs at home, mainly because foreign markets could not be supplied on competitive terms through exports. These studies demonstrate that foreign investment is necessary to enter markets that would otherwise be impregnable because of competition from other foreign investors enjoying the benefit of lower production costs and, in addition, is essential to overcome obstacles such as trade barriers, transportation costs, perishability of products, local content requirements, on-site inspection requirements and government procurement practices. (See NFTC study supra.)

Professor Raymond Vernon of Harvard University has developed a product-cycle theory to explain shifting patterns of exports and overseas production.⁸ He notes that, over the years, technical innovation has provided U.S. manufacturers with new distinctive products which early in their life cycles permit foreign markets to be developed through exports despite relatively high wage rates and sometimes raw material costs at home. As these overseas markets grow and as the products concerned begin to age, a foreign manufacturing base becomes necessary to prevent sales from being preempted by local imitators who can capitalize on lower labor costs and other local advantages. A decline of U.S. exports of the products concerned is therefore unavoidable, even in the absence of U.S. overseas investment, but such investment can at least maintain an American presence in foreign markets and give the United States the benefit of profit remittances.

⁸ See "Sovereignty At Bay - The Multinational Spread of U.S. Enterprise", by Raymond Vernon, Basic Books, New York, 1971.

The critics may yet argue on other grounds that stemming the outflow of capital would raise domestic employment. Some contend that, to a significant degree, domestic and foreign investments are mutually exclusive and that foreign investment materially reduces the amount of domestic investment that would occur in its absence. This, like many of the issues raised by the Burke-Hartke legislation, is basically a question of fact. Does foreign investment preempt domestic investment? The surveys conducted by NFTC and ECAT inquired into this matter. Findings of the NFTC survey indicate that foreign direct investment tends to expand U.S. exports and thereby stimulate both domestic investment and employment in the United States, even though this may involve some shifts in the structure of employment in this country. Likewise, the majority of ECAT respondents emphasized that foreign investment leads to higher domestic investment because of export stimulation; few referred to the point emphasized by the critics, namely, the alleged negative impact of foreign investments on the availability of funds for domestic projects. Of those responding to this question, all but one stated that their foreign programs were independent of their domestic programs, and therefore had no adverse impact on domestic investment expenditure. Basic to this exercise of independence is the availability of foreign funds to finance investments abroad.

On this score, the latest comprehensive statement of sources of funds for U.S.-owned foreign affiliates⁹ shows that, in manufacturing, capital from the United States accounted, on average, for only 12.6% of total investment abroad in the most recent five years for which consistent data are available — 1963-65 and 1967-68. To be sure, this low percentage of U.S. source funds partly reflects capital contributions by foreigners with whom, in many cases, American parent companies share ownership. And in the 1965-68 period, reliance on U.S. source funds was probably subnormal, because the government's balance of payments programs placed great stress on the overseas financing of foreign direct investment. Still, the average percentage of U.S. source funds in 1963-64, before these balance of payments programs were instituted, was 11.0%, lower even than the five-year average. Despite these qualifications, it remains a striking fact that only \$1 from the United States was associated with each \$8 of actual investment abroad by U.S.-controlled foreign affiliates during the period covered.

At most, therefore, only a small fraction of each dollar actually invested abroad could be lost to the home economy. And even this fraction would be lost only if the U.S. portion of the overseas investment dollar came at the expense of domestic investment. But there are good reasons for believing that little, if any, does. To be sure, at the level of the individual company, fund limitations could require a marginal choice between investing at home or abroad. This raises the possibility that preventing a firm from investing elsewhere might induce it to expand at home into projects that would not otherwise be profitable enough to warrant approval. But even at the individual company level, the result of restricting foreign investment might simply be lower total investment and not expanded investment at home. In any event, what is true for a company need not be true for the economy. Indeed, capital outflows tend to be offset by government policies aimed at maintaining domestic stability. These policies help to maintain a high

⁹ "Sources and uses of Funds of Foreign Affiliates of U.S. Firms, 1967-68," *Survey of Current Business*, November, 1970.

level of investment at home, except during periods of monetary and fiscal stringency imposed to counter inflation. By their very nature, these compensatory policies tend to prevent foreign investment from displacing domestic.

Because foreign investments tend to supplement rather than supplant domestic investment, their effect on the domestic economy is positive in the long run by actually increasing the amount of funds available for both investment and consumption at home. This positive effect is a consequence of the return flow of funds from U.S. foreign investments. Over the years, remittances of dividends, interest, branch earnings, fees and royalties have risen more rapidly than capital outflows from the United States, with the result that, since 1967, U.S. investments abroad have returned annually around \$2 of purchasing power for every American dollar currently sent out for foreign expansion. This return flow would be jeopardized by the provisions of the Burke-Hartke bill. Unless U.S. investments abroad are permitted to continue, the rising trend of remittances would be reversed.

The critics might even shift their focus from the effect of foreign direct investment on income flows to its effect on domestic credit availability and terms. They, in fact, argue that foreign direct investment reduces the liquidity of U.S. financial markets and drives up interest rates — two tendencies that reinforce each other in depressing domestic investment. In this line of thought, however, they do not adequately consider the offsetting effects of the domestic stabilization policies to which earlier reference has been made. Monetary policy, in particular, tends to become more expansive when capital outflows rise to prevent the adverse effects on the domestic economy feared by the critics.

Moreover, the critics may not appreciate the underlying linkages between direct investment abroad and foreign borrowing in the United States. Among the reasons for making foreign direct investments is the prospect of higher rates of return than could be realized at home because productivity of capital abroad is at a higher level than in the United States. However, this also tends to raise the level of interest rates abroad above the U.S. level. If the critics were to have their way by restricting foreign direct investment, any tendency of interest rates to fall at home might simply stimulate foreigners to shift their borrowing from local credit markets to the United States. American loans abroad would then be substituted for U.S. foreign direct investment, but the effect on domestic liquidity would be comparable for money would flow from the country in either event and higher foreign demands for credit would tend to sustain the level of U.S. interest rates. This further underscores the conclusion reached earlier that restricting foreign direct investment is not a realistic means of increasing domestic investment.

V. OTHER ECONOMIC CONSEQUENCES

On general considerations, curbing foreign direct investment would not appear to be a promising means of promoting domestic employment and growth. And the Burke-Hartke bill, in particular, would fail to achieve these goals. The provisions of this bill are so burdensome that they would not simply restrain U.S. foreign direct investments; they would seriously disrupt American investments abroad — old investments as well as new — and in the process undermine the health of the domestic economy and reduce its job-creating potential.

Let us examine the pressures that Burke-Hartke legislation would apply to U.S. foreign investments. It is necessary only to refer to TABLE A on page 12 which shows the additional tax burden on U.S. foreign direct investments if the Burke-Hartke bill were enacted. The table shows that the tax burden for U.S. subsidiaries abroad would rise in the eight countries from the present range of 45.0% - 56.2% to a range of 71.4% - 77.2%. The tax burden on the subsidiaries of other countries, however, would remain at present levels or generally 20 to 30 percentage points lower than the rates of taxation that would apply to U.S. subsidiaries operating abroad if the Burke-Hartke bill were enacted.

The proposed tax treatment is so onerous that American parent companies might be forced to sell or spin off their foreign investments. Such actions could disrupt foreign capital markets which, lacking the depth, breadth and resiliency of American securities markets, would be hard pressed to absorb any significant portion of the \$78 billion book value, in 1970, of U.S. direct investments abroad. Moreover, attempts to repatriate the proceeds of any such sales could result in balance of payments disruptions and would tend to create friction between the United States and foreign governments. Needless to say, distress sales of foreign assets would harm the interests of U.S. shareholders and the American economy generally. The liquidation of investments abroad would deprive the domestic economy of the continuing expansionary thrust of dividends, royalties, service fees, and interest payments that flow from these investments, thereby frustrating the objective of promoting more jobs and growth at home. Liquidations would reduce the scope of American research and development efforts, weakening the U.S. competitive advantage in advanced technology. And such liquidations would undermine U.S. exports by breaking the link between domestic manufacturing and foreign assembly and distribution, the strength of which depends on the parent-subsidiary relationship.

Parent companies able to avoid the liquidation of their foreign subsidiaries would face a painful dilemma. If the Burke-Hartke bill were enacted, the only way they could minimize their increased tax burden would be to encourage their foreign subsidiaries to reduce dividends. Remittances would only increase the total tax burden on foreign earnings if foreign source profits were taxed whether remitted or not and if the foreign tax credit were eliminated, for remittances are subject to foreign withholding taxes while reinvested earnings are not. But a reduced flow of dividends from abroad, coupled with higher taxes on the parent company, could squeeze corporate liquidity at home to the detriment of domestic output and employment.

On the other hand, U.S. parent companies could jeopardize the viability of their foreign subsidiaries if they were compelled to increase dividend remittances from abroad to

obtain the means for paying higher taxes. This would reduce retained earnings for development and expansion abroad needed to remain competitive, and could force borrowings in the open market at higher costs. It could be decisive in a company's ability to continue in business in the face of foreign competition for the same market. Furthermore, such repatriation could prevent a company from meeting its contractual obligations on repayments of loans where earnings are so committed.

In connection with the economic consequences of the Burke-Hartke legislation, it becomes important to consider the reactions of certain foreign governments. In the past we have witnessed varying adverse reactions to U.S. policy decisions, for example, the application of our anti-trust laws and export controls to U.S. foreign subsidiaries and affiliates as well as the pressures since the middle 1960's, both under the voluntary program and the mandatory controls over foreign direct investments, on international companies to increase their repatriations of earnings.

The foreign direct investment program emphasized that we were faced with an emergency and that the program would be temporary in nature. Neither of these qualifications, however, would apply to the changes proposed under the Burke-Hartke bill which would be permanent. These changes could also create conflicts with other shareholders in foreign subsidiaries which are not wholly-owned and in some instances the other shareholders are agencies of the government of the countries in which the subsidiaries are located. Consequently, an even stronger foreign reaction could be anticipated if the Burke-Hartke bill should be enacted. It would be only realistic to anticipate countermeasures which could range from restrictions on remittances to the imposition of special discriminatory taxes against subsidiaries of U.S. corporations.

The Burke-Hartke bill would seriously weaken the U.S. balance of payments position. Discouraging U.S. investments abroad would not cause American exports to rise, as has already been explained, but would provide profitable opportunities for our foreign competitors. As these opportunities would be seized upon, some portion of the capital needed for their expansion could be expected to be obtained in the U.S. capital market. Outflows of dollars resulting from the sale of debt and equity securities in the United States would be substituted for capital exports formerly associated with American direct investment abroad. In due course, remittances of subsidiary profits would accordingly dwindle and, since direct investments generally earn higher returns than portfolio investments, the United States would lose one of the most dynamic contributors to balance of payments receipts of recent years. Moreover, the higher taxes that the Burke-Hartke bill would levy on U.S. corporations would discourage foreigners from investing in U.S. firms with overseas operations. (As recently as 1968, foreign purchases of U.S. equities totalled \$2.3 billion.) At the same time, capital outflows would be stimulated as individual American investors endeavored, by acquiring foreign equities, to seize the opportunities for participating in growth abroad which the Burke-Hartke bill would deny to U.S. multinational companies.

The U.S. balance of payments would also suffer from the elimination of the exclusion from U.S. taxes on earned income of U.S. citizens working abroad. This would likely reduce the number of Americans who are both equipped with the necessary technical

skill and know-how and are willing to work abroad. This reduction, in turn, would result in the lessening of American exports and business abroad and ultimately in lower taxable revenues for the U.S. government. Should industry attempt to compensate for the elimination of the exclusion by raising the pay of those Americans affected, then U.S. business interests would be burdened with a competitive disadvantage at a time when its foreign competitors are formidable giants.

The U.S. balance of payments and domestic employment would both be impaired as innovation and productivity slackened in response to a diminished market for American technology. If the Burke-Hartke bill prohibited or taxed the exploitation abroad of research results, including patent rights, U.S. industry would be deterred from carrying out in the United States research projects whose ultimate profitability depended on greater breadth of application than would be possible in the United States alone. At the same time, the Burke-Hartke bill would provide strong encouragement for a shift of such research abroad. Not only would research done by U.S. foreign subsidiaries be free from the technology transfer restrictions of the bill, but the bill's general tax provisions would supply powerful incentives for a shift of corporate functions, including research and development, from the United States to the subsidiaries. By raising the effective tax rate on foreign subsidiary earnings from about 50% to approximately 75%, the bill would make the after-tax cost of a dollar of foreign expense around 25 cents compared with roughly 50 cents in the United States. Thus, it would be cheaper to perform research abroad than at home.

Here, as elsewhere, the consequences of the Burke-Hartke bill would be exactly the opposite of what its proponents intend. A significant number of jobs would be exported. The total research efforts of American multinational companies would probably decline. U.S. leadership in technology advances would be undermined as the United States became increasingly dependent on technology and patents developed abroad. And the balance of payments would be further weakened by increased outflows of royalties to foreign countries.

Some companies, wishing to maintain freedom of action in exploiting their technologies, might choose to maintain patentable inventions in the form of trade secrets rather than obtain U.S. and foreign patents. This too could weaken the U.S. technological and balance of payments positions, since it would lead foreign competitors to develop similar technologies, patent them, and then restrict their use by the originating U.S. companies.

Many developing countries might view the Burke-Hartke bill to be particularly severe on the developing world. These countries could view the bill as a further requirement of American corporations to repatriate more of their profits at a time when many of them maintain that such repatriation is already excessive.

There is more at stake for the United States here than the financial interests of private investors. For example, American investments in the developing world are heavily concentrated in the extractive industries producing materials essential to the national security of the United States. To be sure, ownership has not been a prerequisite to availability of

supplies in the past. But scarcity is rapidly replacing abundance and, in the future, American investments abroad may be necessary to assure that the vital interest of the United States does not easily fall victim to the preemption or diversion of essential materials by competing foreign investors — state-owned corporations, perhaps — dominated by ideological or political considerations inimical to U.S. interests.

More generally, the adverse effect of the Burke-Hartke bill on foreign direct investment, on which the developing countries continue significantly to rely for their growth, could frustrate development plans, increase political instability and support the goals of those who espouse economic nationalism. Our vital interests dictate encouragement and not discouragement of the substantial contribution that private foreign investment can make toward economic growth, stability and prosperity in host countries.

VI. TOWARD A POSITIVE ECONOMIC PROGRAM

The Burke-Hartke bill is an attempt to deal with the problem of high and persistent domestic unemployment. There is no disagreement among thoughtful and responsible Americans that economic policies should be pursued to provide a job for everyone seeking work within a general framework of reasonable price stability. The ends are not in question. What is in dispute is the means. As this discussion of the Burke-Hartke bill has illustrated, not all policies intended to create jobs can have that effect. The Burke-Hartke bill would fail because it does not meet a key requirement of a successful policy. It is not responsive to the fundamental causes of the problem. It thus becomes necessary to identify the causes and explore what should be done about them.

There are four basic reasons why the United States suffers from a serious unemployment problem today. None of them involves foreign direct investment. The first and foremost reason is that the U.S. economy has undergone a recession from which its recovery is still incomplete. This recession resulted principally from Government efforts to end the rampant inflation of recent years. The Government's strategy was to end demand-pull inflation by eliminating excessive purchasing power and to choke off cost-push inflation by increasing employer resistance to high wage claims as product markets softened. Unfortunately, inflationary pressures were so intractable, even in the face of the Government's determined efforts, that the economy was caught in the proverbial squeeze between an immovable object and an irresistible force. The result was a recession and the serious problem of high unemployment.

The second reason is a corollary of the first, namely, a loss of international competitiveness because of inflation and low productivity as well as a resulting loss of markets at home and abroad to foreign competitors. This need not have contributed to unemployment if the U.S. dollar could have been devalued in time to prevent serious overvaluation. But its role as an international reserve currency delayed such a devaluation until American competitiveness was already impaired. The U.S. problem was exacerbated by the tendency of other countries on balance to devalue their currencies against the dollar in the post-war period, thus intensifying the eroding effects of inflation on the U.S. trade balance.

The third reason is the decision to generally reduce military expenditures and cut back on aerospace programs. An expanding economy could have facilitated the absorption of employees whose jobs were eliminated in aerospace and other defense-oriented industries or who were released from the armed forces. But such an absorption was not possible in a recession economy. Thus, structural unemployment was added to unemployment from cyclical causes.

Finally, unemployment rose even as the number of jobs grew, because the labor force was significantly increased by large numbers of youngsters reaching working age and by women, many of them married, seeking employment for the first time. Such unemployment, while undoubtedly less critical than the actual loss of jobs by heads of families, nevertheless calls for action to assure that the growth of job opportunities keeps pace with the increasing number of job seekers.

A positive economic program for increasing employment must be responsive to these basic causes, which it is again pointed out do not include investment abroad. Fundamentally, expansive monetary and fiscal policies are called for to remedy cyclical unemployment and bring the economy back to the full utilization of its human and industrial resources. Such policies are now being implemented. These policies should be supplemented, as appropriate, by programs to moderate inflationary expectations and excessive wage and price increases.

Recent currency realignments should be instrumental in paving the way for a restoration of the international competitive position of the United States. Together with further success in the fight against inflation and effective policies to increase productivity, the dollar's new exchange rate should in time help to restore a U.S. trade surplus. In the interim, the United States should assume leadership in negotiating an improved international monetary system with other countries. The problems of joblessness in defense industries and among teenagers and women point to the need for structural programs, including the development of a nation-wide system of bringing job seekers and prospective employers together, retraining programs for workers and managers in declining industries, and comprehensive efforts to guide the vocational thrust of U.S. education in directions that promote a matching of skills with future opportunities.

All of these are measures consistent with expanding both the level and quality of employment. They deal with causes not merely with symptoms. And significantly, they do not include measures to curb investment abroad or to restrict imports.

Import restrictions, also called for by the Burke-Hartke bill, would be no more successful than curbs on overseas investment in increasing domestic jobs, and could provoke foreign reprisals not only against U.S. exports but against foreign investment. Under the General Agreement on Tariffs and Trade, if a country increases trade barriers on some products, its trading partners are entitled to receive offsetting, equivalent reductions in the barriers on other products. And if these are not forthcoming, they are allowed to increase their own import barriers against the offending country's exports to restore the pre-existing balance in trading relations. Under none of these alternatives can the intitating country achieve an improved trade balance.

Above all, trade restrictions are not necessary to increase jobs for a nation that keeps itself competitive in world trade through effective domestic and external policies. Such a nation can have both full employment and the benefits of international specialization. Trade then serves to raise the quality of employment by shifting jobs into the relatively efficient high-wage industries and away from the relatively less efficient, low-paying sectors of the economy.

The outward looking policies suggested here imply continuing shifts in the structure of output and employment in response to changing competitive forces. From time to time, the pace of change may outstrip the ability of particular domestic firms and industries to adjust without serious hardship or injury. If the threat of injury results from predatory foreign practices as, for example, dumping or subsidies, forceful and prompt action to apply countervailing duties is called for. In general where injury or the threat of injury is established,

adjustment assistance should be provided to the workers and firms concerned. If such assistance alone would fail to meet the need, consideration should then be given to temporary increases in trade barriers. Added import restrictions, however, should not be across the board protecting healthy and afflicted sectors alike. They should be limited to those imports responsible for the domestic injury. Moreover, increases in trade barriers imposed as a result of escape clause determinations should remain in effect only for a transition period while the efficiency of existing operations is improved or resources are shifted into fields with better prospects. So-called "orderly marketing" quotas or other restrictive measures, however, could threaten the whole climate, both here and abroad, for maintaining sound international trade and investment policies. These should be carefully appraised not only in terms of their effect upon the particular industry concerned but also in terms of their effect on our national security and on our economy as a whole. Trade barriers should not be permitted as indefinite shelter against the force of change — save only where such barriers are essential to safeguard the national security. Change and adaptation are the keys to economic progress for other countries as well as for the United States. U.S. policies should aggressively seek to expand export opportunities and actions should be taken to rectify the unfair trade practices of others. Moreover, the United States should spearhead a new multilateral attack on trade barriers. Our nation's interests lie in an open, multilateral trading and investment system that propels economies to the outer limits of their productive potential and not in adopting policies of defeatism and isolationism.

December 13, 1972

Senator Abraham Ribicoff
Chairman
Subcommittee on International Trade
Committee on Finance
2227 New Senate Office Building
Washington, D. C. 20510

Dear Senator Ribicoff:

In response to your press release of June 1, 1972, inviting the submission of factual papers concerning key issues involving the multinational corporations, I am pleased to enclose on behalf of the Emergency Committee for American Trade two copies of our two-volume study of the multinational corporation, The Role of the Multinational Corporation in the U. S. and World Economies.

This study, which we released early this year, is based on a detailed survey of the domestic and international operations of 74 of the largest American multinational corporations for the period 1960-1970. These corporations account for nearly one-half of the total book value of U. S. manufacturing investments abroad, as reported by the U. S. Department of Commerce.

The results of the survey are summarized on Pages 4 and 5 of the blue-bound volume. As can be seen from these results, American multinational corporations tend to be in the forefront of domestic economic progress. Rather than being "exporters of jobs" they, in fact, outperform other companies in creating jobs. The results also demonstrate the vital importance of their overseas investments to the U. S. economy and to the U. S. balance of payments.

We believe that the study will make an important contribution to the factual base that your committee is trying to develop on the contentious issues involving the multinational corporation.

Sincerely,



Robert L. McNeill
Executive Vice Chairman

Michael W. Moynihan / Public Affairs Consultants 799 Broadway New York, N.Y. 10003 (212) 533-5470

For: Emergency Committee for
American Trade

News Release

For release:
Noon, Thursday,
February 24, 1972

Contact: Mike Moynihan
(202) 659-5147

ECAT WILL LEAD CAMPAIGN FOR MULTINATIONAL COMPANIES

"Returns Are in," Says Kendall in Release
of New Survey Showing Multinational Companies
Make Highest Contribution to U.S. Economy

WASHINGTON, D.C., February 24 -- Donald M. Kendall, Chairman of the Emergency Committee for American Trade (ECAT), announced at a press conference here today that he and 54 other leaders of major American corporations with international operations will wage an educational campaign to inform the public and Congress of the contributions of multinational companies to American jobs, investment, exports, and balance of payments.

A two-volume ECAT study, "Role of the Multinational Corporation in the United States and World Economies," was released at the same time. Mr. Kendall is also Chairman and Chief Executive Officer of PepsiCo, Inc.

"The facts were hard to come by," said Mr. Kendall. "But we have them now. The returns are in. We have firmly established that the attack on the multinational company is a case of mistaken identity. These companies don't export jobs. They out-perform other companies in making jobs. In general, they make better jobs with better pay and backed by higher investment than other companies.

"What they import is a small fraction of what they export from America. Their foreign affiliates outside Canada exported

only about 2 percent of their total sales to the United States during the 1960's. All of their imports including raw materials from non-Canadian affiliates amounted to only 0.7 percent of their American production in 1970. At the same time, these multinational companies were making huge contributions to the American balances of trade and payments."

The new study is based on a detailed survey of the domestic and international operations of 74 of the largest American multinational corporations. It was conducted by a group of 12 business economists, who said: "We believe the survey accurately reflects the economic impact of multinational corporations on the world economy....For industries where survey coverage does not assure an adequate measure of foreign affiliate activity, analysis of supplementary data from other sources tends to corroborate survey results."

In the period between 1960 and 1970, the companies covered in the survey increased their domestic employment at a rate of 75 percent greater than that of all other manufacturing firms. Their domestic sales also increased faster than those of other companies. The increase in the sales of their domestic facilities was twice as much as the increase of sales of their facilities abroad. Their ratio of exports to domestic production reached 10.8 percent in 1970, double that of the average manufacturing firm.

Those companies that are covered in the survey, by themselves, increased exports from the United States from \$4.3 billion in 1960 to \$12.2 billion in 1970. During the same period, they increased their annual net balance of payments inflows from \$2.9 billion to \$7.3 billion.

With reference to specific charges of U.S. plants being displaced by overseas facilities of American companies, the report states:

"The conclusions from the ECAT survey about the operations of multi-national companies are based on sound statistics. If they clash with the judgments derived from a combination of isolated incidents and intuition, they can stand their ground. Undoubtedly, further research by others, particularly the United States Government, will improve on these findings and further raise the level of public understanding and discussion."

The report confirms the view that foreign investments are made primarily for markets that could not be served by exports from the U.S. In this connection, Mr. Kendall said:

"The public must realize that the earnings of overseas operations would be severely diminished - even lost - if measures like the Burke/Hartke bill were enacted and that nothing would take the place of these earnings. Foreign companies would take over the markets, and the lost earnings of American companies would not go to American investors, would not be spent here in America, would not create new American jobs, but would simply enrich others at the expense of the American economy."

Mr. Kendall reported that in addition to the recommendations of the committee of business economists, ECAT had approved recommendations from other business experts in labor relations and public affairs.

"As a result of wide-ranging, but specific recommendations, we are now committed to a set of policies and a program of action that will render obsolete retrograde concepts like those embodied in the Burke/Hartke bill."

Among the proposals adopted by ECAT, Mr. Kendall emphasized the importance of a commitment to a program of "industrial adaptation."

"It takes no great imagination," Mr. Kendall said, "to realize that international competition causes hardships for some workers in some industries in the United States. The real problem, however, is much greater. In our changing economy, a young person can spend years learning a skill only to find out ten years later that there is no need for it. Because the economy has passed his or her skill by is no reason for the person to be passed by. We must look forward to a time when retraining and relocation are a way of life, a way to a better life, to an upgrading of a person's competence and satisfaction in his or her career. It is inexcusable that instead of a national program of industrial adaptation that would allow the worker to retain pension and other rights, our economy offers only inadequate training or the dole. It is easy to understand why labor leaders call the present system of adjustment assistance 'burial insurance.'"

Mr. Kendall recommended that as a first step toward a program of industrial adaptation, the government initiate a study of all existing programs. "I think we will find," he said, "that the United States is already far along the road to such a program, but we are moving by means of overlapping, lopsided, and even conflicting programs spread casually among dozens of federal, state, and industry actions."

Pending the achievement of a national program of industrial adaptation, the ECAT recommendations call for multinational companies to become "more sensitive to labor's and the government's concern over plant closures" and to "attempt to improve communications with the labor movement so that labor might better understand its stake in the freer flow of goods and capital internationally."

In the field of public affairs, Mr. Kendall reported that ECAT had adopted a three-pronged program. The members of ECAT have agreed to increase their personal contact with Senators and Congressmen and to enlarge their commitment of resources to government relations efforts.

A second initiative calls for use of their "corporate media" to fully inform employees, shareholders, suppliers, and communities where company facilities exist of the importance of international trade and investment to continuing operations and to their orderly expansion.

Finally, the companies will work individually through their trade and other associations and through ECAT to bring home to as large a public as possible the facts about the contribution of multinational companies to the United States economy.

END

Summary of
ECAT study attached.

ECAT

SUMMARY

The data from the 74 multinational corporations covered in this survey reveals that in the years between 1960 and 1970 when these companies were increasing their overseas operations, they also:

--Increased the number of their domestic employees by nearly 900 thousand from 2,452 thousand to 3,348 thousand,

--Increased the book value of their fixed assets in U. S. manufacturing facilities from \$15.3 billion to \$34.1 billion, a gain of \$18.8 billion,

--Increased their sales from American facilities from \$58 billion to \$113 billion, a gain of \$55 billion,

--Increased their exports from the United States to the rest of the world from \$4.3 billion to \$12.2 billion, a gain of \$7.9 billion,

--Increased their net surplus of exports over imports from \$3.2 billion to \$6.6 billion, a gain of \$3.4 billion,

--Increased the balance-of-payment inflows attributable to their foreign investments--dividends, earnings, interest, royalties and fees--from \$.5 billion to \$2.4 billion, a gain of \$1.9 billion,

--Increased their annual net balance-of-payments inflows from \$2.9 billion to \$7.3 billion, a gain of \$4.4 billion.

Our survey has further documented:

--That the industries which account for a large and growing share of foreign direct investments (e. g. . non-electrical machinery, chemicals, and instruments and related products) account for the preponderant part of the U. S. merchandise trade surplus in manufacturing products.

--That these same industries have been among the most rapidly growing manufacturing industries in the United States, and

--That the international investment activities of the respondents played an important role in their rapid export growth and consequently made a major positive contribution to their domestic sales, investment, and employment growth.

Contrary to the popular misconception that foreign subsidiaries of American firms have been created for the purpose of serving the U. S. market, our survey has revealed:

--That foreign investments are made primarily to meet market demands that cannot be served by exports from the United States.

--That exports from non-Canadian foreign affiliates to the United States amounted to only about 2 percent of their total sales during the 1960's.

--That a substantial proportion of that 2 percent consisted of unprocessed raw materials, and

--That the total imports, including raw materials, from non-Canadian foreign affiliates were equivalent to only 0.7 percent of the respondents' production in the United States in 1970.

The companies covered by the survey are broadly representative of large American multinational corporations. These findings further establish that during the 10 year period covered by the survey, American multinational companies have:

--Increased their domestic employment (exclusive of employment gains through acquisition) more rapidly than the average manufacturing firm. Their rate of new job creation was about 75 percent greater than that of all other manufacturing firms,

--Increased their investment in domestic plant and equipment more rapidly than other U. S. manufacturing firms and more rapidly than their foreign investments,

--Increased their domestic sales more rapidly than the typical U. S. manufacturing firm,

--Increased their sales from domestic facilities twice as much as from their overseas operations,

--Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970--10.8 percent--was double that of the average U. S. manufacturing firm.

--Accounted for a small and (except for U. S. -Canadian automobile trade) declining proportion of total U. S. imports.

**THE ROLE OF THE MULTINATIONAL CORPORATION (MNC)
IN THE UNITED STATES AND WORLD ECONOMIES**

**(Based on an Analysis by the International Economic Subcommittee
of the Emergency Committee for American Trade of the
Domestic and International Activities of 74 U. S. Corporations)**

February, 1972

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THE ROLE OF THE MULTINATIONAL CORPORATION (MNC)
IN THE UNITED STATES AND WORLD ECONOMIES

Introduction

Multinational corporations have made a major contribution to the expansion of world trade and investment. They have done so in accord with an American foreign economic policy that by word and deed has supported the postwar movement towards a more open international economy.

Peter Drucker has called this movement the greatest achievement of the postwar period. It replaced an era of protectionism (which Paul Samuelson said does not provide protection but succeeds only in "making the world less productive").

As the result of the new movement, the world became more productive. Trade grew rapidly, outpacing the rate of economic growth of most nations. And then investment grew even faster, eventually surpassing trade as the chief economic link between the United States and the rest of the world.

For a few nations whose economies were highly protected by trade barriers and for those highly protected sectors in industry or agriculture that exist in every nation, the movement towards a more open international economy has produced problems. But, overall, it has meant more wealth for each nation and more harmony among nations.

While contributing to the growth of the world economy, multinational companies have also grown in number and size. American companies responsible for a substantial amount of production abroad have existed since the beginning of the century. They are not an American phenomenon. Similar international production by companies based in other industrialized nations as a group has been proceeding in rough conformity to the ratio of their gross national product to that of the United States. Most other industrialized countries make a higher percentage of their investments abroad than the United States.

The international activities of multinational corporations increased markedly in the 1960's and interest and controversy has risen as a result. The members of the Emergency Committee for American Trade (ECAT) requested that this study be undertaken knowing that related studies have been conducted by other groups and that the United States Government is engaged in thorough research on the subject. ECAT decided to act because of the great importance of trade and investment to its members and because of the pressing need for comprehensive and objective data.

The purpose of the ECAT study was to obtain detailed information on the actual operations of American multinational corporations during the 1960's so that the issues raised by these activities could be dealt with

on the basis of fact rather than theory. This was made possible by the cooperation of a sufficient number of respondents to a very demanding survey.

Specifically, we have attempted, on an industry-by-industry basis, to ascertain from respondents:

- The absolute and relative growth of their domestic and foreign manufacturing activities from 1960 to 1970;
- The effect of their overall operations on domestic and foreign employment levels;
- The most important determinants of their foreign investment decisions for each geographic area and industry group;
- The relationship between their foreign manufacturing investments and the merchandise trade flows; and
- The implications of the international transfer of their technology for the competitive position of the United States in world trade.

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SUMMARY

The data from the 74 multinational corporations covered in this survey reveals that in the years between 1960 and 1970 when these companies were increasing their overseas operations, they also:

--Increased the number of their domestic employees by nearly 900 thousand from 2,452 thousand to 3,348 thousand,

--Increased the book value of their fixed assets in U. S. manufacturing facilities from \$15.3 billion to \$34.1 billion, a gain of \$18.8 billion,

--Increased their sales from American facilities from \$58 billion to \$113 billion, a gain of \$55 billion,

--Increased their exports from the United States to the rest of the world from \$4.3 billion to \$12.2 billion, a gain of \$7.9 billion,

--Increased their net surplus of exports over imports from \$3.2 billion to \$6.6 billion, a gain of \$3.4 billion,

--Increased the balance-of-payments inflows attributable to their foreign investments--dividends, earnings, interest, royalties and fees--from \$.5 billion to \$2.4 billion, a gain of \$1.9 billion,

--Increased their annual net balance-of-payments inflows from \$2.9 billion to \$7.3 billion, a gain of \$4.4 billion.

Our survey has further documented:

--That the industries which account for a large and growing share of foreign direct investments (e.g., non-electrical machinery, chemicals, and instruments and related products) account for the preponderant part of the U. S. merchandise trade surplus in manufactured products,

--That these same industries have been among the most rapidly growing manufacturing industries in the United States, and

--That the international investment activities of the respondents played an important role in their rapid export growth and consequently made a major positive contribution to their domestic sales, investment, and employment growth.

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Contrary to the popular misconception that foreign subsidiaries of American firms have been created for the purpose of serving the U. S. market, our survey has revealed:

--That foreign investments are made primarily to meet market demands that cannot be served by exports from the United States,

--That exports from non-Canadian foreign affiliates to the United States amounted to only about 2 percent of their total sales during the 1960's.

--That a substantial proportion of that 2 percent consisted of unprocessed raw materials, and

--That the total imports, including raw materials, from non-Canadian foreign affiliates were equivalent to only 0.7 percent of the respondents' production in the United States in 1970.

The companies covered by the survey are broadly representative of large American multinational corporations. These findings further establish that during the 10 year period covered by the survey, American multinational companies have:

--Increased their domestic employment (exclusive of employment gains through acquisition) more rapidly than the average manufacturing firm. Their rate of new job creation was about 60 percent greater than that of all other manufacturing firms,

--Increased their investment in domestic plant and equipment more rapidly than other U. S. manufacturing firms and more rapidly than their foreign investments,

--Increased their domestic sales more rapidly than the typical U. S. manufacturing firm,

--Increased their sales from domestic facilities twice as much as from their overseas operations,

--Exported a growing proportion of their domestic production. Their ratio of exports to domestic production in 1970--10.8 percent--was double that of the average U. S. manufacturing firm.

--Accounted for a small and (except for U. S.-Canadian automobile trade) declining proportion of total U. S. imports.

Survey Coverage

This survey is based on an analysis of the domestic and international operations of 74 U. S. corporations, representing a broad group of large multinational corporations.

The data used in the survey were obtained through a questionnaire sent to 117 large U. S. corporations substantially involved in international business operations. ^{1/} The firms selected included all ECAT members chiefly engaged in manufacturing activities (45 firms) and 72 other multinational firms.

Aggregate sales of the survey respondents amounted to \$113 billion in 1970, equivalent to approximately 18 percent of total U. S. shipments of manufacturers' products. ^{2/} The respondents' combined equity in foreign

^{1/} Usable responses were obtained from 74 firms (36 ECAT members and 38 non-members), 8 responses were not usable (1 ECAT member and 7 non-members), 17 firms chose not to participate, and 18 firms failed to respond. Reasons for rejection included incomplete or inconsistent data (which could not be corrected after follow-up with respondents), inability to provide data for all years, and submission too late to be included in the survey.

^{2/} The survey coverage is largest for industries engaged in the production of motor vehicles, instruments and related products, aircraft, nonelectrical machinery, and paper and allied products. In each of the foregoing industries, survey respondents accounted for over 25 percent of total U. S. shipments of comparable products. In the case of the industries producing electrical machinery, chemicals, and food products, survey respondents accounted for approximately 10 to 25 percent of the total value of U. S. shipments. In the two remaining categories, primary and fabricated metal products and "miscellaneous manufacturing industries" (which includes firms engaged in publishing and the production of rubber products, tobacco manufacturers, nonmetallic mineral products, and sporting goods), survey participants accounted for only 5 percent of total U. S. shipments.

manufacturing affiliates amounted to \$14.4 billion at the close of 1970, or approximately 45 percent of the total book value of U. S. manufacturing investments abroad as reported by the U. S. Department of Commerce. (Tables 2 and 3.)

The survey coverage is largest for those industries with a high volume and proportion of international investment (e.g., motor vehicles and nonelectrical machinery). Respondents in nearly every industry group have a higher proportion of foreign investment than typical firms in their industries. Thus, we believe that the survey accurately reflects the economic impact of multinational corporations on the United States economy.

Domestic and Foreign Investments

Book Value of U. S. Direct Investments Abroad. The U. S. Department of Commerce reports that as of December 1970 the total value of U. S. foreign direct investments amounted to \$78.1 billion. (Table 2.) Investments in manufacturing affiliates (\$32.2 billion), however, accounted for only 41 percent of this total. The petroleum industry accounted for a large proportion of the remaining direct investment (\$21.8 billion) while mining and smelting (\$6.1 billion) and "Other Industries" (consisting chiefly of services and distribution facilities) accounted for the remainder.

Most critics of the multinational firm have recognized the dependence of the United States economy on imported petroleum and certain ores and have thus focused their attention on manufacturing investments abroad.

Since "other industries" generally pose no threat to U. S. manufacturing employment and may in fact provide distribution facilities for U. S.-made products, they too have been generally exempt from criticism.

The value of U. S. manufacturing investments abroad increased at an annual rate of 11.1 percent from 1960 to 1970 (Table 1), roughly equivalent to the average annual growth in the gross national products (about 10 percent) of the major industrial countries outside the United States where most investment took place. As of December, 1970, the major part of U. S. direct manufacturing investment abroad was in Western Europe (42 percent of the total) and Canada (31 percent) with Latin America accounting for 14 percent of the total. (Table 4.) Significantly, with the exception of investments in Latin America, only 2.7 percent of all U. S. foreign direct investments were in those so-called "low wage" areas--Korea, Taiwan, Hong Kong, Southeast Asia, and nearly all of Africa and the Middle East .

The book value of foreign investments by survey respondents amounted to \$14.4 billion as of the close of 1970, equivalent to 45 percent of total U. S. manufacturing investments abroad. (Table 3.) The foreign investments of respondents who manufacture motor vehicle and nonelectrical machinery, \$4.3 billion and \$3.0 billion respectively, accounted for slightly over half of the reported totals of such investments. Respondents in the chemical industry accounted for 12 percent of such investments,

while the food, paper, primary and fabricated metals, and miscellaneous manufacturing industry groups each accounted for approximately 7 percent of the total. With the exception of the chemical and electrical machinery industries, where survey coverage is low, the industry distribution of the respondents appears to be broadly representative of the international manufacturing activities of U. S. industry. For industries where survey coverage does not assure an adequate measure of foreign affiliate activity, analysis of supplementary data from other sources tends to corroborate survey results.

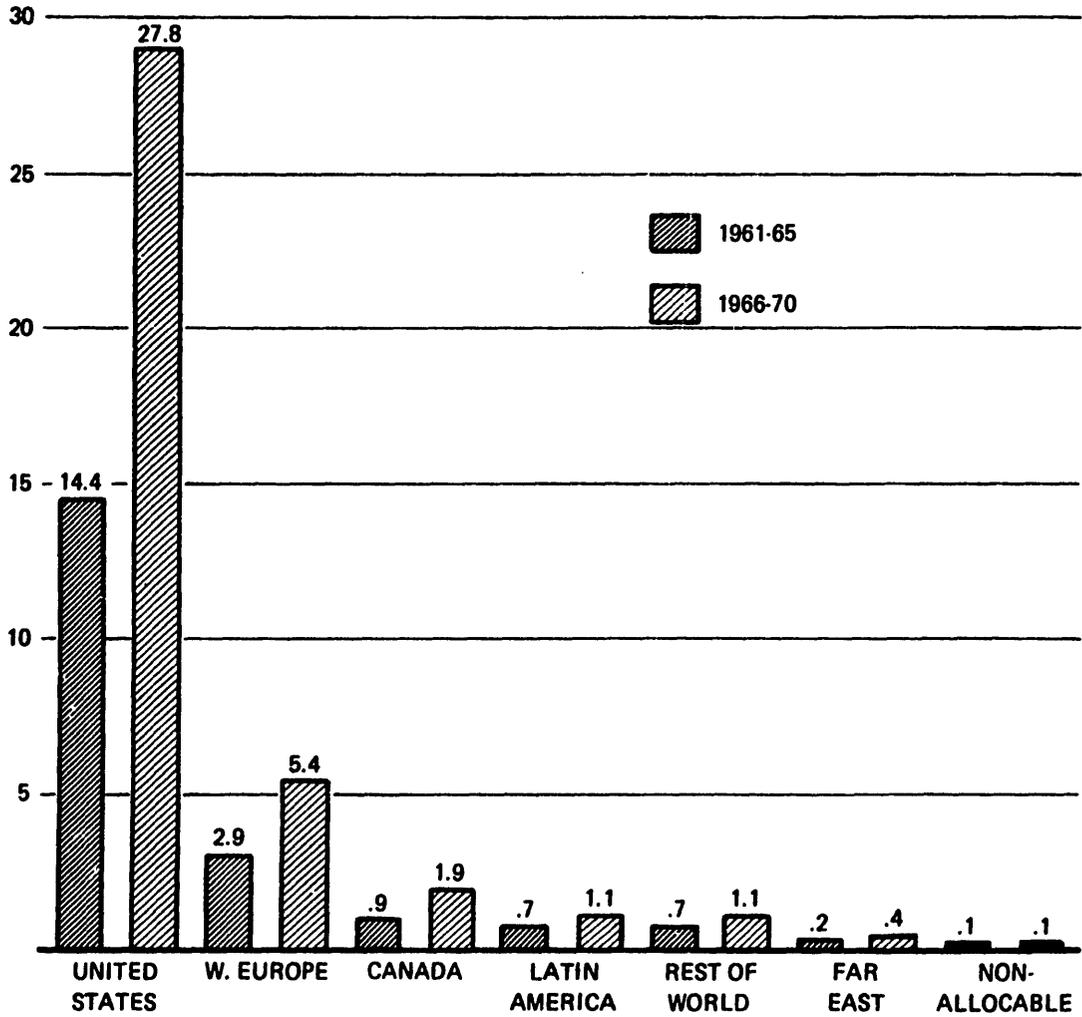
Pattern of Investment Activity. Multinational corporations made a major contribution to the growth in domestic investments during the 1960's. The increase in domestic capital expenditures of the survey respondents (93 percent) from 1961-65 to 1966-70 was substantially greater than that for the average U. S. manufacturing firm (71 percent) and greater than that of their foreign affiliates (77 percent) during the corresponding period. (Table 6.) The geographic pattern of capital expenditures by survey participants shown in Figure I indicates both the high proportion of total capital expenditure devoted to the home market and the more rapid growth (both absolutely and relatively) in domestic capital expenditures.

Six of the ten industry groups reported that their domestic expenditures for plant and equipment rose more rapidly than their

FIGURE I

**CAPITAL EXPENDITURES BY U.S.-BASED MULTINATIONAL FIRMS
AND THEIR FOREIGN AFFILIATES, BY GEOGRAPHICAL AREA, 1961-65 AND 1966-70**

IN BILLIONS
OF DOLLARS



Source: ECAT Survey, Table 11.

foreign expenditures from 1961-65 to 1966-70. (Table 6.) Generally speaking, these six industries fell in the category of "mature" overseas investors. The majority of the firms in these industries (motor vehicles, chemicals, paper, nonferrous metals, food and electrical machinery) have longstanding overseas operations, and enjoyed "normal" growth patterns which were determined primarily by their product mix and the growth rates of the economies where their manufacturing facilities were located.

Four industries expanded their foreign investments more rapidly (in percentage terms) than their domestic investments. The growth rate of their domestic investments, however, substantially exceeded that of the average manufacturing industry. The two industries (aircraft and instruments) that expanded their foreign investments most rapidly also reported the most rapid growth in domestic investment. The faster rate of growth in foreign investments for these four industry categories is largely attributable to the following factors:

1. The growth rates for some firms and industries, particularly aircraft and instruments and related products, were from inconsequential base levels. In the aircraft industry, for example, despite a rapid growth in plant and equipment expenditures outside the United States, such expenditures

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were equivalent to only 3.3 percent of domestic expenditures during the 1966-70 period.

2. Foreign investments in the rapid growth industries (i.e., instruments and nonelectrical machinery) were heavily concentrated in the national market reporting the greatest economic growth--Western Europe.
3. The product mix of these particular industries--nonelectrical machinery (including computers) and instruments--benefited greatly from the abnormally high level of manufacturing investment in Europe in the latter half of the 1960's.

Fixed Assets. Fixed asset levels provide an alternative measure of the growth in foreign and domestic manufacturing activities. Comparisons based on this measure, however, are seriously distorted by the low absolute level of foreign asset holdings of many survey respondents in 1960. The growth in the fixed asset holdings of survey respondents and their foreign affiliates during the 1960's is shown in the following tabulation:

<u>Period</u>	<u>Change in Fixed Assets--</u>			
	<u>U.S.-Based Facilities</u>		<u>Foreign Affiliates</u>	
	<u>Increase in Net Assets</u> (million \$)	<u>Average Annual Growth Rate</u>	<u>Increase in Net Assets</u> (million \$)	<u>Average Annual Growth Rate</u>
1960 to 1965	5,779	6.6%	3,850	17.1%
1965 to 1970	12,983	10.1%	6,048	13.2%
1960 to 1970	18,762	8.4%	9,898	15.1%

Source: ECAT Survey

The preceding tabulation highlights four aspects of the pattern of growth in the investments of U. S. based multinational corporations: First, the absolute growth in domestic fixed assets was nearly double that abroad; second, the most rapid expansion (in percentage terms) in foreign investment occurred in the early 1960's, as increasing numbers of U. S. manufacturers' recognized a growth potential abroad, particularly in the European Economic Community, which could be fully realized only through direct investment; third, as the new manufacturing affiliates abroad emerged from their early stage, the rate of investment growth declined significantly; and fourth, the rate of growth in domestic investment accelerated sharply in the latter half of the decade.

The differences in the growth in domestic and foreign assets in the latter half of the decade are primarily attributable to diverging economic growth rates home and abroad. The average annual rate of growth in real GNP in the United States during that period was 3.2 percent compared with growth rates of 4.7 percent for Canada and 5.0 percent for the continental European industrial countries. These two areas, it will be remembered, accounted for the preponderant part of overseas direct investment in manufacturing affiliates. (Table 11.)

The growth in Western European economies, moreover, was heavily concentrated in the manufacturing sector, particularly in capital goods and other high technology industries where American firms have the

competitive edge. Thus the industry and geographic pattern of economic growth abroad has been particularly favorable to a high rate of foreign investment growth.

Fixed assets of foreign affiliates accounted for 28 percent of the total fixed assets of the survey respondents in 1970.

Major Determinants of Foreign Investment Decisions. In the judgment of the survey respondents, "market demands" were clearly the decisive factor in the majority of their foreign investment decisions. Although the category "market demands" defies precise interpretation, it is generally construed to mean those primarily commercial factors that necessitate local production of a particular product, as distinguished from the government-imposed factors (e.g., trade restrictions and investment regulations) designed to influence trade flows or from factors which induce investments in facilities primarily engaged in production for export markets (such as raw materials availability and labor cost advantages). It was clear from the narrative responses that some firms interpreted "market demands" very broadly to include such factors as transportation costs, while others enumerated transportation costs separately under "other factors."

The overriding importance of market demands is clearly evident from the following tabulation which summarizes the survey results:

**RELATIVE IMPORTANCE OF MAJOR DETERMINANTS
OF FOREIGN INVESTMENT DECISIONS**

<u>Major Determinants</u>	<u>Order of Significance</u>					<u>Negligible</u> %
	<u>Most Important</u> %	<u>2nd Most Important</u> %	<u>3rd Most Important</u> %	<u>4th Most Important</u> %	<u>5th Most Important</u> %	
Market Demands	57	14	13	12	4	10
Trade Restrictions	20	35	31	11	2	15
Investment Regulations	11	32	21	24	27	29
Labor Cost Advantages	5	9	28	48	48	39
Other	<u>7</u> 100	<u>10</u> 100	<u>6</u> 100	<u>5</u> 100	<u>19</u> 100	<u>7</u> 100
Memo: Responses	329	329	263	187	48	216

Source: ECAT Survey Tables 28 and 29.

The threat of local competition, which was usually considered a "market demand," was the most frequently cited specific factor motivating specific investment decisions. The judgment of the survey respondents was further confirmed by in-depth case studies of nine major industries by Robert Stobaugh and Associates for the U. S. Department of Commerce. After an intensive investigation of the circumstances surrounding a specific foreign investment decision in each industry, the authors concluded:

"Although U. S. firms have a preference for operating in the United States, in most cases of U. S. foreign direct investment, U. S. firms do not have the alternative of continuing to serve the relevant market--either in the U. S. or abroad--from their U. S. plants. If U. S. firms tried to continue operating only in the U.S., they would lose their markets to foreign firms, usually large enterprises from Europe and Japan."

The nature of market demands obviously differs materially from industry to industry. High transportation costs relative to product values necessitated local production for the majority of products of the paper (e.g., packaging materials), fabricated metal products (e.g., empty containers), consumer chemical products (e.g., detergents), and food products industries. In the case of food products, product perishability was a further consideration. For motor vehicles manufacturers and their suppliers, differing income levels, road conditions, and transportation requirements necessitated the production of different models for different geographic areas, while the combination of governmental interference and economic considerations helped to assure local production in most significant markets.

In the capital goods industries, which included a majority of the respondents in the electrical and nonelectrical machinery and instruments and related products industries, rapidly growing demand for products tailored to the needs of foreign manufacturers required the establishment of local production facilities. Moreover, engineering,

servicing, and distribution requirements associated with the sale of technologically-advanced capital goods frequently required the establishment of extensive support operations which could not be maintained on the basis of export volume from the United States.

As previously indicated, survey respondents were in basic agreement that market demands were the major determinant of their foreign investment decisions. Market demands were most frequently ranked (57 percent of the total responses) as the most important factor in every geographic area and by every industry group. (Tables 28, 29 and 30.) Trade restrictions were ranked as the most important factor in 20 percent of the responses followed by investment regulations (11 percent), "other factors" (7 percent), and labor cost advantages (5 percent). Trade restrictions were considered the second most important factor in every area except Latin America where investment regulations (e.g., local content requirements) were an important, although not the decisive factor. Labor cost advantages were consistently ranked as a relatively unimportant consideration in overseas investment decisions.

The significance of wage rates in foreign investment decisions should not be minimized or distorted. The cost structure of a firm is, of course, determined by many factors including materials costs, capital

equipment costs, transportation costs, labor costs and labor productivity. Lower unit wage costs abroad are often offset by higher costs for other factors of production. Nonetheless, total labor costs (including those embodied in the capital goods, raw materials, and intermediate materials used by manufacturers), obviously comprise an important and in some industries the major part of the total cost of a manufactured product. Manufacturers obviously cannot be indifferent to labor costs, any more than they can neglect other elements of cost such as raw materials, energy, and taxes. In the majority of instances the relatively low ranking of "labor cost advantages" as a determinant of foreign investment was clearly predicated on the fact that the foreign investment decisions were made for the purpose of serving local markets in competition with local suppliers confronted with essentially the same pattern of local wage rates. Moreover, even in those instances where direct investment abroad has replaced U. S. exports, the investment decision was usually based on the conviction that local production was an unavoidable alternative--either as a result of, or in anticipation of, the investment initiatives by local competitors.

In such cases the critical determinant becomes the perceived advantages which will be gained through preemptive investment or, alternatively, the necessity of protecting market shares threatened by the preemptive investments of others. In either event, wage rate differentials

generally involved only the minor variations occurring within national labor markets, (or in the case of continental Europe between contiguous national markets) and thus became a relatively minor consideration when contrasted with the broader determinants of investment behavior such as market penetration, product improvement, and productivity growth.

Surprisingly, in the limited number of instances where labor cost advantages were ranked as the most important factor in foreign investment decisions, there was no discernible geographic pattern of labor cost advantage. In fact, labor cost advantages were most frequently cited (7 percent of total responses) as the decisive factor in Western Europe which has clearly become a "high wage" supplier compared with Latin America, Africa, the Middle East, and most of Asia. A substantial proportion of the respondents specifically noted that the advantages of the lower wage rates in the poorer areas are usually offset by lower labor productivity and higher overhead costs.

One significant exception involves the limited number of plants (chiefly in the electronics industry) established abroad (mainly in Mexico and the Far East) for the purpose of assembling U.S.-made components into finished products for export to the United States and world markets. In these instances, labor cost advantages were a major factor in the foreign investment decision. It is worth noting, however, that, in the judgment of the survey respondents these investments apparently had a positive effect on U. S. employment levels.

In this connection, the Tariff Commission in its study of the operation of Items 806.30 and 807.00 of the Tariff Schedules of the United States, which permit duty-free entry of certain U. S. parts and components assembled abroad, concluded that the repeal of these provisions would not materially reduce the level of U. S. imports but it would sharply curtail U. S. exports of parts and components and thus result in a net loss of jobs in the United States. Survey respondents confirmed that, without their investments in foreign assembly plants, which often create U. S. jobs both in parts manufacture and in final assembly in the United States, they would have been forced to abandon certain markets entirely to foreign competitors.

In several industries (chemicals, paper, non-ferrous metals and food products), the availability of raw materials was the most important consideration in foreign investment decisions in some areas. Raw materials availability was the most frequently enumerated factor in the "other factors" category. In some instances firms noted that the most important factor in their foreign investment decision was the prospect for creating captive markets for parts and components exported from the United States.

The Effect of Foreign Investments on Domestic Investments. The foreign direct investments of the survey respondents have contributed to a net increase in domestic investments. One-third of the respondents

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reported that their foreign investment programs had resulted in a net increase in domestic investments. These firms reporting a positive correlation between foreign and domestic investment tended to be among the largest domestic investors (and exporters). Only five firms (7 percent of the respondents) reported that foreign investments had adversely affected their domestic investment programs. The other participants reported that their foreign investment programs had had little if any effect on their level of domestic investments.

Virtually all of those firms which reported that foreign investments had resulted in an increase in their domestic investment programs attributed the increase to the enlarged exports made possible by those foreign investments. Conversely, four of the five firms that reported an inverse relationship between domestic and foreign investment cited the fact that their foreign investments may have adversely affected potential export growth. (The relationship between foreign investments and U. S. merchandise trade is explored more fully in the "merchandise trade balance" section.)

In evaluating the effects of their foreign investments, very few firms made any reference to the impact of such investments on the availability of funds for their domestic investment programs. All but one of the respondents that specifically referred to financial factors indicated that their foreign investment programs were independent of their domestic investment programs, and therefore had had no effect on their domestic

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investment decisions. In most instances, firms noted that their foreign investment programs were funded entirely from foreign funds (i.e., either the retained earnings of the foreign affiliate or from its local borrowings). Information compiled by the Department of Commerce strongly support the conclusion that the foreign affiliates of most firms are financially self sufficient. In 1968, the most recent year for which data are available, only 3.4 percent of all funds spent by foreign manufacturing affiliates (equivalent to 7.6 percent of their plant and equipment expenditures) were obtained from the United States (Table 40.)

Only one firm noted that its foreign investments had reduced the funds available for domestic expansion. This firm also indicated, however, that as its foreign investments begin to generate a positive cash flow in the early 1970's, they are expected to make possible a higher level of domestic investment than would otherwise be possible.

Domestic and Foreign Sales

Domestic and foreign sales of the survey respondents increased rapidly during the 1960's. (Table 18.) Aggregate U. S. sales of the survey respondents increased by 99 percent from 1960 to 1970 compared with a 71 percent increase in the total value of U. S. shipments of manufactured products. In all but one of the industry ^{1/} groups, the aggregate

^{1/} Survey coverage for this industry group, primary and fabricated metal products, was relatively low--about 5 percent.

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sales growth of survey respondents outpaced the average annual growth in shipments of manufactured goods reported by the Department of Commerce. (Tables 18 and 35.)

The annual percentage growth in sales of foreign affiliates from 1960 to 1970 (14.0 percent) substantially exceeded that of domestic shipments (6.9 percent) for every industry group, reflecting in part the comparatively low base level in the initial year of the survey. In absolute terms, by contrast, domestic sales increased more rapidly than foreign sales for every industry group. One of the significant facts established by this survey is that extraordinary growth in sales of foreign affiliates has contributed to the growth in domestic sales.

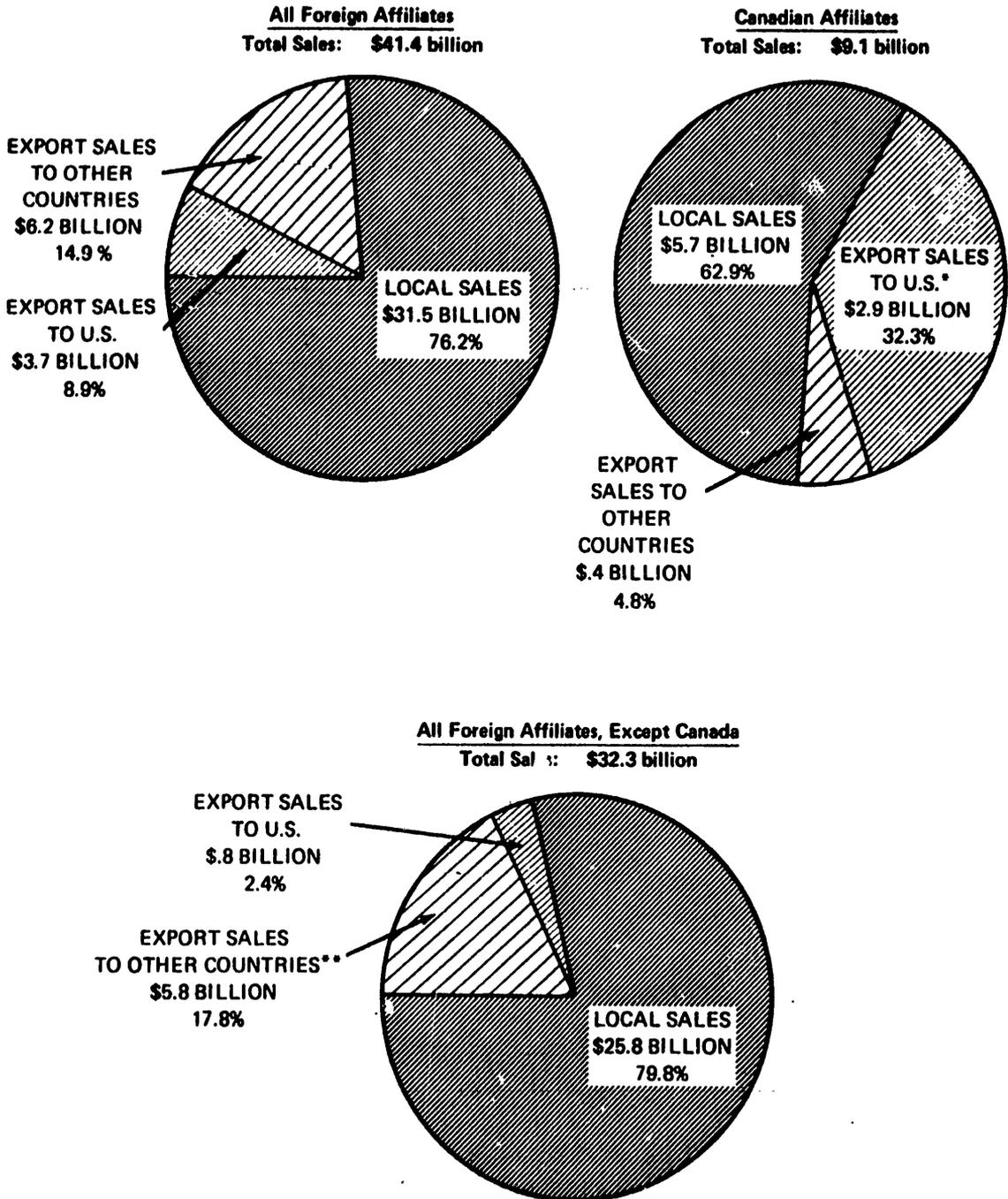
The rapid rate of growth in sales by foreign affiliates has both directly and indirectly stimulated exports from U.S.-based facilities by opening up new markets for capital goods, raw materials, component parts, and associated exports.

With the exception of the increased trade in motor vehicles with Canada and the operations of the resource-oriented respondents, only a negligible proportion--about 2 percent--of the total sales of U.S. foreign manufacturing affiliates covered by the survey entered the U. S. market.

The geographic distribution of sales by all foreign affiliates, by Canadian foreign affiliates, and by all foreign affiliates, except

FIGURE II

GEOGRAPHIC DISTRIBUTION OF SALES BY FOREIGN AFFILIATES OF RESPONDENT FIRMS, 1970



* Consists preponderantly of automobiles entered duty free under the J. S. Canadian Auto Agreement and raw materials (e.g., pulp and newsprint)

** Consists chiefly of Intra-EEC and Intra-EFTA trade

Source: ECAT Survey, Table 19.

Canadian are shown in Figure II. In the case of Canada free trade in motor vehicles and the historical U. S. dependence on Canadian pulp and newsprint largely explain the relatively high proportion (i.e., one-third) of total affiliate sales entering the United States. Several firms in other industries are also heavily dependent on Canadian raw materials.

When the sales of non-Canadian affiliates are considered, 79.8 percent are in local markets and 17.8 percent are in third country markets and only 2.4 percent enter the United States market. (Table 19.) Sales to third country markets consisted chiefly of tariff-free transactions within the European Economic Community and the European Free Trade Association. (See Tables 20 through 27.) A very substantial proportion of parent imports from non-Canadian affiliates also consisted of raw materials including coffee, bauxite, and other food and chemical raw materials. In the case of these resource-oriented companies, U.S. purchases from foreign affiliates would either be replaced by purchases from other foreign suppliers or aggregate U. S. sales would be reduced because of the non-availability of the requisite raw materials.

The relatively rapid rate of growth in sales by U. S. foreign affiliates is attributable to two factors. First, the major foreign markets grew more rapidly than our domestic market. Secondly, participation in these rapidly growing markets increasingly demanded a local presence. Those factors which heightened the need for a local presence included:

- 1 The requirements for growing sales, distribution and service organizations to facilitate merchandise exports from the United States.
2. The need to maintain competitive positions in foreign markets for products previously exported from the United States in the face of competition from local suppliers.
3. The formation of two large tariff-free markets (EEC and EFTA) created an unusually large number of new opportunities for efficient operations in Europe based on manufacturing techniques and economies of scale which previously were not feasible. The organizational experience of many American firms in coping with large markets together with their technological leadership provided an unusual stimulus to foreign investment.
4. The necessity of establishing foreign manufacturing affiliates to satisfy the local content requirements of some foreign governments--particularly those of developing countries.
5. The necessity to commence production abroad to overcome the actual or threatened imposition of new tariffs or nontariff barriers. This situation, too, is most common with respect to developing countries which are seeking to protect "infant" industries and conserve scarce foreign exchange.
6. The practical commercial necessity, in some industries,

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of offering complete product lines has led to the need for foreign production--to complement U. S. exports--in offering complete lines abroad.

7. In some industries, U.S.-produced goods are simply not competitive in foreign markets. Local production then becomes the only means by which American companies can benefit from their marketing, technological, or managerial expertise.
8. Similarly, in certain sectors (e.g., consumer electronics) imported components (e.g., tuners) may be used to secure the competitive viability of the finished U. S. products (e.g., TV receivers) against similar products which are exclusively of foreign origin (e.g., Japanese Tv receivers).

In summary, our survey has revealed that, notwithstanding an extraordinary growth in their foreign affiliate sales, U.S.-based multinational corporations have increased their domestic sales more rapidly than the average manufacturing corporations and, in most cases, more rapidly than the domestically-oriented firms in their own industries. The growth in sales by foreign affiliates is attributable to the rate and pattern of foreign economic growth and their ability to participate in that growth. Moreover, in the judgment of the majority of the survey respondents, the growth in foreign manufacturing activities has actually expanded the sales of U. S.-based facilities.

Domestic and Foreign Employment

From 1960 to 1970 the survey respondents increased their domestic employment by nearly 900 thousand persons. The rate of increase in their domestic employment during that period, 3.3 percent per year, was substantially greater than that of the average U. S. manufacturing firm, 1.4 percent. (Table 12.) The growth in foreign employment of American-owned companies has not been at the "expense" of the U. S. employees of multinational firms. The information developed in this study clearly indicates that, contrary to the frequent criticism that multinational corporations "export" U. S. jobs by transferring manufacturing activities from their domestic facilities to those of their foreign affiliates, the growth in the international activities of U. S. corporations has actually created new employment opportunities for American workers.

Obviously, the rising volume of international sales and investment has created new employment opportunities abroad. Aggregate employment by foreign affiliates of U. S. multinational corporations rose at an annual rate of 7.7 percent from 820 thousand persons in 1960 to 1,726 thousand persons in 1970.

As in the case of sales, multinational corporations, in all but one of the industry groups, reported a higher rate of domestic employment growth than non-respondents in their respective industries. (Tables 12 and

14.) Moreover, because of the export orientation of most foreign direct investors and the dependence of a substantial volume of their exports on the manufacturing and support activities of foreign affiliates, a significant proportion of the growth in domestic employment is a direct result of the foreign direct investment activities of the respondents.

The growth in the merchandise trade surplus of the survey respondents from 1960 to 1970 has helped to create an estimated 300 thousand jobs in the United States economy.

Foreign direct investments also expand U. S. employment in another way. After intensive study of the activities of 187 large U. S. multinational corporations, Raymond Vernon has estimated that foreign affiliate activities now support about 250 thousand jobs in central administrative offices and research and development laboratories in the United States.

A significant proportion of the growth in domestic and foreign employment was due to acquisitions. The proportion of employment growth due to acquisitions and to other factors is shown in Table 13. Growth due to other factors is understated since allowance is not made for cases where firms sold off operating plants or divisions. The number of employees lost through such sales lowers the "normal" rate of employment growth information on such employment "losses" though divestiture was not obtained from respondents. Nonetheless, even the understated annual

rate of "normal" employment growth, 2.0 percent, significantly exceeded that of the average manufacturing industry, 1.4 percent. Moreover, those industries that expanded their foreign investments and employment most rapidly (Instruments and nonelectrical machinery) also made the greatest proportionate contributions to domestic employment growth.

A frequent assertion about multinational companies is that they have an unlimited option of producing at home or abroad and that this option undermines the position of U. S. labor in collective bargaining negotiations. The information developed in our survey has indicated:

1. That the vast majority of overseas investments are made for the purpose of satisfying local markets (see Tables 28, 29, and 30) that could not have been served by exports from the United States,
2. That labor cost considerations have consistently played a subordinate role in these decisions (Table 29), and
3. That very little production by American affiliates enters the United States. (Table 19.)

Moreover, industry-wage structure and major collective bargaining settlements in recent years show greater than average gains for U. S. labor in industries where multinational companies are concentrated and whose exports are high. Average annual first-year increases granted in wage settlements in major collective bargaining agreements (which cover the

majority of the employees of the survey respondents) rose steadily from 2.0 percent in 1964 to 7.5 percent in 1970. (Table 15.)

According to the U. S. Department of Labor, the average hourly wages of the four U. S. industries with the highest level of overseas investment (petroleum, chemicals, transportation equipment, and non-electrical machinery) are among the six highest paid U. S. manufacturing industries. ^{1/} (Table 16.)

By contrast, the three lowest wage U. S. industries (textiles, apparel, and leather and leather products) account for only a negligible proportion of U. S. direct investments abroad. These three industries collectively account for only about one percent of U. S. foreign direct manufacturing investments. ^{2/}

Merchandise Trade Balance

The growing merchandise trade surplus of the survey respondents is convincing evidence of the favorable contribution these firms make to U. S. economic growth. Today, these companies serve as "models" for other American companies being urged by the Government to increase exports. Although the growth in their aggregate merchandise trade surplus from \$3.2 billion in 1960, to \$4.7 billion in 1965, to \$6.6 billion in

^{1/} Primary metal products and printing and publishing, a high-skill industry with a low level of international trade, ranked third and fourth highest respectively in terms of average hourly wages.

^{2/} Estimated on the basis of reported earnings. See "U.S. Direct Investments Abroad," 1966, Part I, Balance of Payments Data, OBE-SUP 71-01, U.S. Department of Commerce, December, 1970. Table 5-B.

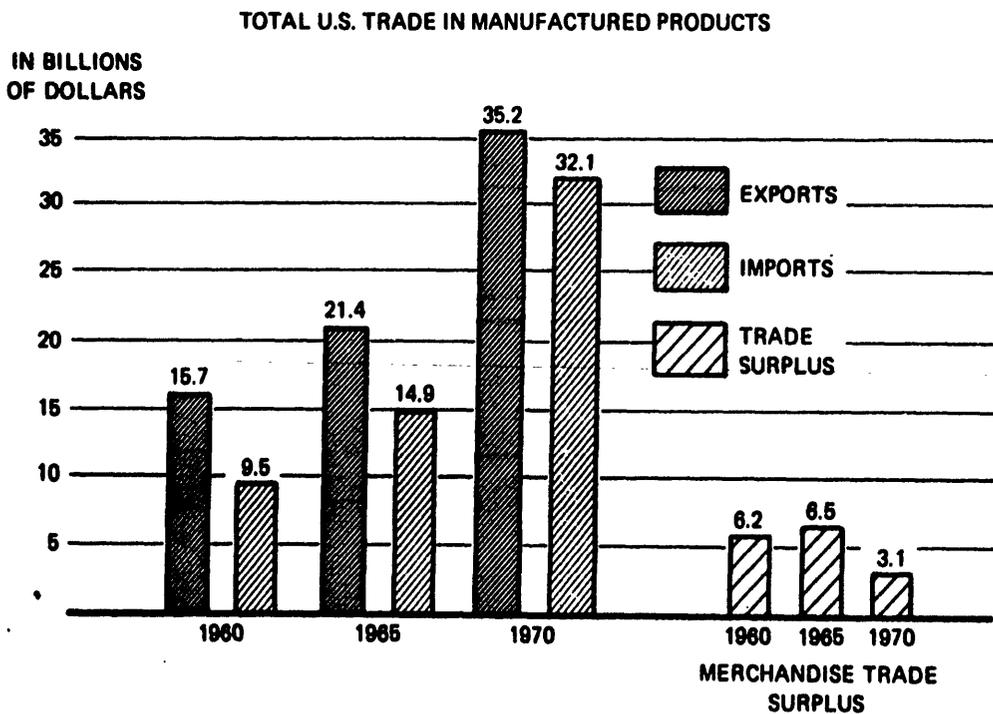
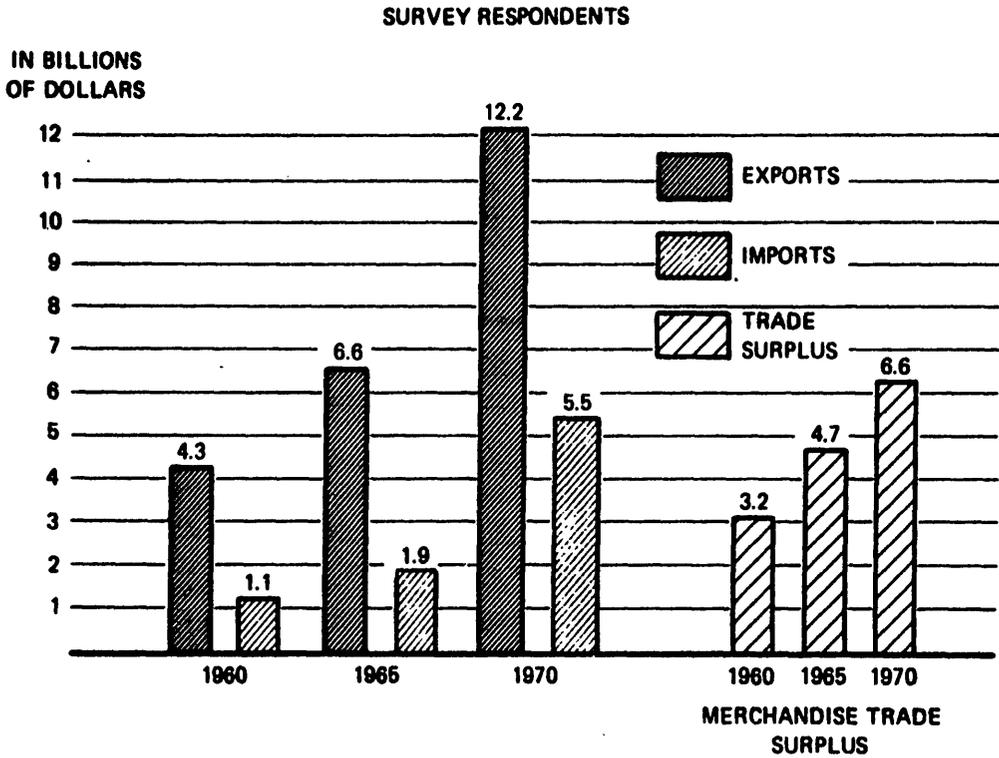
1970, speaks for itself, careful examination of the survey data reveals certain trends and relationships which help to illuminate the positive role of the multinational corporation in the U. S. economy.

First, the approximate doubling of the merchandise trade surplus of the survey respondents stands in marked contrast to the overall U.S. merchandise trade balance in manufactured products which declined from \$6.2 billion in 1960 to \$3.1 billion in 1970. Without the trade of the respondents, the U. S. merchandise trade surplus in manufactured products in 1970 would have been a deficit of substantial proportions. (See Figure III.)

Second, exports of survey respondents have accounted for a steadily increasing proportion of all U. S. exports of manufactured products. The respondents' share of total manufactured goods exports rose from 27.5 percent in 1960 to 34.6 percent in 1970. If the respondents' exports of motor vehicles and parts, which are largely attributable to the U.S.-Canadian Auto Agreement, are excluded, the respondents' share of total manufactured goods exports still rises from 20.7 percent in 1960 to 24.6 percent in 1970.

Third, the respondents' share of U. S. merchandise imports also increased from 1960 to 1970, but that increase was almost wholly attributable to the increase in imports of motor vehicles from Canada under the U.S.-Canadian Automobile Agreement. If the respondents'

FIGURE III
EXPORTS, IMPORTS AND MERCHANDISE TRADE SURPLUS
1960, 1965 AND 1970



Source: ECAT Survey, Table 31 (for Survey Respondents) and Table 32 (for total U.S. trade in all manufactured products).

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imports of motor vehicles are excluded from consideration, the ratio of imports by survey participants to total imports of manufactured goods declines from 10.8 percent in 1960 to 8.0 percent in 1970. (Table 31 .)

Fourth, the ratio of exports to domestic shipments is far higher for multinational firms than for the average U. S. manufacturing firm. The ratio of exports to U. S. sales for survey respondents and for all U. S. manufacturing firms are shown in the following tabulation:

<u>Year</u>	<u>Ratio of Exports to Total Shipments</u>	
	<u>Survey Respondents</u>	<u>All U. S. Manufacturing Firms</u>
1960	7.6%	4.2%
1965	7.9%	4.3%
1970	10.8%	5.4%

Source: ECAT Survey, Tables 18, 31 and 34

The preceding data provide convincing evidence that foreign manufacturing activities have not replaced the exports of U. S.-based multinational corporations. On the contrary, they indicate that foreign investments have provided a growing network of sales, service, and distribution facilities which have made possible an increasing volume of U. S. exports--both absolutely and relative to domestic sales.

Data on an industry-by-industry basis indicate a strong relationship between the growth in foreign investment and the growth in the U. S.

merchandise trade surplus. For example, the industry that expanded its foreign investments most rapidly,^{1/} the instruments and related products industry, also achieved the greatest proportionate growth in its merchandise trade surplus. Similarly, the nonelectrical machinery industry, which is now the largest overseas investor (in terms of annual plant and equipment expenditures) achieved a rapid growth in its merchandise trade surplus and now accounts for one-third of the total surplus reported by survey participants.

Moreover, the experience of the survey respondents indicates a direct relationship between foreign investments and export growth. Twenty-four percent of the reporting firms indicated that their exports would be much smaller if they had no foreign investments and 21 percent indicated that exports would be somewhat smaller under those circumstances. (Table 43.) The firms which reported that their foreign investments increased their export volume collectively accounted for roughly 75 percent of total exports of the survey respondents. By contrast, only 12 percent of the firms felt their exports might be somewhat larger in the absence of foreign investments, and 42 percent indicated their export levels would be approximately unchanged. Not one firm estimated that its exports would be much larger if it had no foreign investments.

^{1/} Excluding the aircraft industry where foreign investments continue to be nominal.

According to the survey, foreign investments have stimulated

U. S. exports in several ways:

1. They have made possible the exportation of intermediate parts and components.
2. They have enlarged the demand for U. S. capital goods.
3. They have expanded the market for complementary exports.
4. They have stimulated anticipatory exports (products exported while developing a foreign market to the point required for start-up) and fill-in exports (products exported at growth stage in foreign markets where local demand exceeds local capacity but does not warrant major expansion.)
5. They have helped to popularize company trademarks and brandnames and thereby stimulated the demand for U. S. exports to fill out the product lines of foreign affiliates.
6. They support U. S. exports by providing expanded service and distribution networks which could not be maintained solely on the basis of U. S. export volume. In the technologically advanced industries, these services are frequently a prerequisite to any significant U. S. export volume.
7. They contribute to higher incomes abroad, thus increasing the demand for luxury goods and technologically advanced products in which the United States has a comparative advantage (e.g., scientific instruments and aircraft).

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8. Finally, and very important, the local presence creates an awareness of market opportunities for U. S. exports which would otherwise go unnoticed.

Although the relative importance of each of the foregoing factors is impossible to ascertain, a U. S. Department of Commerce study of the exports of U. S. firms to their foreign affiliates provides an additional perspective on this question. This survey indicated that 320 U. S. parent corporations exported \$4.4 billion worth of merchandise to their foreign affiliates in 1965. The percentage distribution of these exports was as follows:

<u>Type or Category of Exports</u>	<u>% of Total Exports to Affiliates</u>
Exports for Further Processing or Assembly	33.9
Exports for Resale without Further Manufacture	56.0
Capital Equipment	5.9
Other Exports & Unallocated	4.2

Source: U. S. Department of Commerce,
Survey of Current Business, May, 1969.

Thus, the foregoing data indicate that roughly 40 percent of total exports to affiliates consisted of items which were directly dependent upon the manufacturing operations of those affiliates.

The merchandise imports of multinational corporations increased substantially during the 1960's. Sixty-five percent of the total increase in imports, however, consisted of motor vehicles and parts, chiefly under the U. S.-Canadian Automobile Agreement. Roughly one-half of the remaining imports (including nearly all of the imports of the paper and food industries and the preponderant part of the imports of the chemical and primary and fabricated metal products industries) consisted of raw materials. Thus, the increase in imports of manufactured products, other than automobiles, from 1960 to 1970 amounted to less than \$1 billion compared with an increase in exports (other than automobiles) of \$5.4 billion. It is not surprising, therefore, that 71 percent of the survey respondents indicated that their foreign investments had had virtually no effect on the share of the U. S. market supplied by imports. The remaining manufacturers were about evenly divided, with half indicating that their foreign investment had tended to reduce the import share of the U. S. market (mainly through weakening international competitors by challenging them in their home markets and through pre-emptive investments in high technology industries), while the other half indicated their investments tended to have the opposite result.

Contribution to U. S. Balance of Payments

The Department of Commerce credits the non-trade transactions

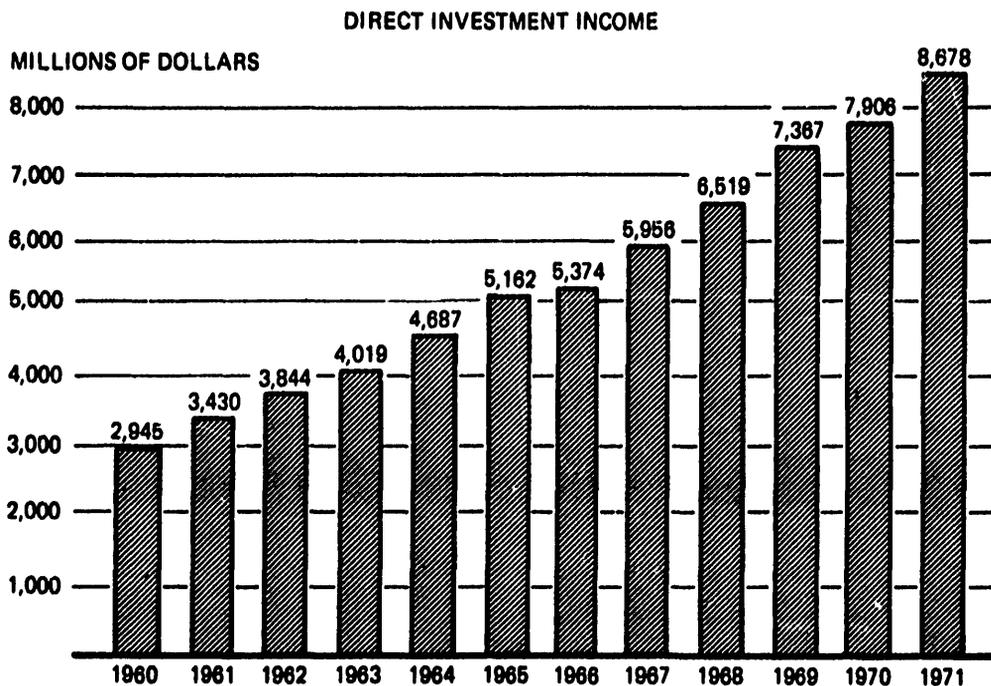
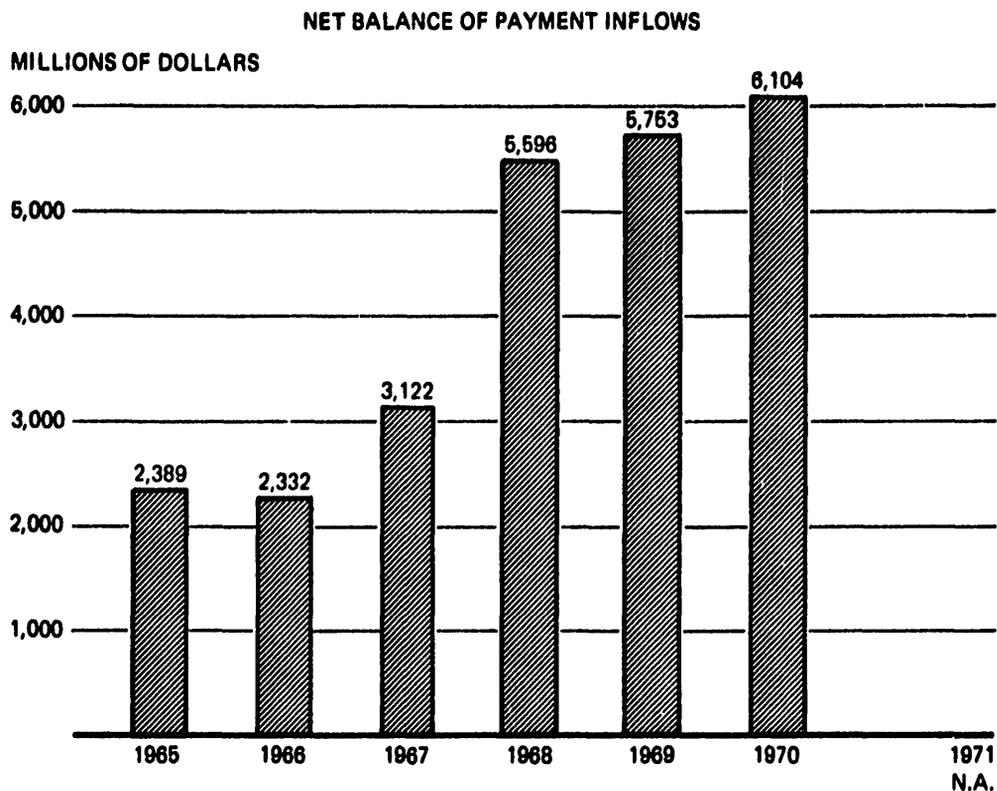
associated with foreign direct investments with making a cumulative net contribution to the U. S. balance of payments of \$25 billion during the period 1964 to 1970. The non-trade financial transactions of survey respondents made a positive contribution of \$615 million to the U. S. balance of payments in 1970. This contrasts with a surplus of \$116 million in 1965 and a total deficit of \$230 million in 1960. (Table 39.) The cash inflows of every industry group increased markedly from 1960 to 1970 while outflows displayed a more erratic pattern. Investment income (dividends and branch earnings) accounted for the bulk of the cash inflow though revenues from fees and royalties also rose markedly. Net cash outflows, by contrast, consisted preponderantly of net new investment in affiliates.

It should be recognized that the long-term effect of the non-trade financial transactions of the respondent companies is more favorable than that revealed by their net balance-of-payments contributions. Specifically, the preponderant part of their cash outflows consisted of net new investments, representing an increase in the investment base which can be expected to contribute to a sustained growth in U. S. investment income.

The short- and long-term contributions of U. S. foreign direct investments to our balance of payments are forcefully demonstrated by the official U. S. Department of Commerce data presented in Figure IV.

FIGURE IV

**DIRECT INVESTMENT INCOME AND NET BALANCE OF PAYMENT INFLOWS
RELATED TO FOREIGN DIRECT INVESTMENT (Except Merchandise Trade)**



Source: U.S. Department of Commerce,
Survey of Current Business,
October and December, 1971.

The top half of the chart indicates that the net balance of payment inflows identifiable with U. S. foreign direct investments (exclusive of trade) more than doubled from \$2.4 billion in 1965 to \$6.1 billion in 1970. Moreover, the stream of earnings attributable to our expanding investment base has grown steadily from \$2.9 billion in 1960 to \$8.7 billion in 1970.

The increase in the merchandise trade surplus of multinational corporations combined with the increase in net cash inflows arising from direct investments resulted in an increase in the overall balance of payments contributions of these firms from \$2.9 billion in 1960 to \$7.3 billion in 1970. (Table 41.) In the latter year, the international activities of every industry group made a positive contribution to the U. S. balance of payments.

Role of Technology Transfer

Technological change has long been viewed as a major instrument of economic progress. As the National Commission on Technology, Automation, and Economic Progress reported to the President and the Congress in the mid-1960's:

"The vast majority of people quite rightly have accepted technological change as beneficial. They recognize that it has led to better working conditions by eliminating many, perhaps most, dirty, menial, and servile jobs; that it has made possible the shortening of working hours and the increase in leisure; that it has provided a growing abundance of goods and a continuous flow of improved and new products; that it has provided new interests and new experience for people and thus added to the zest for life."

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Similarly, the view that the international exchange of technology is both necessary and beneficial is widely held among businessmen, economists, and government policy makers. For example, a government-sponsored panel on the International Transfer of Technology recently reported that:

"If we are going to solve the major problems facing humanity--overpopulation, air pollution, water pollution, and many others--we need a vast generation and exchange of new technology...Practically all economists agree that a free flow of technology contributes in important ways to a rising standard of living both in this country and elsewhere...The exchange of technology among economically developed nations and its application to research, production, and management are increasingly seen as vital elements in the development and maintenance of buoyant national economies."

The optimistic views of economists concerning the benefits of technology transfer are not, however, shared by everyone. There are allegations that the "export" of U. S. technology by U. S. firms has reduced the potential for U. S. merchandise exports of high-technology products and has contributed to intensified import competition in the U. S. market. Legislation has been proposed which would severely restrict the rights of U. S. firms to engage in international technological transfer.

The information developed in this analysis strongly supports the prevalent view that both the United States and foreign economies benefit from the process of technology transfer. It shows a significant dependence of U. S. firms on foreign technology and indicates that the transfer of U. S. technology abroad has actually had a positive effect on U. S. exports.

A clear majority of survey respondents have participated in the international exchange of technology both as donors and recipients. (Table 45.) Eighty-five percent of the survey respondents made at least some of their manufacturing technology available to foreign firms while 69 percent obtained technology from abroad. Most respondents were agreed that in the majority of instances the exchange of technology had little if any effect on U. S. merchandise trade. In several instances, however, firms indicated that the granting of their technology through licensing had permitted them to export parts, components or capital goods to markets which had proved otherwise impenetrable. In two industries survey respondents indicated that imported technology had enabled them to hold or regain a significant segment of the U. S. market from import competition.

The generally minimal effect of technology transfers on trade is largely explained by the fact that the licensing of technology appears to be regarded by most firms as a "third-best" alternative--when neither exports nor direct investments appear practicable. The relatively greater trade benefits realized by U. S. manufacturers through the licensing of foreign technology may be explained in part by the fact that a smaller proportion of foreign firms have the resources to exploit their technological advantages through direct investment in the U. S. market, while nearly all of the survey respondents have the requisite resources (financial, technological, and managerial) to capitalize on most investment opportunities.

The findings of the survey that the exchange of technology has had a positive effect on the U. S. merchandise trade balance (both through export creation and import substitution) might serve as a warning to those who seek simplistic solutions (i.e., curb the export of technology) to complex problems (unemployment). At the very least, it might serve to remind us that the U. S. dependence on foreign technology did not end with the discovery of penicillin or the invention of the computer or the jet engine (both foreign inventions) but continues to the present day with a major dependence on imported technology in numerous industries such as flat glass and the metalworking industries.

1/
Foreign Direct Investments in the United States. The rapid growth in the international operations of U. S. multinational corporations has been paralleled by growth in foreign direct investment in the United States. Such investment increased from \$6.9 billion in 1960 to \$13.2 billion in 1970. (Table 5.) Foreign investment in U. S. manufacturing industries rose from \$2.6 billion in 1960 to \$6.1 billion in 1970, an increase of 133 percent.

During 1965-70, foreign direct investments in manufacturing facilities in the U. S. increased at approximately the same rates as U. S. direct manufacturing investment abroad. The growth in foreign

1/ This analysis does not consider foreign-held portfolio investments in the United States, which amounted to over \$25 billion at the close of 1970.

direct investment in the United States, like that of U. S. investment abroad, has typically been an outgrowth of export activities. One recent study of 40 investment decisions by foreign firms in the U. S. market indicated that 75 percent of the companies invested here to hold a market previously served by exports.^{1/} Foreign investments in the United States have been heavily concentrated in specific product areas where the particular foreign firms were known (or believed) to have a superior or distinctive product (e.g., dyes, glass, steel, wire weavings, photographic base paper, etc.) In a significant proportion of the cases, the desire to achieve lower unit costs provided the major impetus for the decision to invest in the United States.

The growth in the United States activities of foreign-controlled multinational corporations offers further confirmation of the following two major findings of our survey:

1. The flow of capital, technology, and other resources associated with foreign direct investment is a two-way street. U. S. firms, for example, control only about sixty percent of the total foreign assets of all multinational

^{1/} Recent Foreign Direct Manufacturing Investment in the United States, John D. Daniels, Praeger, New York, 1971.

corporations,^{1/} and

2. Low-wage rates are not a major factor in the majority of foreign investment decisions. In this connection, it is interesting to note that some Japanese firms are now building manufacturing plants in the U. S. market to produce products previously exported to the United States (i.e., Sony will soon produce color TV sets in the United States).

Finally, the pattern of growing foreign direct investment in the United States dramatizes the constantly changing character of the marketplace and the overriding importance of market demands in foreign investment decisions.

The growth in foreign direct investments, whether in the United States or abroad, constitutes one form of corporate response to changing market conditions.

* * *

The conclusions from the ECAT survey about the operations of multinational companies are based on sound statistics. If they clash with the judgments derived from a combination of isolated incidents and

^{1/} See "International Business: How Big Is It--The Missing Measurements," Stefan H. Robock and Kenneth Simmonds, *Columbia Journal of World Business*, May-June, 1970, and Policy Aspects of Foreign Investment by U. S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, January, 1972, Table 1.

intuition, they can stand their ground. Undoubtedly, further research by others, particularly the United States Government, will improve on these findings and further raise the level of public understanding and discussion.

**BOOK VALUE OF U. S. DIRECT INVESTMENTS
IN MANUFACTURING AFFILIATES ABROAD, 1960-70**

<u>Year</u>	<u>Book Value at Year End (In Millions of Dollars)</u>
1960	11,152
1961	11,936
1962	13,212
1963	14,937
1964	16,935
1965	19,339
1966	22,078
1967	24,172
1968	26,414
1969	29,527
1970	32,231
Average Annual Growth Rate	11.1%

Source: U. S. Department of Commerce,
Office of Business Economics.

U. S. FOREIGN DIRECT INVESTMENTS BY MAJOR INDUSTRY GROUP, 1970

<u>Industry Group</u>	<u>Book Value at Year End (million \$)</u>	<u>Percentage Distribution</u>
Mining & Smelting	6,137	7.3%
Petroleum	21,790	27.9%
Manufacturing	32,231	41.3%
Other Industries	<u>17,932</u>	<u>23.0%</u>
Total, All Industries	78,090	100.0%

Source: U. S. Department of Commerce,
Survey of Current Business,
October, 1971.

**BOOK VALUE OF INVESTMENTS IN FOREIGN MANUFACTURING
AFFILIATES AS OF DECEMBER 31, 1970**

	<u>(In Millions of\$)</u>	<u>% Distribution</u>	<u>% Distribution (Excluding Motor Vehicles & Parts)</u>
Food & Kindred Products	991.1	7.0	10.0
Paper & Allied Products	1,053.0	7.3	10.5
Chemical & Allied Products	1,748.0	12.2	17.4
Primary Fabricated Metals	1,010.4	7.0	10.1
Machinery, Except Electrical	2,986.6	20.8	29.8
Machinery, Electrical	403.7	2.8	4.0
Motor Vehicles & Parts	4,337.1	30.2	NA
Aircraft & Parts Industry	42.0	0.3	0.4
Instruments & Related Products	737.5	5.1	7.4
All Other Industries	1,054.9	7.3	10.5
TOTAL	14,364.3	100.0	NA
TOTAL, Excluding Motor Vehicles & Parts	10,027.2	NA	100.0

Source: ECAT Survey.

U. S. FOREIGN DIRECT INVESTMENT IN MANUFACTURING, BY AREA, 1970

	<u>Book Value at Year End (million \$)</u>	<u>Percentage Distribution</u>
Total, All Areas	32,231	100.0%
Canada	10,050	31.2%
Other Western Hemisphere	4,604	14.3%
Western Europe	13,703	42.5%
Japan	753	2.3%
Australia, New Zealand & South Africa	2,241	7.0%
Rest of the World	880	2.7%

Source: U. S. Department of Commerce,
Survey of Current Business,
October, 1971.

Table 5

**FOREIGN DIRECT INVESTMENTS IN THE UNITED STATES,
1960, 1965, 1969 AND 1970**

	<u>(Millions of Dollars)</u>				<u>Average Annual Growth Rate</u>		
	<u>1960</u>	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1960- 1965</u>	<u>1965- 1970</u>	<u>1960- 1970</u>
Total, All Industries	6,910	8,797	11,818	13,209	4.9	8.5	6.7
Manufacturing Industries, All Countries, Total	2,611	3,478	5,344	6,105	5.9	11.9	8.4
Western Europe:							
United Kingdom	722	839	1,176	1,391	3.0	10.6	6.8
Netherlands	213	328	535	652	9.0	14.7	11.8
Switzerland	427	590	1,026	1,152	6.7	14.3	10.4
Other	249	410	793	866	10.5	16.1	13.3
Subtotal, Western Europe	1,611	2,167	3,530	4,061	6.1	13.4	9.6
Canada	932	1,219	1,644	1,831	5.5	8.5	7.0
Other Areas	68	92	170	213	6.2	18.3	12.1

**SOURCE: U. S. Department of Commerce, Office of
Business Economics**

CUMULATIVE EXPENDITURES FOR PLANT AND EQUIPMENT, EXCLUSIVE OF THAT OBTAINED THROUGH ACQUISITION, 1961-65 AND 1966-70
(In Millions of Dollars)

Industry Group	IN THE UNITED STATES				OUTSIDE THE UNITED STATES			
	1961-65	1966-70	Absolute Change 1961-65 to 1966-70	Avg. Annual Growth Rate 1961-65 to 1966-70	1961-65	1966-70	Absolute Change 1961-65 to 1966-70	Avg. Annual Growth Rate 1961-65 to 1966-70
Food & Kindred Products	896.6	1,683.4	786.8	13.7	355.0	574.0	219.0	10.1
Paper & Allied Products	1,589.0	3,196.0	1,607.0	15.0	337.0	655.0	318.0	14.2
Chemicals & Allied Products	946.2	1,964.8	1,018.6	15.7	648.7	1,308.8	660.1	15.0
Primary & Fab. Metal Industries	1,283.8	2,196.4	912.6	11.4	410.0	681.8	271.8	10.7
Machinery, Except Electrical	1,787.2	3,641.6	1,854.4	15.3	829.2	1,726.5	897.3	15.8
Machinery, Electrical	665.5	1,782.9	1,117.4	21.6	142.3	307.5	165.2	16.7
Motor Vehicles & Parts	4,916.5	7,512.3	2,595.8	8.8	2,197.7	2,568.2	370.5	3.2
Aircraft & Parts	530.6	1,632.2	1,101.6	25.1	14.0	54.2	40.2	31.1
Instruments & Related Products	710.9	2,065.9	1,355.0	23.8	202.4	1,076.3	873.9	39.7
All Other Industries	1,075.4	2,121.3	1,045.9	14.5	451.9	948.0	496.1	16.0
TOTAL, All Respondents	14,401.7	27,796.8	13,395.1	14.1	5,588.2	9,900.3	4,312.1	12.1
TOTAL, All Manufacturing Industries (Except Petroleum)^{1/}	69,340.0	118,560.0	49,220.0	11.3	12,966.0	24,799.0	11,833.0	13.9
Ratio of Respondents to All Manufacturing Industries	20.8%	23.5%	27.2%	2/	43.1%	39.9%	36.4%	2/

^{1/} As reported by the U. S. Department of Commerce.

^{2/} Not meaningful.

Source: ECAT Survey and U. S. Department of Commerce

**PLANT AND EQUIPMENT EXPENDITURES BY FOREIGN AFFILIATES
OF U. S. MANUFACTURING COMPANIES, BY MAJOR INDUSTRY, 1961-1970**
(Millions of Dollars)

<u>All Areas:</u> <u>Total</u>	<u>Total</u>	<u>Total Excluding Trans- portation Equipment</u>	<u>Food Products</u>	<u>Paper & Allied Products</u>	<u>Chemicals</u>	<u>Rubber Products</u>	<u>Primary & Fabri- cated Metals</u>	<u>Machinery (Excluding Electrical)</u>	<u>Electrical Machinery</u>	<u>Trans- portation Equipment</u>	<u>Other Manu- facturing</u>
1961	1,782	1,309	116	71	278	94	169	290	141	473	153
1962	2,042	1,457	126	95	308	91	162	315	177	585	183
1963	2,251	1,721	132	134	436	98	204	330	164	530	223
1964	3,007	2,281	159	180	619	109	303	414	223	726	273
1965	3,884	3,011	187	251	861	178	324	647	234	873	328
Subtotal, 1961-65	12,966	9,779	720	731	2,502	567	1,162	1,996	939	3,187	1,160
1966	4,583	3,617	200	309	1,035	158	446	776	268	966	424
1967	4,525	3,730	233	212	1,210	149	392	774	314	795	446
1968	4,191	3,574	204	172	1,208	162	347	695	321	617	465
1969	4,976	4,180	229	205	1,118	211	503	945	399	796	571
1970	6,524	5,464	261	274	1,294	200	771	1,432	488	1,060	743
Subtotal, 1966-70	24,799	20,565	1,127	1,172	5,865	880	2,459	4,622	1,790	4,234	2,649
Avg. Annual Change, 1961-65 to 1966-70	13.9%	16.0%	9.4%	9.9%	18.6%	9.2%	16.2%	18.3%	13.8%	5.9%	18.0%

Source: U. S. Department of Commerce, Office of Business Economics.

**PERCENTAGE DISTRIBUTION OF PLANT AND EQUIPMENT EXPENDITURES
BY FOREIGN AFFILIATES OF U.S. MANUFACTURING COMPANIES BY
MAJOR INDUSTRY (EXCLUDING TRANSPORTATION INDUSTRY)**

	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>60-65</u>	<u>65-70</u>
Total Manufacturing													
Machinery, except Electrical	18%	22%	22%	19%	18%	21%	21%	21%	19%	23%	26%	20%	22%
Chemicals	22%	21%	21%	25%	27%	29%	29%	32%	34%	27%	24%	26%	29%
Primary & Fabricated													
Metal Products	13%	13%	11%	12%	13%	11%	12%	11%	10%	12%	14%	12%	12%
Electrical Machinery	10%	11%	12%	10%	10%	8%	7%	8%	9%	10%	9%	10%	9%
Paper & Allied Products	7%	5%	7%	8%	8%	8%	9%	6%	5%	5%	5%	7%	6%
Food Products	9%	9%	9%	8%	7%	6%	6%	6%	6%	5%	5%	7%	5%
Rubber Products	6%	7%	6%	6%	5%	6%	4%	4%	5%	5%	4%	6%	4%
Other Manufacturing	14%	12%	13%	13%	12%	11%	12%	12%	13%	14%	14%	12%	13%

Source: U.S. Department of Commerce, Office of Business Economics

Table 9

**DOMESTIC EXPENDITURES FOR PLANT AND EQUIPMENT
BY U. S. MANUFACTURING FIRMS BY INDUSTRY, 1961-65 AND 1966-70**

<u>Industry Group</u>	<u>Cumulative Expenditures (In Millions of Dollars)</u>		<u>Avg. Annual Growth Rate 1961-65 to 1966-70</u>
	<u>1961-65</u>	<u>1966-70</u>	
All Manufacturing	85,080	143,750	11.1
Petroleum	15,740	25,190	9.9
All Manufacturing (except petroleum)	69,340	118,560	11.3
Rubber	1,300	3,560	22.3
Electrical Machinery & Equipment	3,570	8,000	17.5
Trans., Except Motor Vehicles	2,440	5,140	16.1
Machinery, Except Electrical	7,460	15,480	15.7
Paper	4,180	7,840	13.4
Food & Kindred Products	5,240	9,640	13.0
Primary Metal Products	9,230	15,970	11.6
Chemicals	9,350	15,100	10.1
Stone, Clay & Glass	3,160	4,410	6.9
Motor Vehicles & Parts	6,130	8,290	6.2
Textiles	3,490	3,960	2.6
Other Durables	9,980	15,690	9.5
Other Non-Durables	3,800	5,500	7.7

Source: Official Statistics of the
U. S. Department of Commerce.

CUMULATIVE EXPENDITURES FOR PLANT AND EQUIPMENT OUTSIDE THE UNITED STATES
AND PLANT AND EQUIPMENT OBTAINED THROUGH ACQUISITION, BY INDUSTRY GROUP, 1961-65 AND 1966-70
(In Millions of Dollars)

Industry Group	IN THE UNITED STATES						OUTSIDE THE UNITED STATES					
	Expenditures for New Plant & Equipment (Exclusive of that Obtained through Acquisition)		Value of Plant & Equipment Obtained through Acquisition		TOTAL		Expenditures for New Plant & Equipment (Exclusive of that Obtained through Acquisition)		Value of Plant & Equipment Obtained through Acquisition		TOTAL	
	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70	1961-65	1966-70
Food & Kindred Products	896.6	1,683.3	81.5	269.1	978.1	1,952.4	355.0	574.0	61.7	150.1	416.7	724.1
Paper & Allied Products	1,589.0	3,196.0	111.0	301.0	1,700.0	3,497.0	337.0	655.0	93.0	77.0	430.0	732.0
Chemicals & Allied Products	946.2	1,964.8	103.0	300.5	1,049.2	2,265.3	648.7	1,308.8	56.2	134.4	704.9	1,443.2
Primary & Fab. Metal Indus.	1,283.8	2,196.4	80.0	63.1	1,363.8	2,259.5	410.0	681.8	49.4	76.9	459.4	758.7
Machinery, Except Electrical	1,787.2	3,641.6	37.1	247.7	1,824.3	3,889.3	829.2	1,726.5	30.7	66.5	859.9	1,793.0
Machinery, Electrical	665.5	1,782.9	43.2	162.2	708.7	1,945.1	142.3	307.5	14.0	225.1	156.3	532.6
Motor Vehicles & Parts	4,916.5	7,512.3	70.9	149.3	4,987.4	7,661.6	2,197.7	2,568.2	236.2	109.0	2,433.9	2,677.2
Aircraft & Parts	530.6	1,632.2	2.9	130.7	533.5	1,762.9	14.0	54.2	0.0	14.6	14.0	68.8
Instruments & Related Products	710.9	2,065.9	19.0	135.0	729.9	2,200.9	202.4	1,076.3	0.0	300.0	202.4	1,376.3
All Other Industries	1,075.4	2,121.3	84.4	53.6	1,159.8	2,174.9	451.9	948.0	27.5	75.0	479.4	1,023.0
Total, All Industries	14,401.7	27,796.7	633.0	1,812.2	15,034.7	29,608.9	5,588.2	9,900.3	568.7	1,228.6	6,156.9	11,128.9
PERCENTAGE DISTRIBUTION OF CAPITAL EXPENDITURES												
Food & Kindred Products	91.7	86.2	8.3	13.8	100.0	100.0	85.2	79.3	14.8	20.7	100.0	100.0
Paper & Allied Products	93.5	91.4	6.5	8.6	100.0	100.0	78.4	89.5	21.6	10.5	100.0	100.0
Chemicals & Allied Products	90.2	86.7	9.8	13.3	100.0	100.0	92.0	90.7	8.0	9.3	100.0	100.0
Primary & Fab. Metal Indus.	94.1	97.2	5.9	2.8	100.0	100.0	89.2	89.9	10.8	10.1	100.0	100.0
Machinery, Except Electrical	98.0	93.6	2.0	6.4	100.0	100.0	96.3	96.7	3.7	3.3	100.0	100.0
Machinery, Electrical	93.9	91.7	6.1	8.3	100.0	100.0	91.0	57.7	9.0	42.7	100.0	100.0
Motor Vehicles & Parts	98.6	98.1	1.4	1.9	100.0	100.0	90.3	95.9	3.7	4.1	100.0	100.0
Aircraft & Parts	99.5	92.6	4.5	7.4	100.0	100.0	100.0	78.8	0.0	21.2	100.0	100.0
Instruments & Related Products	97.4	93.9	2.6	6.1	100.0	100.0	100.0	78.2	0.0	21.8	100.0	100.0
All Other Industries	92.7	97.5	7.3	2.5	100.0	100.0	94.3	92.7	5.7	7.3	100.0	100.0
Total, All Industries	95.8	93.9	4.2	6.1	100.0	100.0	90.8	89.0	9.2	11.0	100.0	100.0

Source: ECAT Survey

**CAPITAL EXPENDITURES* BY U. S. MULTINATIONAL FIRMS AND
THEIR FOREIGN AFFILIATES, BY GEOGRAPHIC AREA, 1961-65 and 1966-70**

	<u>1961-65</u>	<u>1966-70</u>	<u>% Change</u>
Total, U. S.	14,401.7	27,796.8	93.0
Canada	914.8	1,861.1	103.4
Other Western Hemisphere	702.2	1,070.9	52.5
Western Europe	2,919.1	5,351.7	83.3
Far East	198.5	374.4	88.6
Rest of the World	718.6	1,136.3	60.9
Non-Allocable	135.0	106.0	21.4
Total, Outside U. S.	5,588.2	9,900.3	77.2
Total, Outside U. S. (Except Canada)	4,673.4	8,039.2	72.0

% Distribution of Investment Outside U. S.

Canada	16.4%	18.8%
Other Western Hemisphere	12.6%	10.8%
Western Europe	52.2%	54.1%
Far East	3.5%	3.8%
Rest of World	12.9%	11.4%
Non-Allocable	2.4%	1.1%
Total, Outside U. S.	100.0%	100.0%

*Exclusive of that obtained through acquisitions.

Source: ECAT Survey.

DOMESTIC EMPLOYMENT AND EMPLOYMENT BY FOREIGN AFFILIATES OF U. S. FIRMS, 1960, 1965, AND 1970

Industry Group	Domestic Employment					Employment by Foreign Affiliates				
	1960	1965	1970	Absolute Change	Avg. Annual Growth Rate	1960	1965	1970	Absolute Change	Avg. Annual Growth Rate
	(000)	(000)	(000)	1960-70 (000)	1960-70	(000)	(000)	(000)	1960-70 (000)	1960-70
Food & Kindred Products	169.3	200.7	222.8	53.5	2.8	49.3	82.8	133.4	84.1	10.5
Paper & Allied Products	153.0	200.0	246.0	93.0	4.9	34.6	51.9	78.1	43.5	8.5
Chemicals & Allied Products	96.7	106.8	178.7	82.0	6.3	63.4	103.5	146.3	82.9	8.7
Primary & Fab. Metal Industries	143.5	140.9	153.1	9.6	.7	19.9	44.2	65.4	45.5	12.6
Machinery, Except Electrical	384.9	467.2	536.7	151.8	3.4	165.0	227.3	323.9	158.9	7.0
Machinery, Electrical	204.1	242.0	313.9	109.8	4.4	87.0	98.7	160.4	73.4	6.3
Motor Vehicles & Parts	807.4	992.0	1,030.1	222.7	2.5	268.3	408.8	565.2	296.9	7.7
Aircraft & Parts	239.0	290.0	260.0	21.0	.8	2.0	4.0	12.0	10.0	19.6
Instruments & Related Products	85.9	123.5	175.0	89.1	7.4	32.5	51.9	109.7	77.2	12.9
All Other Industries	168.6	200.4	231.2	62.6	3.2	98.1	97.0	131.4	33.3	3.0
TOTAL, All Respondents	2,452.4	2,963.5	3,347.5	895.1	3.3	820.1	1,170.1	1,725.8	905.7	7.7
TOTAL, All Manufacturing Industries ^{1/}	16,800.0	18,060.0	19,370.0	2,570.0	1.4	NA	NA	NA	NA	NA
Ratio of Respondents to All Manufacturing	14.6%	16.4%	16.9%	32.2%	NA	NA	NA	NA	NA	NA

^{1/} As reported by the U. S. Department of Labor.

Source: ECAT Survey

CHANGES IN EMPLOYMENT ATTRIBUTABLE TO ACQUISITIONS AND TO OTHER FACTORS BY
U. S. FIRMS AND THEIR FOREIGN AFFILIATES, 1960-1970

Industry Group	CHANGE IN DOMESTIC EMPLOYMENT						CHANGE IN EMPLOYMENT OF FOREIGN AFFILIATES					
	Total (000)	Due to Acqui- sitions (000)	Due to Other Factors (000)	Average Annual Change--			Total (000)	Due to Acqui- sitions (000)	Due to Other Factors (000)	Average Annual Change--		
				Total	Due to Acqui- sitions	Due to Other Factors				Total	Due to Acqui- sitions	Due to Other Factors
Food & Kindred Products	+53.5	+57.5	-4.0	+2.8	+3.0	-0.2	+84.1	+38.4	+45.7	+10.5	+6.6	+6.8
Paper & Allied Products	+93.0	+46.0	+47.0	+4.9	+2.7	+2.7	+43.5	+30.7	+12.8	+8.5	+6.6	+3.2
Chemicals & Allied Products	+82.0	+54.5	+27.5	+6.3	+4.5	+2.5	+82.9	+48.1	+34.8	+8.7	+5.8	+4.5
Primary & Fab. Metal Indus.	+9.6	+14.5	-4.9	+0.7	+1.0	-0.3	+45.5	+32.1	+13.4	+12.6	+10.1	+5.3
Machinery, Except Electrical	+151.8	+35.0	+116.8	+3.4	+0.9	+2.7	+158.9	+28.2	+130.7	+7.0	+1.6	+6.0
Machinery, Electrical	+109.8	+44.3	+65.5	+4.4	+2.0	+2.8	+73.4	+44.0	+29.4	+6.3	+4.2	+3.0
Motor Vehicles & Parts	+222.7	+69.0	+153.7	+2.5	+0.8	+1.8	+296.9	+51.3	+245.6	+7.7	+1.8	+6.7
Aircraft & Parts	+21.0	+2.0	+19.0	+0.8	+0.1	+0.8	+10.0	+6.0	+4.0	+19.6	+14.9	+11.6
Instruments & Related Products	+89.1	+19.0	+70.1	+7.4	+2.0	+6.1	+77.2	+18.0	+59.2	+12.9	+4.5	+10.9
All Other	+62.6	+24.7	+37.9	+3.2	+1.4	+2.1	+33.3	+12.3	+21.0	+3.0	+1.2	+2.0
Total, All Respondents	+895.1	+366.5	+528.6	+3.3	+1.4	+2.0	+905.7	+309.1	+596.6	+7.7	+3.3	+5.6

Source: ECAT Survey.

**EMPLOYEES ON MANUFACTURING PAYROLLS
BY MAJOR INDUSTRY GROUP, 1939-70**

[In thousands]

Year and month	Durable goods											
	Total	Ordnance and accessories	Lumber and wood products	Furniture and fixtures	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery except electrical	Electrical equipment and supplies	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries
1939.....	4,715	11			309			588	441	645		
1940.....	5,363	22			387			701	494	834		
1941.....	6,068	71			486			959	657	1,297		
1942.....	6,823	329			460			1,265	788	2,259		
1943.....	11,084	486			446			1,500	1,015	3,666		
1944.....	10,856	368			412			1,462	1,087	3,682		
1945.....	9,074	245			408			1,307	979	2,548		
1946.....	7,742	30			498			1,255	919	1,250		
1947.....	8,265	27	845	336	537	1,279	988	1,375	1,035	1,275	207	421
1948.....	8,326	28	818	346	549	1,290	979	1,372	991	1,270	262	422
1949.....	7,489	28	741	317	514	1,134	881	1,182	892	1,210	239	385
1950.....	8,094	32	808	354	547	1,247	982	1,210	991	1,265	250	400
1951.....	9,089	71	840.2	357.2	587.0	1,364.3	1,077.8	1,456.6	1,113.6	1,515.1	294.3	426.0
1952.....	9,349	178.7	780.4	357.1	664.0	1,282.1	1,064.4	1,517.4	1,185.0	1,703.2	312.5	393.7
1953.....	10,110	224.3	770.7	369.9	581.3	1,383.1	1,156.4	1,654.4	1,333.3	1,969.1	337.1	420.9
1954.....	9,129	163.3	707.9	341.9	552.6	1,219.3	1,006.9	1,417.7	1,190.4	1,754.1	321.2	390.7
1955.....	9,541	141.2	739.6	363.8	588.4	1,322.5	1,122.4	1,448.5	1,240.8	1,854.6	323.2	396.2
1956.....	9,834	128.5	730.9	375.5	603.3	1,355.3	1,140.4	1,571.6	1,323.1	1,852.5	337.8	403.0
1957.....	9,856	140.2	655.3	374.3	603.4	1,355.3	1,187.3	1,585.9	1,343.8	1,900.1	342.1	387.2
1958.....	8,830	158.1	615.0	360.8	542.4	1,153.5	1,076.9	1,362.4	1,249.0	1,594.6	323.8	373.0
1959.....	9,373	203.5	658.8	385.0	604.0	1,182.6	1,122.6	1,432.1	1,396.4	1,635.0	345.3	387.7
1960.....	9,459	220.0	626.8	383.0	604.0	1,231.2	1,133.3	1,470.0	1,467.1	1,568.0	354.3	389.9
1961.....	9,070	244.2	582.9	367.5	582.0	1,142.7	1,084.5	1,418.6	1,473.3	1,448.6	347.4	378.2
1962.....	9,480	264.4	589.3	385.1	592.3	1,165.6	1,127.7	1,493.2	1,567.0	1,547.0	358.7	389.6
1963.....	9,618	265.5	592.6	389.9	600.8	1,172.2	1,150.1	1,529.3	1,553.9	1,609.7	364.8	386.8
1964.....	9,816	243.9	604.2	405.9	613.8	1,223.2	1,180.7	1,609.6	1,543.8	1,604.3	369.9	397.6
1965.....	10,408	228.8	606.9	430.7	628.3	1,301.0	1,269.0	1,733.3	1,659.2	1,740.6	389.0	419.5
1966.....	11,284	280.9	614.3	481.5	644.2	1,350.7	1,351.3	1,910.0	1,908.8	1,917.7	430.9	433.7
1967.....	11,430	317.2	594.8	485.4	628.3	1,222.1	1,363.1	1,969.6	1,958.9	1,944.5	450.8	428.4
1968.....	11,826	334.0	600.1	471.6	635.8	1,318.5	1,390.4	1,965.9	1,974.8	2,038.6	461.9	433.4
1969.....	11,869	314.8	600.2	483.5	656.3	1,385.0	1,442.1	2,077.7	2,013.0	2,087.1	478.8	440.2
1970.....	11,208	248.7	610.3	498.9	637.7	1,308.3	1,368.1	1,964.1	1,913.4	1,823.8	484.0	423.8

Percent Change:

1965-70	7.7	10.1	-4.4	6.8	1.5	0.4	9.2	13.2	15.3	4.8	18.0	1.0
1960-70	18.4	13.0	-7.4	20.1	5.6	6.1	22.1	32.8	30.4	16.2	29.6	8.7

Year and month	Nondurable goods										
	Total	Food and kindred products	Tobacco manufactures	Textile mill products	Apparel and other textile products	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum and coal products	Rubber and plastics products, nec.	Leather and leather products
1939.....	5,564	1,368		1,168	924	320	569	371	199	100	266
1940.....	6,622	1,414		1,177	929	323	570	399	146	176	374
1941.....	6,225	1,514		1,336	1,050	372	580	483	155	212	418
1942.....	6,488	1,617		1,342	1,087	378	586	571	160	219	413
1943.....	6,818	1,649		1,296	1,107	389	637	609	160	208	361
1944.....	6,472	1,685		1,197	1,079	388	558	650	174	264	346
1945.....	6,450	1,691		1,139	1,080	391	577	628	196	294	367
1946.....	6,962	1,797		1,118	1,204	447	689	633	208	317	408
1947.....	7,159	1,799		1,299	1,156	466	721	649	221	328	413
1948.....	7,258	1,801	114	1,333	1,180	478	740	655	226	312	413
1949.....	6,653	1,778	109	1,187	1,173	465	740	618	221	283	369
1950.....	7,147	1,790	103	1,256	1,202	485	748	640	218	311	366
1951.....	7,304	1,823.2	104.1	1,237.7	1,207.2	511.2	787.6	707.0	231.3	334.4	393.9
1952.....	7,284	1,827.8	103.6	1,183.4	1,216.4	508.7	778.9	720.1	234.6	336.3	384.3
1953.....	7,436	1,838.9	103.6	1,154.8	1,248.0	530.4	802.8	768.2	241.4	361.0	393.3
1954.....	7,165	1,818.3	103.3	1,042.3	1,183.6	531.1	813.9	782.7	238.1	373.9	388.9
1955.....	7,340	1,824.7	102.6	1,050.2	1,218.2	550.0	834.7	773.1	237.1	363.3	388.9
1956.....	7,409	1,841.9	99.6	1,032.0	1,228.4	567.8	862.0	796.5	236.5	368.2	382.7
1957.....	7,319	1,805.4	97.0	981.1	1,210.1	570.6	870.0	810.0	232.2	371.9	373.7
1958.....	7,116	1,772.8	94.5	918.8	1,171.8	564.1	872.6	794.1	223.8	344.3	368.2
1959.....	7,303	1,786.6	94.5	945.7	1,225.9	587.2	898.5	809.2	218.5	372.7	374.0
1960.....	7,336	1,790.0	94.0	924.4	1,233.2	601.1	911.3	828.2	211.9	378.0	383.4
1961.....	7,256	1,775.2	90.7	893.4	1,216.5	601.3	917.3	825.2	201.9	378.3	383.2
1962.....	7,373	1,763.0	90.5	907.3	1,263.7	614.4	928.4	846.6	186.3	408.4	380.7
1963.....	7,380	1,732.0	88.6	885.4	1,282.6	618.5	930.6	865.3	188.7	418.5	390.2
1964.....	7,458	1,730.4	90.2	892.0	1,302.5	623.5	961.5	878.6	183.9	436.0	397.6
1965.....	7,656	1,758.7	88.8	923.6	1,354.2	630.1	979.4	907.8	182.9	470.8	382.9
1966.....	7,930	1,777.2	84.3	968.5	1,401.9	668.9	1,018.9	981.4	184.2	516.7	383.6
1967.....	8,008	1,788.3	86.5	958.5	1,397.8	679.1	1,047.8	1,001.4	183.2	516.4	380.9
1968.....	8,153	1,781.8	84.6	938.9	1,406.8	691.2	1,068.1	1,072.9	186.8	541.3	384.2
1969.....	8,277	1,798.9	82.0	908.7	1,412.3	712.1	1,053.2	1,050.7	182.9	568.9	348.1
1970.....	8,190	1,798.9	79.0	904.8	1,368.3	710.0	1,106.3	1,068.8	192.0	571.1	328.7

Percent Change:

1965-70	7.0	2.2	-9.0	4.2	2.3	11.1	13.0	16.4	5.0	21.3	-6.9
1960-70	11.6	0.3	-16.0	4.4	12.3	18.1	21.4	27.6	-9.4	50.7	-9.6

SOURCE: Bureau of Labor Statistics, Handbook of Labor Statistics, 1971.

FIRST YEAR CHANGES IN MAJOR COLLECTIVE
BARGAINING SITUATIONS^{1/} IN MANUFACTURING INDUSTRIES
1960-1970

	MANUFACTURING			
	Median Adjustment		Median Increase	
	Cents	Percent	Cents	Percent
1960	8.7	3.2	8.9	3.2
1961	6.0	2.4	6.5	2.5
1962	5.0	2.4	6.8	2.9
1963	6.8	2.5	8.0	3.0
1964	5.7	2.0	6.0	2.2
1965	10.0	4.0	10.0	4.1
1966	10.2	4.2	10.3	4.2
1967	17.5	6.4	18.0	6.4
1968	23.5	6.9	23.5	6.9
1969	21.4	7.0	21.5	7.0
1970	26.3	7.5	26.3	7.5

^{1/} Defined as those involving 1,000 workers or more

Source: Bureau of Labor Statistics,
Handbook of Labor Statistics, 1971.

**AVERAGE HOURLY EARNINGS OF PRODUCTION WORKERS ON
MANUFACTURING PAYROLLS, BY MAJOR INDUSTRY GROUPS, 1947-70**

[In dollars]

Year and month	Durable goods											
	Total	Ordnance and accessories	Lumber and wood products	Furniture and fixtures	Stone, clay, and glass products	Primary metal industries	Fabricated metal products	Machinery, except electrical	Electrical equipment and supplies	Transportation equipment	Instruments and related products	Miscellaneous manufacturing industries
1947	1.278	1.306	1.090	1.097	1.194	1.386	1.265	1.344	1.247	1.436	1.197	1.106
1948	1.365	1.387	1.190	1.192	1.317	1.522	1.384	1.462	1.360	1.567	1.308	1.184
1949	1.453	1.481	1.275	1.234	1.368	1.587	1.447	1.523	1.412	1.644	1.370	1.218
1950	1.510	1.564	1.298	1.282	1.438	1.647	1.519	1.601	1.444	1.722	1.448	1.275
1951	1.63	1.71	1.41	1.39	1.54	1.81	1.64	1.73	1.56	1.84	1.59	1.36
1952	1.75	1.82	1.49	1.47	1.61	1.90	1.72	1.85	1.65	1.95	1.69	1.48
1953	1.86	1.92	1.55	1.54	1.72	2.06	1.83	1.95	1.74	2.06	1.78	1.57
1954	1.90	2.00	1.57	1.57	1.77	2.10	1.88	2.00	1.79	2.11	1.80	1.56
1955	1.99	2.07	1.62	1.62	1.86	2.24	1.96	2.08	1.84	2.21	1.87	1.61
1956	2.08	2.21	1.69	1.69	1.96	2.36	2.05	2.20	1.95	2.29	1.97	1.69
1957	2.19	2.36	1.74	1.75	2.05	2.50	2.18	2.29	2.04	2.39	2.06	1.76
1958	2.28	2.51	1.79	1.78	2.12	2.64	2.25	2.37	2.12	2.51	2.15	1.79
1959	2.36	2.57	1.87	1.83	2.22	2.77	2.35	2.48	2.20	2.64	2.24	1.84
1960	2.43	2.65	1.89	1.88	2.28	2.81	2.43	2.55	2.28	2.74	2.31	1.89
1961	2.49	2.75	1.95	1.91	2.34	2.90	2.49	2.62	2.35	2.80	2.38	1.92
1962	2.56	2.83	1.99	1.95	2.41	2.98	2.55	2.71	2.40	2.91	2.44	1.98
1963	2.63	2.93	2.04	2.00	2.47	3.04	2.61	2.78	2.46	3.01	2.49	2.05
1964	2.71	3.03	2.11	2.05	2.53	3.11	2.68	2.87	2.51	3.09	2.54	2.08
1965	2.79	3.13	2.17	2.12	2.62	3.18	2.76	2.95	2.58	3.21	2.62	2.14
1966	2.90	3.17	2.25	2.21	2.72	3.28	2.88	3.09	2.66	3.33	2.73	2.23
1967	3.00	3.18	2.37	2.33	2.82	3.34	2.98	3.19	2.77	3.44	2.85	2.35
1968	3.19	3.26	2.47	2.47	2.99	3.58	3.18	3.36	2.88	3.60	2.98	2.50
1969	3.30	3.42	2.74	2.63	3.19	3.79	3.34	3.68	3.09	3.90	3.18	2.69
1970	3.66	3.61	2.96	2.77	3.40	3.94	3.63	3.77	3.26	4.07	3.34	2.85

Year and month	Nondurable goods										
	Total	Food and kindred products	Tobacco manufactures	Textile mill products	Apparel and other textile products	Paper and allied products	Printing and publishing	Chemicals and allied products	Petroleum and coal products	Rubber and plastics products, nec.	Leather and leather products
1947	1.145	1.063	0.905	1.035	1.161	1.153	1.476	1.221	1.502	1.300	1.038
1948	1.250	1.153	.956	1.155	1.220	1.279	1.654	1.343	1.707	1.361	1.105
1949	1.285	1.206	.999	1.181	1.209	1.329	1.789	1.417	1.798	1.410	1.122
1950	1.347	1.262	1.076	1.228	1.240	1.398	1.832	1.497	1.841	1.472	1.170
1951	1.44	1.35	1.14	1.32	1.31	1.61	1.91	1.62	1.99	1.58	1.26
1952	1.51	1.44	1.18	1.34	1.32	1.89	2.02	1.69	2.10	1.71	1.30
1953	1.58	1.53	1.25	1.36	1.35	1.67	2.11	1.81	2.22	1.80	1.35
1954	1.62	1.59	1.30	1.36	1.37	1.73	2.18	1.89	2.29	1.84	1.36
1955	1.67	1.66	1.34	1.38	1.37	1.81	2.26	1.97	2.37	1.96	1.39
1956	1.77	1.76	1.45	1.44	1.47	1.92	2.33	2.09	2.54	2.03	1.48
1957	1.85	1.85	1.53	1.49	1.51	2.02	2.40	2.20	2.66	2.11	1.52
1958	1.91	1.94	1.59	1.49	1.54	2.10	2.49	2.29	2.73	2.19	1.56
1959	1.98	2.02	1.64	1.58	1.56	2.18	2.59	2.40	2.85	2.27	1.59
1960	2.05	2.11	1.70	1.61	1.69	2.26	2.66	2.50	2.89	2.32	1.64
1961	2.11	2.17	1.78	1.68	1.64	2.34	2.75	2.58	3.01	2.38	1.68
1962	2.17	2.24	1.85	1.68	1.69	2.40	2.82	2.65	3.05	2.44	1.72
1963	2.22	2.30	1.91	1.71	1.73	2.48	2.89	2.72	3.16	2.47	1.76
1964	2.29	2.37	1.95	1.79	1.79	2.56	2.97	2.80	3.20	2.54	1.82
1965	2.36	2.45	2.09	1.87	1.83	2.65	3.06	2.89	3.28	2.61	1.88
1966	2.48	2.62	2.19	1.96	1.80	2.75	3.18	2.99	3.41	2.67	1.94
1967	2.67	2.84	2.27	2.08	2.09	2.87	3.28	3.10	3.65	2.74	2.07
1968	2.74	2.80	2.46	2.21	2.21	3.06	3.48	3.26	3.75	2.92	2.23
1969	2.91	2.98	2.62	2.34	2.31	3.24	3.69	3.47	4.00	3.07	2.36
1970	3.08	3.16	2.82	2.48	2.36	3.44	3.92	3.69	4.37	3.20	2.49

Source: Bureau of Labor Statistics, Handbook of Labor Statistics, 1971.

FIXED ASSETS IN THE UNITED STATES AND FIXED ASSETS OF FOREIGN AFFILIATES, 1960, 1965, 1970
(In Millions of Dollars)

Industry Group	U. S. ASSETS					ASSETS OF FOREIGN AFFILIATES				
	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70
Food & Kindred Products	1,102.5	1,500.2	2,480.3	1,377.8	8.5	240.2	485.0	928.1	687.9	14.5
Paper & Allied Products	1,711.6	2,525.3	4,556.3	2,844.7	10.3	282.0	570.0	1,015.2	733.2	13.7
Chemicals & Allied Products	1,085.3	1,460.1	2,615.2	1,529.9	9.2	331.5	833.1	1,455.8	1,124.3	15.9
Primary & Fab. Metal Industries	1,826.4	2,313.1	3,141.1	1,314.7	5.6	154.0	324.1	617.2	463.2	14.9
Machinery, Except Electrical	2,202.8	3,121.4	5,707.4	3,504.6	10.0	643.1	1,354.5	2,786.6	2,143.5	15.8
Machinery, Electrical	575.6	645.7	1,732.1	1,156.5	11.6	55.5	95.4	408.8	353.3	22.1
Motor Vehicles & Parts	4,724.9	6,157.8	6,623.8	1,898.9	3.4	1,094.5	2,643.9	3,937.9	2,843.4	13.7
Aircraft & Parts	324.0	559.0	1,309.0	985.0	15.0	7.0	13.0	55.2	48.2	22.9
Instruments & Related Products	443.1	798.9	1,994.7	1,551.6	16.2	109.2	248.2	895.4	786.2	23.4
All Other Industries	1,319.2	2,013.0	3,917.2	2,598.0	11.5	298.3	497.7	1,012.9	714.6	13.0
TOTAL, All Respondents	15,315.4	21,094.5	34,077.1	18,761.7	8.4	3,215.3	7,064.9	13,113.1	9,897.8	15.1

Source: ECAT Survey

SALES (INCLUDING EXPORTS) FROM U. S. BASED FACILITIES AND TOTAL SALES OF FOREIGN AFFILIATES, 1960, 1965, AND 1970
(In Millions of Dollars)

Industry Group	U. S. Sales (Including Exports)					Sales by Foreign Affiliates				
	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70	1960	1965	1970	Absolute Change 1960-70	Avg. Annual Growth Rate 1960-70
Food & Kindred Products	8,004.5	9,551.3	13,090.8	5,086.3	5.0	872.5	2,640.7	4,440.6	3,568.1	17.7
Paper & Allied Products	3,385.0	4,993.2	8,356.8	4,971.8	9.5	569.0	1,189.3	2,097.6	1,528.6	13.9
Chemicals & Allied Products	3,064.8	4,667.5	7,950.6	4,885.8	10.0	1,058.6	2,055.0	4,155.2	3,096.6	14.7
Primary & Fab. Metal Industries	2,962.4	3,577.4	4,901.2	1,938.8	5.2	362.3	644.0	1,414.9	1,052.6	14.6
Machinery, Except Electrical	6,612.0	10,134.0	15,276.1	8,664.1	8.4	1,660.2	3,269.8	7,174.0	5,513.8	15.8
Machinery, Electrical	3,025.7	4,515.9	7,481.5	4,455.8	9.5	732.4	1,124.6	2,193.4	1,461.0	11.6
Motor Vehicles & Parts	20,347.1	32,577.0	34,137.3	13,790.2	5.3	4,391.2	8,596.3	14,613.2	10,222.0	12.8
Aircraft & Parts	4,436.0	5,699.0	8,948.0	4,512.0	7.3	30.0	63.0	210.0	180.0	21.5
Instruments & Related Products	1,430.8	2,590.5	4,905.7	3,474.9	13.1	376.6	852.7	2,323.3	1,946.7	20.0
All Other Industries	4,746.0	6,123.0	8,112.7	3,366.7	5.5	1,102.0	1,654.4	2,807.3	1,705.3	9.8
TOTAL, All Respondents	58,004.3	84,428.0	113,160.7	55,165.4	6.9	11,154.8	22,089.8	41,429.5	30,274.7	14.0

Source: ECAT Survey.

Table 19

PERCENTAGE DISTRIBUTION OF SALES BY
FOREIGN AFFILIATES OF U. S. FIRMS, 1960, 1965 and 1970

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	11,154.8	22,089.8	41,429.5	100.0	100.0	100.0
Local Sales	9,327.5	17,846.6	31,530.4	83.6	80.8	76.2
Export Sales to U.S.	408.6	807.9	3,705.7	3.7	3.7	8.9
Export Sales to Other Countries	1,418.7	3,433.3	6,193.4	12.7	15.5	14.9
Canadian Foreign Affiliates:						
Total Sales	2,798.8	5,099.4	9,067.2	100.0	100.0	100.0
Local Sales	2,321.4	4,252.0	5,703.4	82.9	83.4	62.9
Export Sales to U.S.	229.9	485.7	2,925.6	8.2	9.5	32.3
Export Sales to Other Countries	247.5	361.7	438.2	8.8	7.1	4.8
Foreign Affiliates, except Canadian:						
Total Sales	8,356.0	16,990.4	32,362.3	100.0	100.0	100.0
Local Sales	7,006.1	13,596.6	25,827.0	83.8	80.0	79.8
Export Sales to U.S.	178.7	322.2	780.1	2.1	1.9	2.4
Export Sales to Other Countries	1,171.2	3,071.6	5,755.2	14.0	18.1	17.8

Source: ECAT Survey.

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS BY AREA AND DESTINATION
1965, 1967 and 1968**

<u>Location of Affiliate</u>	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Areas	100.0	100.0	100.0	82.0	79.0	77.9	4.2	6.9	7.9	13.8	14.1	14.2
Canada	100.0	100.0	100.0	81.6	74.5	72.1	10.3	17.8	20.4	8.1	7.6	7.5
All Areas, Except Canada:	100.0	100.0	100.0	82.1	81.0	80.5	1.4	2.0	2.3	16.4	17.0	17.2
Latin America & OWH*	100.0	100.0	100.0	92.3	90.6	90.5	1.8	2.3	2.7	5.7	7.1	6.8
Europe:	100.0	100.0	100.0	76.3	75.4	74.3	1.2	1.7	2.1	22.4	22.9	23.6
EEC	100.0	100.0	100.0	76.3	73.8	72.1	1.0	1.6	2.2	22.7	24.6	25.7
Other, including U. K.	100.0	100.0	100.0	76.4	77.2	76.8	1.5	1.8	2.0	22.2	21.0	21.1
Other Areas	100.0	100.0	100.0	92.9	90.7	91.3	1.6	2.8	2.6	5.4	6.5	6.1

*Other Western Hemisphere

Source: U. S. Department of Commerce,
Survey of Current Business,
Sales of Foreign Affiliates of U. S. Firms,
1961-65, 1967 and 1968.

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS BY INDUSTRY AND DESTINATION
1965, 1967 and 1968**

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	82.0	79.0	77.9	4.2	6.9	7.9	13.8	14.1	14.2
Food Products	100.0	100.0	100.0	86.7	86.8	85.6	3.0	3.7	3.9	10.3	9.6	10.5
Paper & allied products	100.0	100.0	100.0	52.4	54.9	56.0	35.7	32.1	29.4	12.0	13.0	14.6
Chemicals	100.0	100.0	100.0	84.3	83.6	83.2	2.5	1.9	1.9	13.2	14.5	15.0
Rubber products	100.0	100.0	100.0	91.8	91.1	91.6	0.4	1.5	1.4	7.8	7.5	7.0
Primary & fabricated metals	100.0	100.0	100.0	75.4	73.3	73.7	5.9	8.4	8.5	18.7	18.3	17.8
Machinery, excl. electrical	100.0	100.0	100.0	77.5	73.2	75.3	3.1	3.4	4.1	19.4	23.4	20.6
Electrical machinery	100.0	100.0	100.0	88.1	88.1	87.9	1.5	1.3	1.7	10.4	10.6	10.4
Transportation equipment	100.0	100.0	100.0	83.5	75.9	71.6	2.6	13.6	17.1	13.8	10.5	11.3
Other products	100.0	100.0	100.0	83.0	80.9	79.1	3.4	3.4	3.8	13.6	15.7	17.1

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN CANADA, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	81.6	74.5	72.1	10.3	17.8	20.4	8.1	7.6	7.5
Food Products	100.0	100.0	100.0	90.0	92.3	93.4	2.5	2.1	1.8	7.5	5.6	4.8
Paper & allied products	100.0	100.0	100.0	39.2	39.0	38.2	47.3	46.0	44.0	13.5	14.9	17.9
Chemicals	100.0	100.0	100.0	88.5	92.9	92.7	5.3	4.8	4.0	6.2	2.3	3.3
Rubber products	100.0	100.0	100.0	98.1	96.1	95.9	1.3	2.8	2.9	0.6	1.1	1.2
Primary & fabricated metals	100.0	100.0	100.0	64.1	62.5	62.4	12.6	13.8	15.3	23.5	23.6	22.9
Machinery, excl. electrical	100.0	100.0	100.0	87.4	83.5	83.6	7.3	8.6	11.0	5.3	7.9	5.5
Electrical machinery	100.0	100.0	100.0	92.5	92.9	92.6	2.5	2.4	2.0	5.0	4.7	5.4
Transportation equipment	100.0	100.0	100.0	88.7	61.6	55.7	6.2	33.7	39.7	5.1	4.7	4.6
Other products	100.0	100.0	100.0	87.1	86.0	85.9	8.2	8.1	9.2	4.7	5.9	4.8

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN ALL AREAS, EXCEPT CANADA, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968**

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	82.1	81.0	80.5	1.4	2.0	2.3	16.4	17.0	17.2
Food Products	100.0	100.0	100.0	85.1	84.3	82.3	3.2	4.3	4.8	11.7	11.3	12.8
Paper & allied products	100.0	100.0	100.0	91.4	90.4	91.2	1.1	0.7	0.7	7.5	8.8	8.1
Chemicals	100.0	100.0	100.0	82.9	81.0	80.7	1.6	1.2	1.3	15.5	17.8	18.0
Rubber products	100.0	100.0	100.0	89.3	89.1	90.0	0.0	1.0	0.8	10.6	9.9	9.1
Primary & fabricated metals	100.0	100.0	100.0	84.9	80.7	81.0	0.5	4.7	4.3	14.6	14.5	14.7
Machinery, excl. electrical	100.0	100.0	100.0	74.7	70.4	73.1	1.9	1.9	2.4	23.3	28.0	24.5
Electrical machinery	100.0	100.0	100.0	86.2	86.1	86.1	1.0	0.9	1.6	12.8	13.0	12.3
Transportation equipment	100.0	100.0	100.0	81.3	84.2	81.8	1.0	2.0	2.7	17.7	13.8	15.5
Other products	100.0	100.0	100.0	81.1	78.7	76.4	1.2	1.5	1.5	17.7	19.8	22.1

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN EEC, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	76.3	73.8	72.1	1.0	1.6	2.2	22.7	24.6	25.7
Food Products	100.0	100.0	100.0	89.0	88.3	83.6	0.6	0.6	0.9	10.4	11.0	15.5
Paper & allied products	100.0	100.0	100.0	91.9	81.0	83.8	0.0	0.9	0.6	8.1	18.1	15.6
Chemicals	100.0	100.0	100.0	68.9	70.1	66.6	0.9	0.9	1.1	30.2	29.0	32.3
Rubber products	100.0	100.0	100.0	64.7	63.5	69.1	0.0	0.0	0.7	35.3	36.5	30.2
Primary & fabricated metals	100.0	100.0	100.0	83.4	82.9	83.8	0.2	0.1	0.2	16.4	17.0	16.0
Machinery, excl. electrical	100.0	100.0	100.0	69.7	64.0	66.6	1.9	2.0	2.3	28.4	33.9	31.1
Electrical machinery	100.0	100.0	100.0	86.9	82.3	82.6	0.3	0.2	1.6	12.8	17.5	15.8
Transportation equipment	100.0	100.0	100.0	75.7	76.3	71.5	1.1	3.0	4.7	23.1	20.6	23.8
Other products	100.0	100.0	100.0	77.5	72.9	68.0	1.0	2.0	1.4	21.6	25.1	30.6

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN WEST EUROPE* (EXCEPT EEC), BY INDUSTRY AND DESTINATION
1965, 1967 and 1968**

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	76.4	77.2	76.8	1.5	1.8	2.0	22.2	21.0	21.1
Food Products	100.0	100.0	100.0	94.6	93.4	91.3	0.8	1.3	1.4	4.6	5.3	7.3
Paper & allied products	100.0	100.0	100.0	91.3	90.4	87.4	0.0	0.0	0.0	8.7	9.6	12.6
Chemicals	100.0	100.0	100.0	82.6	80.3	80.0	0.4	0.4	0.6	17.0	19.3	19.4
Rubber products	100.0	100.0	100.0	88.5	88.1	89.5	0.3	3.4	1.0	11.1	8.5	9.5
Primary & fabricated metals	100.0	100.0	100.0	76.8	74.8	73.6	1.1	1.6	2.8	22.1	23.7	23.6
Machinery, excl. electrical	100.0	100.0	100.0	66.6	64.0	67.8	2.8	2.9	3.3	30.5	33.0	28.8
Electrical machinery	100.0	100.0	100.0	79.5	86.2	87.1	2.0	1.2	1.3	18.5	12.6	11.6
Transportation equipment	100.0	100.0	100.0	70.0	77.7	76.5	1.9	2.8	3.0	28.1	19.6	20.4
Other products	100.0	100.0	100.0	70.7	67.8	66.2	1.2	1.4	1.6	28.1	30.9	32.2

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

*Including United Kingdom

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN OTHER AREAS, BY INDUSTRY AND DESTINATION
1965, 1967 and 1968**

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	92.9	90.7	91.3	1.6	2.8	2.6	5.4	6.5	6.1
Food Products	100.0	100.0	100.0	72.9	79.6	82.2	8.8	9.6	8.5	18.3	10.9	9.3
Paper & allied products	100.0	100.0	100.0	95.5	94.5	97.0	0.0	0.0	0.0	4.5	5.5	3.0
Chemicals	100.0	100.0	100.0	91.5	87.7	91.1	2.8	1.2	1.0	5.7	11.1	7.9
Rubber products	100.0	100.0	100.0	96.3	96.3	95.7	0.0	0.2	1.0	3.7	3.5	3.2
Primary & fabricated metals	100.0	100.0	100.0	97.3	70.3	71.7	0.0	24.1	19.3	2.7	5.7	9.0
Machinery, excl. electrical	100.0	100.0	100.0	95.0	92.0	92.1	1.0	0.4	1.1	4.0	7.6	6.8
Electrical machinery	100.0	100.0	100.0	88.3	89.7	87.5	2.4	3.0	4.1	9.3	7.3	8.4
Transportation equipment	100.0	100.0	100.0	96.2	97.7	97.1	0.0	0.0	0.0	3.8	2.3	2.9
Other products	100.0	100.0	100.0	95.3	95.8	93.6	1.3	0.6	1.1	3.4	3.5	5.3

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

**PERCENTAGE DISTRIBUTION OF SALES OF FOREIGN MANUFACTURING AFFILIATES
OF U. S. FIRMS IN LATIN AMERICA AND OWH* , BY INDUSTRY AND DESTINATION
1965, 1967 and 1968**

	<u>Total Sales</u>			<u>Local Sales</u>			<u>Exported to United States</u>			<u>Exported to Other Countries</u>		
	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>	<u>1965</u>	<u>1967</u>	<u>1968</u>
All Manufacturing	100.0	100.0	100.0	92.3	90.6	90.5	1.8	2.3	2.7	5.7	7.1	6.8
Food Products	100.0	100.0	100.0	77.7	77.2	75.8	5.3	6.9	8.2	17.0	15.9	16.0
Paper & allied products	100.0	100.0	100.0	88.8	92.0	92.7	2.8	1.7	1.7	8.4	6.3	5.6
Chemicals	100.0	100.0	100.0	90.1	88.5	89.4	2.4	2.3	2.4	7.4	9.2	8.2
Rubber products	100.0	100.0	100.0	99.4	99.2	98.1	0.0	0.0	0.5	0.6	0.8	1.4
Primary & fabricated metals	100.0	100.0	100.0	95.8	97.8	97.7	0.0	0.0	0.0	4.2	2.2	2.3
Machinery, excl. electrical	100.0	100.0	100.0	94.3	84.6	90.0	0.7	1.0	2.0	5.0	14.4	8.0
Electrical machinery	100.0	100.0	100.0	97.8	94.7	93.1	0.2	0.6	0.5	2.0	4.8	6.4
Transportation equipment	100.0	100.0	100.0	99.3	98.8	98.4	0.2	0.4	0.6	0.4	0.9	1.0
Other products	100.0	100.0	100.0	97.0	96.7	95.6	1.7	1.6	1.9	1.2	1.7	2.5

* Other Western Hemisphere

Source: U. S. Department of Commerce
Survey of Current Business
Sales of Foreign Affiliates of U. S. Firms
1961-65, 1967 and 1968

Table 28

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking In Order of Importance	<u>Number of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	67	36	187	17	22	329
2	114	106	47	30	32	329
3	82	56	35	73	17	263
4	20	44	23	90	10	187
5 (least)	1	13	2	23	9	48
Negligible	32	62	21	85	16	216
Total Responses	316	317	315	318	106	1,372
<u>Canada:</u>						
1 (most)	16	4	41	3	6	70
2	25	19	7	7	7	65
3	12	13	7	14	3	49
4	2	8	4	16	1	31
5 (least)	-	3	1	4	1	9
Negligible	12	20	7	23	3	65
Total Responses	67	67	67	67	21	289
<u>W. Hemisphere:</u>						
1 (most)	12	13	35	3	4	67
2	20	24	15	4	4	67
3	21	12	9	14	2	58
4	7	9	3	23	3	45
5 (least)	-	2	-	4	3	9
Negligible	4	6	3	18	4	35
Total Responses	64	66	65	66	20	281
<u>W. Europe:</u>						
1 (most)	15	2	43	5	3	68
2	27	19	10	7	8	71
3	18	12	6	19	3	58
4	2	12	4	17	4	39
5 (least)	-	4	-	2	2	8
Negligible	4	16	2	16	3	41
Total Responses	66	65	65	66	23	285
<u>Far East:</u>						
1 (most)	12	10	33	4	4	63
2	21	20	7	7	6	61
3	17	9	5	15	4	50
4	4	9	7	15	1	36
5 (least)	-	2	1	5	2	10
Negligible	5	9	6	13	3	36
Total Responses	59	59	59	59	20	256
<u>Rest of World:</u>						
1 (most)	12	7	35	2	5	61
2	21	24	8	5	7	65
3	14	10	8	11	5	48
4	5	6	4	19	1	35
5 (least)	1	2	-	8	1	12
Negligible	7	11	4	15	3	40
Total Responses	60	60	59	60	22	261

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table 29

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Percentage Distribution of Responses					Total, All Responses
	Trade Restrictions*	Investment Regula- tions (e.g. local content regulations)	Market** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	20	11	57	5	7	100
2	35	32	14	9	10	100
3	31	21	13	28	6	100
4	11	24	12	48	5	100
5 (least)	2	27	4	48	19	100
Negligible	15	29	10	39	7	100
<u>Canada:</u>						
1 (most)	23	6	59	4	8	100
2	38	29	11	11	11	100
3	24	27	14	29	6	100
4	6	26	13	52	3	100
5 (least)	0	33	11	44	11	100
Negligible	18	31	11	35	5	100
<u>W. Hemisphere:</u>						
1 (most)	18	20	52	4	6	100
2	30	36	22	6	6	100
3	36	21	16	24	3	100
4	16	20	7	51	7	100
5 (least)	0	22	0	44	33	100
Negligible	11	17	9	51	11	100
<u>W. Europe:</u>						
1 (most)	22	3	63	7	4	100
2	38	27	14	10	11	100
3	31	21	10	33	5	100
4	5	31	10	44	10	100
5 (least)	0	50	0	25	25	100
Negligible	10	39	5	39	7	100
<u>Far East:</u>						
1 (most)	19	16	53	6	6	100
2	34	33	11	11	10	100
3	34	18	10	30	8	100
4	11	25	19	42	3	100
5 (least)	0	20	10	50	20	100
Negligible	14	25	17	36	8	100
<u>Rest of World:</u>						
1 (most)	20	12	57	3	8	100
2	32	37	12	8	11	100
3	29	21	17	23	10	100
4	14	17	11	54	3	100
5 (least)	8	17	0	67	8	100
Negligible	18	28	10	38	8	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>				
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>
<u>All Areas:</u>					
1 (most)	21	11	59	5	21
2	36	33	15	9	30
3	26	18	11	23	16
4	6	14	7	28	9
5 (least)	0	4	1	7	8
Negligible	10	20	7	27	15
Total Responses	100	100	100	100	100
<u>Canada:</u>					
1 (most)	24	6	61	4	29
2	37	28	10	10	33
3	18	19	10	21	14
4	3	12	6	24	5
5 (least)	0	4	1	6	5
Negligible	18	30	10	34	14
Total Responses	100	100	100	100	100
<u>W. Hemisphere:</u>					
1 (most)	19	20	54	5	20
2	31	36	23	6	20
3	33	18	14	21	10
4	11	14	5	35	15
5 (least)	0	2	0	6	15
Negligible	6	9	5	27	20
Total Responses	100	100	100	100	100
<u>W. Europe:</u>					
1 (most)	23	3	66	8	13
2	41	29	15	11	35
3	27	18	9	29	13
4	3	18	6	26	17
5 (least)	0	6	0	3	9
Negligible	6	25	3	24	13
Total Responses	100	100	100	100	100
<u>Far East:</u>					
1 (most)	20	17	56	7	20
2	36	34	12	12	30
3	29	15	8	25	20
4	7	15	12	25	5
5 (least)	0	3	2	8	10
Negligible	8	15	10	22	15
Total Responses	100	100	100	100	100
<u>Rest of World:</u>					
1 (most)	20	12	59	3	23
2	35	40	14	8	32
3	23	17	14	18	23
4	8	10	7	32	5
5 (least)	2	3	0	13	5
Negligible	12	18	7	25	14
Total Responses	100	100	100	100	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

MERCHANDISE TRADE BALANCE OF U. S. FIRMS AND THEIR FOREIGN AFFILIATES, 1960, 1965, AND 1970
(Value in Million \$)

Industry Group	Merchandise Exports from the U. S.			Merchandise Imports into the U. S.			Net Trade Balance			Avg. Annual Change 1960-70
	1960	1965	1970	1960	1965	1970	1960	1965	1970	
Food & Kindred Products	739.7	922.3	1,204.8	439.6	567.1	666.0	300.1	355.2	538.8	+6.0%
Paper & Allied Products	144.0	256.0	586.0	226.0	341.6	461.2	-82.0	-85.6	124.8	+13.4%
Chemicals & Allied Products	280.7	353.7	490.8	148.0	231.8	360.1	132.7	121.9	130.7	-.2%
Primary & Fab. Metal Industries	86.3	128.0	269.6	55.4	89.1	174.1	30.9	38.9	95.5	+11.9%
Machinery, Except Electrical	846.4	1,479.8	2,525.6	34.2	75.1	311.2	812.2	1,404.7	2,214.4	+10.5%
Machinery, Electrical	175.1	325.1	498.7	17.1	51.9	159.5	158.0	273.2	339.2	+7.9%
Motor Vehicles & Parts	1,066.6	1,855.2	3,509.0	117.9	344.7	2,952.8	948.7	1,510.5	556.2	-5.2%
Aircraft & Parts	611.2	713.9	2,134.2	24.2	53.6	179.5	587.0	660.3	1,954.7	+8.8%
Instruments & Related Products	142.2	282.3	563.7	25.3	40.0	85.2	116.9	242.3	478.5	+15.1%
All Other Industries	228.7	300.5	374.1	57.9	95.2	170.8	170.8	205.3	203.3	+1.8%
TOTAL, All Respondents	4,320.9	6,616.8	12,156.5	1,145.6	1,890.1	5,520.4	3,175.3	4,726.7	6,636.1	+7.7%
TOTAL, Excluding Motor Vehicles & Parts	3,254.3	4,761.6	8,647.5	1,027.7	1,545.4	2,567.6	2,226.6	3,216.2	6,079.9	+10.6%
TOTAL, U. S. Trade in Manufactured Products ^{1/}	15,706.0	21,389.0	35,168.0	9,539.0	14,911.0	32,075.0	6,167.0	6,478.0	3,093.0	-6.6%
Ratio of Respondent Totals to All Manufacturing:										
All Industries	27.5%	30.9%	34.6%	12.0%	12.7%	17.2%	51.5%	73.0%	214.5%	<u>2/</u>
All Ind. except Motor Vehicles & Parts	20.7%	22.3%	24.6%	10.8%	10.4%	8.0%	36.1%	49.6%	196.6%	<u>2/</u>

^{1/} As reported by the Bureau of Census on a Standard Industrial Classification Basis.

^{2/} Not meaningful.

Source: ECAT Survey.

MERCHANDISE TRADE BALANCE BY MAJOR INDUSTRY GROUP
(In Millions of Dollars)
1960, 1965, 1970

<u>SIC</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>Absolute Change 1960-70</u>	<u>Percent Change</u>		
					<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
35 Machinery, Except Electrical	2,695	4,015	5,467	+2,772	+49.0%	+36.2%	+102.8%
28 Chemicals & Allied Products	1,609	1,960	2,741	+1,132	+21.8%	+39.8%	+70.4%
372 Transport Equipment, Except Motor Vehicles & Parts	1,362	1,335	2,489	+1,127	-2.0%	+86.4%	+82.7%
38 Instruments & Related Products	244	407	638	+ 394	+66.8%	+56.8%	+161.5%
34 Fabricated Metal Products	310	531	563	+ 253	+71.3%	+6.0%	+81.6%
19 Ordnance & Accessories	385	358	376	- 9	-7.0%	+5.0%	-2.3%
36 Machinery, Electrical	717	765	347	- 370	+6.7%	-54.6%	-51.6%
21 Tobacco Manufactures	92	118	174	+ 82	+28.3%	+47.5%	+89.1%
27 Printing & Publishing	100	153	157	+ 57	+53.0%	+2.6%	+57.0%
32 Stone, Clay & Glass Products	-37	14	-97	- 60	+137.8%	-792.9%	-162.2%
25 Furniture & Fixtures	+13	-17	-192	+ 205	-230.8%	-1,029.4%	-1,576.9%
24 Lumber and Wood Products	-357	-408	-300	+ 57	-14.3%	+26.5%	+16.0%
30 Rubber and Plastic Products	59	84	-320	- 379	+42.4%	-481.0%	-642.4%
26 Paper & Allied Products	-635	-659	-442	+ 193	-3.8%	+32.9%	+30.4%
22 Textile Mill Products	-306	-475	-598	- 292	-55.2%	-25.9%	-95.4%
32 Leather & Leather Products	-80	-196	-638	- 558	-145.0%	-225.5%	-697.5%
39 Misc. Manufactured Products	-161	-239	-689	- 528	-48.4%	-188.3%	-328.0%
29 Petroleum & Coal Products	-162	-468	-1,027	- 865	-188.9%	-119.4%	-534.0%
23 Apparel & Related Products	-108	-365	-1,036	- 928	-238.0%	-183.8%	-859.3%
20 Food & Kindred Products	-223	80	-1,050	- 827	+135.9%	-1,412.5%	-370.9%
33 Primary Metal Products	-172	-1,360	-1,550	-1,378	-690.7%	-14.0%	-801.2%
371 Motor Vehicles & Parts	635	675	-2,364	-2,999	+6.3%	-450.2%	-472.3%

Source: U. S. Department of Commerce, Bureau of Census.

RATIO OF IMPORTS TO NEW SUPPLY*, BY MAJOR INDUSTRY GROUP
1960-1970

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	2.5%	2.5%	2.6%	2.7%	2.7%	2.9%	3.4%	3.5%	4.1%	4.2%	4.7%
20	Food & Kindred Products	2.6%	2.6%	2.8%	3.0%	2.7%	2.6%	3.0%	3.1%	3.3%	3.2%	3.4%
21	Tobacco Manufactures	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%
22	Textile Mill Products	4.4%	4.1%	4.5%	4.6%	4.2%	4.5%	4.6%	3.9%	4.1%	4.0%	4.5%
23	Apparel & Related Products	2.2%	1.8%	2.3%	2.3%	2.6%	2.9%	3.1%	3.1%	3.8%	4.5%	5.2%
24	Lumber & Wood Products	6.1%	6.3%	6.0%	6.7%	6.5%	6.4%	6.7%	6.3%	7.5%	7.7%	7.1%
25	Furniture & Fixtures	0.5%	0.5%	0.5%	0.5%	0.7%	0.8%	1.1%	1.2%	1.6%	2.4%	2.9%
26	Paper & Allied Products	6.7%	6.6%	6.5%	6.2%	6.4%	6.3%	6.4%	6.0%	5.9%	6.4%	5.8%
27	Printing & Publishing Products	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%	0.5%	0.7%
28	Chemicals & Allied Products	1.4%	1.4%	1.5%	1.4%	1.5%	1.7%	1.9%	1.9%	2.1%	2.2%	2.5%
29	Petroleum & Coal Products	3.8%	3.9%	4.2%	4.2%	4.2%	4.8%	4.8%	4.6%	4.8%	5.0%	5.5%
30	Rubber & Plastic Products	1.9%	1.6%	1.5%	1.4%	1.3%	1.6%	1.8%	2.1%	2.8%	3.1%	3.6%
31	Leather & Leather Products	3.2%	3.3%	4.2%	4.2%	4.6%	5.2%	5.7%	6.7%	8.4%	9.8%	10.6%
32	Stone & Clay Glass Products	2.1%	2.0%	2.2%	2.0%	2.1%	2.1%	2.4%	2.4%	2.7%	2.9%	3.0%
33	Primary Metal Products	4.1%	3.9%	4.1%	4.4%	4.5%	5.4%	5.7%	6.1%	7.6%	6.0%	6.6%
34	Fabricated Metal Products	0.9%	0.8%	0.9%	0.8%	1.0%	1.1%	1.3%	1.3%	1.6%	1.6%	1.9%
35	Machinery, Except Electrical	1.6%	1.6%	1.8%	1.9%	2.0%	2.4%	2.7%	3.1%	3.3%	3.6%	4.1%
36	Electrical Machinery	1.3%	1.5%	1.7%	1.7%	1.8%	2.2%	2.8%	3.0%	3.7%	4.3%	4.9%
37	Transportation Equipment, Total	1.4%	1.2%	1.3%	1.3%	1.6%	1.8%	3.1%	3.9%	5.2%	6.1%	7.3%
	371 Motor Vehicles & Parts	1.9%	1.4%	1.5%	1.5%	1.9%	1.9%	3.8%	5.8%	7.5%	8.7%	10.8%
	372 Transportation, Other	0.6%	1.1%	1.0%	0.9%	1.0%	1.5%	1.9%	1.5%	1.7%	1.9%	2.4%
38	Instruments & Related Products	2.9%	3.1%	3.7%	3.5%	4.0%	4.0%	4.2%	4.1%	4.4%	4.8%	5.2%
39	Miscellaneous Mfg. Products	6.2%	5.4%	6.1%	6.1%	6.4%	6.9%	7.6%	8.1%	9.2%	9.7%	10.4%
19	Ordnance & Accessories	0.5%	0.4%	0.5%	0.4%	0.6%	0.7%	0.7%	0.8%	1.0%	1.0%	0.8%

*New supply equals U. S. manufacturers' shipments plus imports.

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

RATIO OF U. S. EXPORTS TO U. S. MANUFACTURERS' SHIPMENTS, BY MAJOR INDUSTRY GROUP
1960-1970

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	4.2%	4.3%	4.3%	4.3%	4.6%	4.3%	4.4%	4.5%	4.6%	4.9%	5.4%
20	Food & Kindred Products	2.3%	2.3%	2.5%	2.6%	2.9%	2.8%	2.5%	2.4%	2.4%	2.4%	2.5%
21	Tobacco Manufactures	2.3%	2.4%	2.6%	2.7%	2.8%	2.6%	2.7%	2.8%	3.3%	3.0%	3.5%
22	Textile Mill Products	2.4%	2.3%	2.0%	2.0%	2.0%	2.1%	2.0%	1.9%	1.6%	1.8%	2.1%
23	Apparel & Related Products	1.5%	1.3%	1.3%	1.2%	1.2%	1.1%	1.1%	1.0%	1.0%	1.0%	1.1%
24	Lumber & Wood Products	2.2%	2.3%	2.0%	2.5%	2.7%	2.9%	3.1%	3.7%	4.2%	4.4%	5.3%
25	Furniture & Fixtures	0.8%	0.7%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%	0.6%
26	Paper & Allied Products	2.9%	3.0%	2.9%	3.1%	3.4%	3.2%	3.3%	3.4%	3.7%	3.7%	4.4%
27	Printing & Publishing Products	1.0%	1.0%	1.0%	1.1%	1.2%	1.3%	1.3%	1.3%	1.3%	1.3%	1.3%
28	Chemicals & Allied Products	7.5%	7.3%	7.2%	6.9%	7.7%	6.9%	7.0%	7.1%	7.6%	7.3%	8.2%
29	Petroleum & Coal Products	3.0%	2.8%	2.7%	2.9%	2.8%	2.5%	2.6%	2.5%	2.5%	2.1%	2.0%
30	Rubber & Plastic Products	2.7%	2.5%	2.4%	2.4%	2.5%	2.4%	2.3%	2.1%	2.2%	2.1%	1.9%
31	Leather & Leather Products	1.3%	1.6%	1.3%	1.4%	1.4%	1.3%	1.3%	1.2%	1.3%	1.2%	1.1%
32	Stone & Clay Glass Products	1.9%	1.9%	1.9%	1.9%	2.2%	2.3%	2.3%	2.3%	2.3%	2.4%	2.5%
33	Primary Metal Products	3.7%	3.0%	2.7%	2.7%	3.0%	2.7%	2.4%	2.4%	2.6%	3.5%	4.2%
34	Fabricated Metal Products	2.4%	2.5%	2.8%	2.7%	2.7%	3.1%	3.4%	3.1%	3.3%	3.3%	3.2%
35	Machinery, Except Electrical	12.0%	13.2%	12.8%	12.5%	13.1%	12.6%	11.2%	11.5%	11.6%	12.1%	14.0%
36	Electrical Machinery	4.4%	4.5%	4.5%	4.6%	4.9%	4.5%	4.5%	4.7%	4.9%	5.5%	5.8%
37	Transportation Equipment, Total	5.5%	5.6%	5.4%	4.8%	5.0%	4.6%	5.0%	6.4%	6.9%	7.5%	8.0%
	371 Motor Vehicles & Parts	4.0%	4.2%	3.9%	3.9%	4.3%	3.3%	4.4%	6.0%	5.9%	6.5%	6.9%
	372 Transportation, Other	8.0%	7.5%	8.0%	6.4%	6.4%	7.1%	6.0%	6.9%	8.4%	8.9%	9.4%
38	Instruments & Related Products	7.1%	8.5%	9.6%	9.7%	10.1%	9.5%	9.8%	9.8%	9.5%	9.9%	10.7%
39	Miscellaneous Mfg. Products	3.4%	3.3%	3.1%	3.6%	3.7%	4.2%	4.7%	4.6%	4.8%	5.0%	4.9%
19	Ordnance & Accessories	13.4%	10.9%	7.9%	9.4%	8.9%	8.1%	7.8%	3.8%	3.5%	4.9%	4.1%

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

U.S. MANUFACTURERS SHIPMENTS BY MAJOR INDUSTRY GROUP 1960-70
(Value in millions of dollars)

SIC Group	Industry											Percent change			
		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1960-65	1965-70	1960-70
	All Manufacturing: Total	369,555	370,748	397,353	420,387	448,021	492,041	538,351	557,498	603,439	643,545	653,145	33	33	77
20	Food & Kindred Products	62,292	64,673	65,732	68,455	71,586	74,304	79,658	83,974	87,381	93,550	99,767	19	34	60
21	Tobacco Manufactures Mfgs.	4,339	4,504	4,533	4,521	4,655	4,646	4,772	4,904	4,938	5,151	5,464	7	18	26
22	Textile Mill Products	13,727	13,999	15,179	15,179	15,734	18,294	19,593	19,817	21,941	23,112	22,297	33	22	52
23	Apparel & Related Products	13,427*	15,078	16,100	17,097	17,901	18,953	19,971	21,327	22,649	24,250	23,527*	41	24	75
24	Lumber & Wood Products	8,252*	7,988	9,427	9,200	9,882	10,298	10,720	11,205	12,870	14,009	13,020*	25	26	58
25	Furniture & Fixtures	4,993*	5,054	5,548	5,884	6,309	6,880	7,537	7,750	8,458	9,252	8,170*	38	19	64
26	Paper & Allied Products	14,619	14,856	15,669	16,356	17,191	18,548	20,414	20,969	22,314	24,057	25,192	27	36	72
27	Printing & Publishing Products	13,937*	14,972	15,616	16,166	17,337	18,620	20,202	21,738	23,190	25,068	26,173*	34	41	88
28	Chemicals & Allied Products	26,585	27,290	29,273	31,778	34,261	37,477	40,787	42,144	45,613	48,153	48,763	41	30	83
29	Petroleum & Coal Products	16,764	16,854	17,193	18,003	18,348	19,112	20,415	22,046	23,199	24,412	26,604	14	39	59
30	Rubber & Plastic Products	7,677	7,755	8,517	9,111	9,716	10,863	11,974	12,759	14,382	15,733	17,502	42	61	128
31	Leather & Leather Products	4,109*	4,186	4,307	4,210	4,414	4,641	5,033	5,162	5,486	5,562	5,929*	13	28	44
32	Stone & Clay Glass Products	11,089	11,034	11,523	12,304	12,957	13,946	14,629	14,448	15,789	17,074	17,746	26	27	60
33	Primary Metal Products	32,437	33,559	33,612	35,129	40,039	45,295	49,530	46,724	50,327	55,153	55,740	40	27	72
34	Fabricated Metal Products	20,712	20,383	20,256	21,077	24,903	27,529	30,857	34,585	37,347	39,579	41,920	42	52	102
35	Machinery, Except Electrical	25,843	26,703	26,282	27,377	30,066	34,242	46,651	48,543	50,629	55,649	56,135	52	47	117
36	Electrical Machinery	23,513	23,640	28,456	29,847	29,799	35,160	40,805	43,349	46,466	49,123	50,819	70	45	116
37	Transportation Equipment, Total	49,571	49,931	53,478	58,489	61,653	71,361	75,320	73,179	84,467	87,093	81,173			
	371 Motor Vehicles & Parts	30,910	26,776	33,718	37,175	38,550	47,665	47,248	40,353	49,589	51,524	45,113	54	- 5	46
	372 Transportation, Other	18,661	19,155	19,760	21,314	22,105	23,696	28,072	32,826	34,878	35,569	36,060	27	52	93
38	Instruments & Related Products	5,911	5,604	5,678	6,117	6,603	7,624	8,829	9,914	10,902	11,726	12,153	29	59	106
39	Miscellaneous Mfg. Products	5,096*	5,833	6,110	6,495	6,889	7,541	7,971	8,311	8,945	9,661	10,328*	48	37	103
19	Ordnance & Accessories	2,985*	3,417	3,911	4,784	4,443	4,850	6,580	9,268	10,993	10,769	11,512*	62	137	286

Source: Computed from Official Statistics of the U.S. Department of Commerce, Bureau of Census.

EXPORTS OF DOMESTIC MERCHANDISE (AT PORT)
(Value in millions of dollars)

SIC Group	Industry												Percent change		
		1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1960-65	1965-70	1960-70
	All Manufacturing: Total	15,706	15,824	16,945	17,876	20,425	21,389	23,453	24,986	28,030	31,673	35,168	36	64	124
20	Food & Kindred Products	1,452	1,480	1,666	1,810	2,093	2,088	2,014	2,020	2,067	2,250	2,512	44	20	73
21	Tobacco Manufactures Mfgs.	98	108	118	120	132	123	130	137	162	156	191	26	55	95
22	Textile Mill Products	327	320	300	307	340	377	400	381	356	418	461	15	22	41
23	Apparel & Related Products	201	190	202	199	217	203	224	206	220	242	251	1	24	25
24	Lumber & Wood Products	181	184	187	229	264	302	334	419	536	613	689	67	128	281
25	Furniture & Fixtures	38	34	32	33	36	39	44	46	49	52	48	3	23	26
26	Paper & Allied Products	419	448	453	505	592	594	669	714	817	886	1,106	42	86	164
27	Printing & Publishing Products	139	152	163	179	207	233	270	287	300	320	333	68	43	140
28	Chemicals & Allied Products	1,997	1,990	2,103	2,178	2,631	2,597	2,851	2,980	3,446	3,513	3,997	30	54	100
29	Petroleum & Coal Products	498	472	471	525	514	487	521	551	579	502	533	2	9	7
30	Rubber & Plastic Products	204	191	206	217	247	259	280	271	319	334	341	27	32	67
31	Leather & Leather Products	55	68	54	61	62	61	66	64	70	68	64	11	5	16
32	Stone & Clay Glass Products	206	206	217	237	280	315	340	338	360	403	445	53	41	116
33	Primary Metal Products	1,198	958	905	951	1,210	1,203	1,191	1,125	1,304	1,930	2,366	-	97	97
34	Fabricated Metal Products	488	518	633	624	662	851	1,060	1,055	1,231	1,308	1,362	74	60	179
35	Machinery, Except Electrical	3,107	3,403	3,632	3,810	4,581	4,964	5,222	5,579	5,878	6,722	7,872	60	59	153
36	Electrical Machinery	1,034	1,148	1,280	1,366	1,511	1,569	1,822	2,028	2,256	2,712	2,972	52	89	187
37	Transportation Equipment, Total	2,719	2,553	2,876	2,808	3,063	3,283	3,750	4,680	5,832	6,509	6,487	21	98	139
	371 Motor Vehicles & Parts	1,235	1,125	1,304	1,441	1,659	1,593	2,074	2,407	2,908	3,343	3,094	29	94	151
	372 Transportation, Other	1,484	1,428	1,572	1,367	1,404	1,690	1,676	2,273	2,924	3,166	3,393	14	101	129
38	Instruments & Related Products	419	474	544	596	666	727	869	976	1,035	1,163	1,299	74	79	210
39	Miscellaneous Mfg. Products	173	190	192	237	258	319	371	380	426	484	507	84	59	193
19	Ordnance & Accessories	401	373	309	452	396	391	516	351	390	529	473	-3	21	18
		353	368	406	434	463	403	509	395	397	562	858	14	113	143

Source: Computed from Official Statistics of the U.S. Department of Commerce, Bureau of Census.

IMPORTS FOR CONSUMPTION (FOB FOREIGN COUNTRY)
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1960-65	1965-70	1960-70
	All Manufacturing: Total	9,539	9,357	10,689	11,466	12,537	14,911	18,724	20,269	25,738	28,553 ^{1/}	32,075 ^{1/}	56	115	236
20	Food & Kindred Products	1,675	1,698	1,899	2,121	1,972	2,008	2,452	2,689	3,007	3,115	3,562	20	77	113
21	Tobacco Manufactures	6	5	3	4	6	5	7	7	11	12	17	-20	240	183
22	Textile Mill Products	633	600	711	759	754	852	942	799	934	970	1,059	35	24	67
23	Apparel & Related Products	309	282	373	399	481	568	637	692	900	1,149	1,287	84	127	317
24	Lumber & Wood Products	538	535	606	662	686	710	772	751	1,043	1,162	989	32	39	84
25	Furniture & Fixtures	25	25	30	32	43	56	82	94	140	230	240	124	329	860
26	Paper & Allied Products	1,054	1,047	1,095	1,083	1,185	1,253	1,399	1,346	1,390	1,559	1,548	19	24	47
27	Printing & Publishing Products	39	45	55	64	75	80	100	105	116	136	176	105	120	351
28	Chemicals & Allied Products	388	398	448	462	523	637	792	818	979	1,067	1,256	64	97	224
29	Petroleum & Coal Products	660	690	761	780	809	955	1,122	1,056	1,182	1,297	1,560	45	63	136
30	Rubber & Plastic Products	145	123	125	134	151	175	217	279	416	510	661	21	278	356
31	Leather & Leather Products	135	141	188	184	213	257	307	370	506	603	702	90	173	420
32	Stone & Clay Glass Products	243	221	254	251	277	301	360	353	444	511	542	24	80	123
33	Primary Metal Products	1,370	1,294	1,434	1,624	1,868	2,563	3,009	3,048	4,119	3,514	3,916	87	53	186
34	Fabricated Metal Products	178	166	193	191	158	320	394	466	589	663	799	80	150	349
35	Machinery, Except Electrical	412	422	508	573	719	949	1,309	1,551	1,716	2,085	2,405	130	153	484
36	Electrical Machinery	317	384	484	517	579	804	1,179	1,328	1,793	2,230	2,625	154	226	728
37	Transportation Equipment, Total	722	579	710	752	977	1,273	2,388	2,978	4,599	5,635	6,362	76	300	781
	371 Motor Vehicles & Parts	600	370	506	562	755	918	1,843	2,481	4,000	4,932	5,458	53	495	810
	372 Transportation, Other	122	209	204	190	222	355	545	497	599	703	904	191	155	641
38	Instruments & Related Products	175	181	217	223	274	320	384	425	505	590	661	83	107	278
39	Miscellaneous Mfg. Products	334	334	400	419	472	558	660	736	907	1,034	1,196	67	114	258
19	Ordnance & Accessories	16	15	19	19	28	33	45	79	108	110	97	106	194	506
		165	172	175	213	187	238	269	298	334	370 ^{2/}	416 ^{2/}	44	75	152

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

^{1/} Includes estimates of imports that were not allocated to specific industries or to the total. In prior years these imports were included in the All Manufacturing totals.

^{2/} Estimated.

NET TRADE BALANCE
(Value in millions of dollars)

SIC Group	Industry	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970
	All Manufacturing: Total	6,167	6,467	6,256	6,410	7,988	6,478	4,729	4,717	2,292	3,120	3,093
20	Food & Kindred Products	- 223	- 218	- 233	- 311	121	80	- 438	- 669	- 940	- 865	-1,050
21	Tobacco Manufactures	92	103	115	116	126	118	123	130	151	144	174
22	Textile Mill Products	- 306	- 280	- 411	- 452	- 414	- 475	- 541	- 418	- 578	- 552	- 598
23	Apparel & Related Products	- 108	- 92	- 171	- 200	- 264	- 365	- 413	- 486	- 680	- 907	-1,036
24	Lumber & Wood Products	- 357	- 351	- 419	- 433	- 422	- 408	- 438	- 332	- 507	- 549	- 300
25	Furniture & Fixtures	13	9	2	1	- 7	- 17	- 38	- 48	- 91	- 178	- 192
26	Paper & Allied Products	- 635	- 599	- 642	- 578	- 593	- 659	- 730	- 632	- 573	- 673	- 442
27	Printing & Publishing Products	100	107	108	115	132	153	170	182	184	184	157
28	Chemicals & Allied Products	1,609	1,592	1,655	1,716	2,108	1,960	2,059	2,162	2,467	2,446	2,741
29	Petroleum & Coal Products	- 162	- 218	- 290	- 255	- 295	- 468	- 501	- 505	- 603	- 795	-1,027
30	Rubber & Plastic Products	59	68	80	83	96	84	63	- 8	- 97	- 176	- 320
31	Leather & Leather Products	- 80	- 73	- 134	- 123	- 151	- 196	- 241	- 306	- 436	- 535	- 638
32	Stone & Clay Glass Products	- 37	- 15	- 37	- 14	3	14	- 20	- 15	- 84	- 108	- 97
33	Primary Metal Products	- 172	- 336	- 529	- 673	- 658	-1,360	-1,818	-1,923	-2,815	-1,584	-1,550
34	Fabricated Metal Products	310	352	440	433	404	531	666	589	642	645	563
35	Machinery, Except Electrical	2,695	2,981	3,124	3,237	3,862	4,015	3,913	4,028	4,162	4,637	5,467
36	Electrical Machinery	717	764	796	849	932	765	643	700	463	482	347
37	Transportation Equipment, Total	1,997	1,974	2,166	2,056	2,086	2,010	1,362	1,702	1,233	874	125
	371 Motor Vehicles & Parts	635	755	798	879	904	675	231	- 74	-1,092	-1,589	-2,364
	372 Transportation, Other	1,362	1,219	1,368	1,177	1,182	1,335	1,131	1,776	2,325	2,463	2,489
38	Instruments & Related Products	244	293	327	373	392	407	485	551	530	573	638
39	Miscellaneous Mfg. Products	- 161	- 144	- 208	- 182	- 214	- 239	- 289	- 356	- 481	- 550	- 689
19	Ordnance & Accessories	385	358	290	433	368	358	471	272	282	419	376
		188	196	231	221	276	165	240	97	63	192	442

Source: Computed from Official Statistics of the U. S. Department of Commerce, Bureau of Census.

EFFECTS OF NON-TRADE TRANSACTIONS ON U. S. BALANCE OF PAYMENTS, 1960, 1965 AND 1970
(In Millions of Dollars)

<u>Industry Group</u>	<u>Total Inflows</u>			<u>Total Outflows</u>			<u>Net Contributions to U. S. Balance of Payments</u>			
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>Avg. Annual Change 1960-70</u>
Food & Kindred Products	27.0	60.5	96.9	37.9	31.3	65.5	(10.9)	29.2	31.4	--
Paper & Allied Products	19.0	40.4	70.9	12.0	103.3	131.2	7.0	(62.9)	(60.3)	--
Chemicals & Allied Products	55.3	135.3	267.5	15.5	98.1	82.1	39.8	37.2	185.4	16.6
Primary & Fab. Metal Industries	29.5	23.4	90.1	14.3	8.9	160.1	15.2	14.5	(70.0)	--
Machinery, Except Electrical	70.0	287.8	962.8	109.6	434.4	761.6	(39.6)	(146.6)	201.2	21.6
Machinery, Electrical	43.0	73.4	77.5	22.8	36.4	86.4	20.7	37.0	(8.9)	--
Motor Vehicles & Parts	146.3	390.3	485.3	404.3	242.8	287.4	(258.0)	147.5	197.9	--
Aircraft & Parts	1.0	3.0	30.7	0.0	1.0	3.5	1.0	2.0	28.2	95.0
Instruments & Related Products	13.5	30.6	122.7	32.3	26.5	79.7	(18.8)	4.1	43.0	--
All Other Industries	60.4	83.3	154.3	46.5	29.4	85.9	13.9	53.9	68.4	17.3
TOTAL, All Respondents	465.0	1,128.0	2,358.7	695.2	1,012.1	1,743.4	(230.2)	115.9	615.3	16.7

1/ Not meaningful.

Source: ECAT Survey.

Table 40

**SOURCES OF FUNDS OF U. S. OWNED FOREIGN
MANUFACTURING AFFILIATES, 1963-65 AND 1967-68**

	<u>Total Available Funds</u> (Million Dollars)	<u>Plant and Equipment Expenditures</u> (Million Dollars)	<u>Funds Obtained from the United States</u> (Million Dollars)	<u>Ratio of Funds Obtained from United States to:</u>	
				<u>Total Expenditures</u>	<u>Plant and Equipment Expenditures</u>
1963	3,392	1,609	288	8.5	17.9
1964	4,928	2,316	499	10.1	21.5
1965	6,595	3,077	1,238	18.8	40.2
1967	5,316	3,437	662	12.5	19.3
1968	6,291	3,130	238	3.4	7.6

SOURCE: U. S. Department of Commerce, Office of Business Economics

EFFECTS OF INTERNATIONAL CORPORATE TRANSACTIONS ON THE U. S. BALANCE OF PAYMENTS, 1960, 1965 AND 1970
(In Millions of Dollars)

Industry Group	Total Inflows			Total Outflows			Net Contribution to U. S. Balance of Payments (= Net Inflow)			Avg. Annual Change 1960-70
	1960	1965	1970	1960	1965	1970	1960	1965	1970	
	Food & Kindred Products	766.7	982.8	1,301.7	477.5	598.4	731.5	289.2	384.4	
Paper & Allied Products	163.0	296.4	656.9	238.0	444.9	592.4	(75.0)	(148.5)	64.5	11.1
Chemicals & Allied Products	336.0	489.0	758.3	163.5	329.9	442.2	172.5	159.1	316.1	6.2
Primary & Fab. Metal Industries	115.8	151.4	359.7	69.7	98.0	334.2	46.1	53.4	25.5	-5.8
Machinery, Except Electrical	916.4	1,767.6	3,488.4	143.8	509.5	1,072.8	772.6	1,258.1	2,415.6	12.1
Machinery, Electrical	218.1	398.5	576.2	39.9	88.3	245.9	178.2	310.2	330.3	6.4
Motor Vehicles & Parts	1,212.9	2,245.5	3,994.3	522.2	587.5	3,240.2	690.7	1,658.0	754.1	.9
Aircraft & Parts	612.2	716.9	2,164.9	24.2	54.6	183.0	588.0	662.3	1,981.9	12.9
Instruments & Related Products	155.7	312.9	686.4	57.6	66.5	164.9	98.1	246.4	521.5	18.2
All Other Industries	289.1	383.8	528.4	104.4	124.6	256.7	184.7	259.2	271.7	3.9
TOTAL	4,785.9	7,744.8	14,515.2	1,840.8	2,902.2	7,263.8	2,945.1	4,842.6	7,251.4	9.4

Source: ECAT Survey

**EFFECT OF FOREIGN DIRECT INVESTMENTS ON
DOMESTIC INVESTMENT PROGRAM**

	<u>Foreign Invest- ments resulted in an increase in domestic investments</u>	<u>Foreign Invest- ments resulted in a decrease in domestic investments</u>	<u>Foreign Invest- ments had no effect on domestic investments</u>
Food & Kindred Products	1	-	10
Paper & Allied Products	3	2	3
Chemical & Allied Products	3	1	6
Primary & Fabricated Metals	-	-	4
Machinery, Except Electrical	7	1	5
Machinery, Electrical	3	-	3
Motor Vehicles & Parts	2	1	3
Other Transportation Equipment	1	-	4
Instruments & Related Products	2	-	2
All other Industries	1	1	5
Total, All Industries	23	6	45
Percentage of Total Responses	31.0%	8.0%	61.0%

Source: ECAT Survey

**EFFECT OF FOREIGN DIRECT INVESTMENT PROGRAM
ON U.S. FOREIGN TRADE**

Industry Group

If Respondent had no Foreign Investments
the share of the U.S. Market supplied by
Imports for its Industry or Principal Product
Lines would probably be:

	<u>Much Larger</u>	<u>Somewhat Larger</u>	<u>About The Same</u>	<u>Somewhat Smaller</u>	<u>Much Smaller</u>
Food & Kindred Products	-	-	11	-	-
Paper & Allied Products	1	2	5	-	-
Chemical & Allied Products	-	1	9	-	-
Primary & Fabricated Metals	-	-	4	-	-
Machinery, Except Electrical	1	1	6	4	1
Machinery, Electrical	-	1	2	1	2
Motor Vehicles & Parts	-	1	5	-	-
Other Transportation Equipment	-	-	4	1	-
Instruments & Related Products	1	1	2	-	-
All Other Industries	-	2	3	2	-
Total, All Industries	3	9	51	8	3
Percentage of Total Responses	4%	12%	69%	11%	4%

If Respondent had no Foreign Investments
the share of Foreign Markets supplied by U.S.
Exports for its Industry or Principal Product
Lines would probably be:

	<u>Much Larger</u>	<u>Somewhat Larger</u>	<u>About The Same</u>	<u>Somewhat Smaller</u>	<u>Much Smaller</u>
Food & Kindred Products	-	2	8	1	-
Paper & Allied Products	-	-	5	2	1
Chemical & Allied Products	-	2	5	1	1
Primary & Fabricated Metals	-	1	1	2	-
Machinery, Except Electrical	-	1	3	2	7
Machinery, Electrical	-	-	-	3	4
Motor Vehicles & Parts	-	-	3	1	2
Other Transportation Equipment	-	1	3	1	-
Instruments & Related Products	-	1	-	1	2
All Other Industries	-	1	3	1	2
Total, All Industries	-	9	31	15	18
Percentage of Total Responses	-	12%	42%	21%	24%

Source: ECAT Survey

Table 44

ESTIMATED PROPORTION OF 1974 SALES IN NEW PRODUCTS
BY MAJOR INDUSTRY GROUP*

<u>Industry Group</u>	<u>Estimated percentage of 1974 sales in new products</u>
Aerospace	31
Motor Vehicles and parts	31
Machinery, except electrical	24
Instruments	23
Electrical Machinery	19
Paper and Pulp	19
Textiles	18
Fabricated Metals	15
Transport equipment, except aircraft and motor vehicles	15
Stone, clay and glass	14
Chemicals	13
Rubber	12
Nonferrous metals	10
Food and beverages	10
Iron and steel	8
Petroleum	7
Durable goods, average	20
Non Durable goods, average	11
All manufacturing industries, average	16

*Based on survey conducted in early 1971.

Source: McGraw-Hill, Department of Economics

Table 45

**DIRECTION OF TECHNOLOGY TRANSFER BY
MULTINATIONAL CORPORATIONS, BY MAJOR INDUSTRY GROUP
1960-1970**

<u>Industry Group</u>	<u>Firms Transferring Manufacturing Technology Abroad^{1/}</u>		<u>Firms Obtaining Manufacturing Technology from Abroad^{2/}</u>	
	<u>Number</u>	<u>% of Total Firms in Industry Group</u>	<u>Number</u>	<u>% of Total Firms in Industry Group</u>
Food & Kindred Products 11 Respondents	7	64	6	55
Paper & Allied Products 8 Respondents	5	63	3	38
Chemical & Allied Products 10 Respondents	10	100	10	100
Primary Fabricated Metals 4 Respondents	4	100	2	50
Machinery, Except Electrical 13 Respondents	11	85	7	54
Machinery, Electrical 6 Respondents	6	100	5	83
Motor Vehicles & Parts 6 Respondents	6	100	5	83
Aircraft & Parts Industry 5 Respondents	4	80	5	100
Instruments & Related Products 4 Respondents	3	75	3	75
All Other 7 Respondents	7	100	5	71
TOTAL, All Industries	63	85	51	69

^{1/} Survey Respondents were asked the following question: "Have you, during the past decade, made your manufacturing technology available to foreign producers on a license, franchise or other commercial basis?"

^{2/} Survey Respondents were asked the following question: "Has foreign manufacturing technology been made available to you on a license, franchise or other commercial basis during the past decade?"

Source: ECAT Survey.

**THE ROLE OF THE MULTINATIONAL CORPORATION (MNC)
IN THE UNITED STATES AND WORLD ECONOMIES:**

INDIVIDUAL INDUSTRY ANALYSES

**(Based on an Analysis by the International Economic Subcommittee
of the Emergency Committee for American Trade of the
Domestic and International Activities of 74 U. S. Corporations)**

February, 1972

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FOOD AND KINDRED PRODUCTS INDUSTRY

Introduction

This industry group includes data on 11 companies which had aggregate annual sales of over \$13 billion in 1970, equivalent to approximately 13 percent of total U. S. manufacturers' shipments of food and kindred products in that year. Survey participants represent a broad cross section of the food products industry including firms primarily engaged in the processing and distribution of cereals, meats, soups and similar canned goods, bakery products, soft drinks, and general food products.

Pattern of Investment Activity

Foreign activities play an important role in the investment programs of most major U. S. food product manufacturers. Although foreign plant and equipment expenditures were equivalent to less than 15 percent of domestic expenditures for all food products manufacturers during the 1960's, the ratio of foreign to domestic expenditures was substantially higher for the large, nationally-known food manufacturers. In the case of the survey respondents, which fall in the latter category, foreign investments were equivalent to more than one-third of domestic investments during both 1961-65 and 1966-70. Indeed, although the survey respondents accounted for less than 18 percent of total domestic plant and equipment expenditures during the 1960's, they accounted for over one-half of total foreign expenditures during the corresponding period (Tables 6, 7 and 9).

In the case of both the survey participants and the broader industry of which they are a part, the rate of growth in domestic plant and equipment expenditures exceeded that for foreign plant and equipment expenditures. Although the average annual growth in domestic capital expenditures by food processing respondent, 13.7 percent, lagged behind that of the average multinational corporation in the survey, 14.1 percent, it substantially exceeded the corresponding rate of 11.3 percent, for the average manufacturing industry.

Total book value of foreign investments, as of December, 1970, for those firms surveyed in this industry amounted to \$991 million. This figure was equivalent to approximately 7.0 percent of the total book value of foreign investments held by all survey participants (as of December 1970).

New capital expenditures by the food industry have been broadly distributed around the world. Western Europe accounts for slightly less than half of total investments; Canada and Latin America each account for less than one-fourth, with most of the residual occurring in "rest of world." (Table I-1.)

Food manufacturers rated "market demands" as the most important determinant of their investment decisions in every geographic area. The majority of respondents stressed the fact that foreign manufacturing investments were almost exclusively for the purpose of supplying local markets and that such considerations as produce perishability, high weight-to-cost

ratio, trade restrictions, and health standards generally precluded a significant volume of international trade in processed food products. Trade restrictions and investment regulations were most frequently cited as the second most important factor in foreign investment decisions, while labor costs advantages were consistently considered the least significant of any of the rated factors. (Tables I-4 and I-5.)

Domestic and Foreign Sales

Food processing companies reported the lowest annual rate of domestic sales growth (5.0 percent) of any of the industry groups in the survey. The relatively modest rate of sales growth in this industry reflects the moderate rate of population growth in the United States in the 1960's and the general tendency of consumers to spend a smaller proportion of their rising incomes on food products.

Sales by foreign affiliates of the survey respondents increased five-fold during the 1960's, with the greatest growth occurring in the first half of the decade.

As a result of the disparity between domestic and foreign growth trends, the ratio of foreign to domestic sales rose from roughly one-tenth in 1960 to over one-third in 1970. Although the disparity between domestic and foreign growth trends for this industry was the largest of any group studied, there is absolutely no evidence of any causal relationships between

the respondents' foreign investment programs and their domestic sales growth. First, it should be noted that domestic sales by survey respondents, which include a disproportionately large share of total foreign investments by the industry, increased more rapidly than those of the overall food products industry. (Tables I-3 and 35). Secondly, only a negligible (and declining) proportion of foreign affiliates sales entered the U. S. market. (Table I-2.) Moreover, the bulk of the imports from foreign affiliates, which amounted to only 2 percent of foreign affiliates sales in 1970, consisted of raw materials and/or specialty food products which would otherwise have been obtained from other foreign suppliers.

Domestic and Foreign Employment

Despite moderate sales growth and rising productivity, respondent firms increased their domestic employment from 169 thousand persons in 1960 to 223 thousand in 1970. (Table 3.) Employment by foreign affiliates approximately tripled during the corresponding period.

Ten of the eleven survey respondents reported an increase in domestic employment from 1960 to 1970. The remaining firm reported declines in both foreign and domestic employment, which were attributable to productivity growth, during the corresponding period.

Merchandise Trade Balance

Notwithstanding the fact that U. S. food product manufacturers are dependent on imports for a number of important food products, the survey respondents increased their trade surplus from \$300 million in 1960 to \$539 million in 1970. (Table 31 .) The preponderant part of the foreign trade by this industry, both exports and imports, has consisted of the movement of unprocessed and semi-processed raw materials.

The survey data clearly indicate that the effect of foreign affiliate transactions on the merchandise trade balance of the food companies has been positive. Only 14 percent of total merchandise imports came from affiliates while affiliates absorbed 45 percent of current company exports. (Table I-3 .) Moreover, the net positive role of affiliates is further illustrated by the fact that four of the five respondents in the food industry which reported trade deficits achieved surpluses in their transactions with affiliated companies.

Contribution to U. S. Balance of Payments

In 1965, the survey participants had an international financial transactions surplus of \$29 million, a clear improvement over the \$11 million deficit recorded in 1960. By 1970, this surplus had increased to \$31 million. (Table 39.) The favorable growth in net financial transactions coupled with the positive merchandise trade balance achieved by these firms

throughout the 1960's provided a net contribution of \$570 million to the U. S. balance of payments in 1970. This figure is nearly double the amount recorded in 1960.

Role of Technology Transfer

Seven of the eleven respondents in this industry group have licensed technology to foreign manufacturers during the past decade while six have been the beneficiaries of imported technology. (Table 45.) In every case but one, the respondents were agreed that the technology exchanges in which they were involved had virtually no effect on U. S. merchandise trade. The one exception involved a firm which was able to substantially enlarge its complementary exports as a result of the technology which it had made available to foreign suppliers.

The Effect of Foreign Investments on Domestic Investments, U. S. Exports, and U. S. Imports

There was a clear consensus among the survey respondents that their foreign investment programs had had little if any effect on their level of domestic operations. All eleven of the survey respondents indicated that their foreign investments had had no effect on U. S. import volume, eight indicated no effect on U. S. export volume, and ten indicated no effect on the level of domestic investment. (Tables 42 and 43.) Among the firms which indicated some possible effects, two indicated that their export volume might be somewhat larger ("presumably, if no foreign investments had been made, exports of U. S. products might be nominally greater than

is now the case in selected market") while the third firm indicated that its overseas activities had contributed measurably to the increased demand for agricultural products of U. S. origin (i.e., soybeans). Finally, one firm reported that its foreign investment program had had a positive effect on its domestic investments but provided no explanation for its answer. Presumably, in the case of this latter firm, which is strongly export oriented, foreign investments have played a significant role in the expansion of U. S. exports and consequently have had a favorable effect on the level of domestic investment.

Summary

Food processing companies substantially expanded their international activities in the 1960's, increasing their foreign sales five-fold and tripling their foreign employment. The record makes it clear, however, that this growth was entirely independent of developments in the domestic market, where sales and employment increased less rapidly. Despite their historical dependence on imports for several food products not available in the United States (coffee, tea, certain nuts, fish and similar products), the survey respondents were able to substantially enlarge their aggregate export surplus from 1960 to 1970. This performance contrasts markedly with that of the overall U. S. trade balance in food products which deteriorated by over \$800 million in the 1960's. Consequently, the survey results strongly suggest that the international activities of food processing respondents have had a beneficial effect on the economic health of the domestic food products industry.

FOOD AND KINDRED PRODUCTS INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	896.6	1,683.3	13.4
Canada	62.1	135.4	16.9
Other Western Hemisphere	63.2	98.6	9.3
Western Europe	180.5	250.4	6.8
Far East	1.6	6.4	32.0
Rest of the World	20.6	63.3	25.2
Non Allocable**	27	20	-5.8
Total, Outside United States	355.0	574.1	10.1
Total, Outside United States (except Canada)	265.9	418.7	9.5

Percentage Distribution of Capital Expenditures
Outside The United States

	<u>1961-65</u>	<u>1966-70</u>
	Canada	17.5
Other Western Hemisphere	17.8	17.2
Western Europe	50.8	43.6
Far East	.5	1.1
Rest of the World	5.8	11.0
Non Allocable**	7.6	3.5
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

**FOOD AND KINDRED PRODUCTS INDUSTRY: PERCENTAGE
DISTRIBUTION OF SALES BY FOREIGN AFFILIATES, 1960, 1965 AND 1970**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	872.5	2,640.7	4,440.6	100.0	100.0	100.0
Local Sales	776.3	1,723.8	3,048.5	89.0	65.3	68.7
Export Sales to U.S.	2.7	20.0	31.8	0.3	0.7	0.7
Export Sales to Other Countries	93.5	896.9	1,360.3	10.7	40.0	30.6
Canadian Foreign Affiliates:						
Total Sales	327.3	693.2	908.0	100.0	100.0	100.0
Local Sales	241.2	546.0	847.6	73.7	78.8	93.0
Export Sales to U.S.	1.0	3.0	12.6	0.3	0.4	1.4
Export Sales to Other Countries	85.1	144.2	47.8	26.0	20.8	5.3
Foreign Affiliates, except Canadian:						
Total Sales	545.2	1,947.5	3,532.6	100.0	100.0	100.0
Local Sales	535.1	1,177.8	2,200.9	98.2	60.5	62.3
Export Sales to U.S.	1.7	17	19.2	.3	.9	.5
Export Sales to Other Countries	8.4	752.7	1,312.5	1.5	38.6	37.2

Source: ECAT Survey.

FOOD AND KINDRED PRODUCTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	8004.5	9551.3	13090.8	3.6	6.5	5.0
Exports to Foreign affiliates	13.2	356.6	537.1	90.5	8.5	44.8
Purchases by affiliates from other U. S. firms	46.0	60.2	74.1	5.5	4.2	4.9
Subtotal, exports to affiliates	59.2	416.8	611.2	47.7	8.0	26.3
Exports to unaffiliated firms	680.5	505.5	593.6	-5.8	3.3	2.7
TOTAL, EXPORTS	739.7	922.3	1204.8	4.5	5.5	5.0
Imports from Affiliates	40.0	82.2	93.4	15.5	2.6	8.8
Sales by affiliates to other U. S. producers	-	4.7	2.6	-	-11.2	-
Subtotal, imports from affiliates	40.0	86.9	96.0	16.8	2.0	9.1
Imports from unaffiliated firms	399.6	480.2	570.0	3.7	3.5	3.6
TOTAL, IMPORTS	439.6	567.1	666.0	5.2	3.3	4.2
Merchandise Trade Balance:						
Based on transactions involving affiliates	19.2	329.9	515.2	70.9	9.3	38.3
Based on transactions with unaffiliated firms	280.9	25.3	23.6	N. A.	-1.4	N. A.
TOTAL	300.1	355.2	538.8	3.4	8.7	6.0
RATIO OF:						
Imports from affiliates to U. S. sales	0.5%	0.9%	0.7%			
Total imports to U. S. sales	5.5%	5.9%	5.1%			
Exports to affiliates to U. S. sales	0.2%	3.7%	4.1%			
Total exports to U. S. sales	9.1%	9.7%	9.2%			
Exports to affiliates to total exports	1.8%	38.7%	44.6%			
Imports from affiliates to total imports	9.0%	14.5%	14.0%			

Source: ECAT Survey

Table I-4

FOOD & KINDRED PRODUCTS INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Number of Responses					Total, All Responses
	Trade Res- trictions *	Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	14	3	34	-	3	54
2	15	31	5	1	2	54
3	6	5	8	19	-	38
4	2	2	5	15	-	24
5 (least)	1	-	-	3	1	5
Negligible	14	13	2	16	4	49
Total Responses	52	54	54	54	10	224
<u>Canada:</u>						
1 (most)	3	1	6	-	1	11
2	3	6	1	1	-	11
3	-	2	2	3	-	7
4	1	-	1	3	-	5
5 (least)	-	-	-	-	-	-
Negligible	4	2	1	4	1	12
Total Responses	11	11	11	11	2	46
<u>W. Hemisphere:</u>						
1 (most)	3	1	6	-	1	11
2	2	6	2	-	-	10
3	2	1	2	4	-	9
4	-	1	1	4	-	6
5 (least)	-	-	-	-	-	-
Negligible	2	2	-	3	1	8
Total Responses	9	11	11	11	2	44
<u>W. Europe:</u>						
1 (most)	2	-	8	-	-	10
2	5	6	-	-	1	12
3	1	1	2	4	-	8
4	-	1	1	3	-	5
5 (least)	-	-	-	-	-	-
Negligible	3	3	-	4	1	11
Total Responses	11	11	11	11	2	46
<u>Far East:</u>						
1 (most)	4	1	7	-	-	12
2	2	6	1	-	1	10
3	1	1	1	4	-	7
4	1	-	1	2	-	4
5 (least)	-	-	-	-	-	-
Negligible	3	3	1	5	1	13
Total Responses	11	11	11	11	2	46
<u>Rest of World:</u>						
1 (most)	2	-	7	-	1	10
2	3	7	1	-	-	11
3	2	-	1	4	-	7
4	-	-	1	3	-	4
5 (least)	1	-	-	3	1	5
Negligible	2	3	-	-	-	5
Total Responses	10	10	10	10	2	42

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-5

FOOD & KINDRED PRODUCTS INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	26	6	63	0	6	100
2	28	57	9	2	4	100
3	16	13	21	50	0	100
4	8	8	21	63	0	100
5 (least)	20	0	0	60	20	100
Negligible	29	27	4	33	8	100
<u>Canada:</u>						
1 (most)	27	9	55	0	9	100
2	27	55	9	9	0	100
3	0	29	29	43	0	100
4	20	0	20	60	0	100
5 (least)	0	0	0	0	0	100
Negligible	33	17	8	33	8	100
<u>W. Hemisphere:</u>						
1 (most)	27	9	55	0	9	100
2	20	60	20	0	0	100
3	22	11	22	44	0	100
4	0	17	17	67	0	100
5 (least)	0	0	0	0	0	100
Negligible	25	25	0	38	13	100
<u>W. Europe:</u>						
1 (most)	20	0	80	0	0	100
2	42	50	0	0	8	100
3	13	13	25	50	0	100
4	0	20	20	60	0	100
5 (least)	0	0	0	0	0	100
Negligible	27	27	0	36	9	100
<u>Far East:</u>						
1 (most)	33	8	58	0	0	100
2	20	60	10	0	10	100
3	14	14	14	57	0	100
4	25	0	25	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	23	23	8	38	8	100
<u>Rest of World:</u>						
1 (most)	20	0	70	0	10	100
2	27	64	9	0	0	100
3	29	0	14	57	0	100
4	0	0	25	75	0	100
5 (least)	20	0	0	60	20	100
Negligible	40	60	0	0	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

PAPER AND ALLIED PRODUCTS INDUSTRY

Introduction

This industry group includes data on eight firms with aggregate sales of \$8.4 billion in 1970 equivalent to roughly one-third of total U. S. shipments of paper and allied products in 1970. One of the eight respondents included in this category is primarily engaged in the manufacture of lumber and wood products. However, because of the close relationship between the lumber and paper industries, this firm was included with the latter industry rather than in miscellaneous manufacturing industry category.

Pattern of Investment Activity

The paper and allied products industry has long been a significant direct foreign investor. The book value of foreign direct investments by paper manufacturers included in the survey was over \$1 billion at the close of 1970. (Table 17.) Expenditures for plant and equipment (P & E) abroad were equivalent to roughly 20 percent of those in the United States for the survey respondents during the period 1960-70. (Table 6.) Official Census data on the entire paper industry indicated that foreign P & E expenditures by the industry were equivalent to roughly 17 percent of domestic expenditures during 1961-65 but declined to 15 percent during 1966-70. (Tables 7 and 9.)

The total book value of foreign investments by the eight firms included in the survey amounted to \$1,053 million as of December, 1970.

This figure represents approximately 7 percent of the total book value of foreign holdings by all companies surveyed in this study.

Roughly two-thirds of the foreign investment by the paper and allied products industry during the past decade has been in Canada. (Table I-6.) In the majority of instances, the primary motivation for Canadian foreign investment has been the development of manufacturing facilities to process raw materials available in Canada, although market demands were considered the most important factor by two respondents. (Tables I-9 and I-10.)

Outside Canada, the most important area of investment activity was Western Europe accounting for 19 percent of foreign P & E expenditures during 1961-65 and 25 percent during 1966-70. In the case of Western Europe and Latin America, where the preponderant part of affiliate sales are for local markets, market demands (chiefly the prohibitive cost of transporting bulky, low-unit value paper products) have been the dominant factor in the foreign investment decision. One manufacturer reported that a major factor in its decision to build a European plant was that the prospective plant would provide a captive market for intermediate products produced in the United States--a market which was previously impenetrable for the U. S. producer.

Domestic and Foreign Sales

As of 1970, sales by foreign affiliates of U. S. paper manufacturers

were equivalent to roughly one-fourth of U. S. sales by the parent manufacturers. The U. S. sales of the survey respondents increased at an annual rate of 9.5 percent from \$3.4 billion in 1960 to \$8.4 billion in 1970, while foreign sales rose 13.9 percent annually from \$.6 billion to \$2.1 billion, an increase of 268 percent. (Tables I-7 and I-8.) It is interesting to note that although foreign affiliate sales have increased rapidly, the sales by the respondents have increased more rapidly than those reported by the Bureau of Census for the overall paper industry (27 percent for 1960-70).

More significant is the fact that an increasing proportion of sales by foreign affiliates are to customers outside the United States. In 1970 only 17 percent of foreign affiliate sales were exported to the U. S. market compared with 28 percent in 1960. (Table I-7.) In both years virtually all of these sales consisted of pulp and newsprint imported from Canadian affiliates. As of 1970, only 1.3 percent of all sales by foreign affiliates outside Canada were exported to the U. S. market.

The greatest growth in sales by foreign affiliates was achieved by those affiliates located outside Canada whose sales increased from \$146 million in 1960 to \$1,077 million in 1970. Virtually all of these sales, however, consisted either of local sales (83 percent of the total) or export sales to third countries (15.8 percent of the total) and only a

trivial proportion entered the U. S. market in 1970. These consisted primarily of tropical hardwoods and other raw and semi-finished materials not available in the United States.

Domestic and Foreign Employment

Both foreign and domestic employment of paper manufacturers increased substantially during the 1960's. In the case of the survey respondents, domestic employment increased 61 percent from 1960 to 1970 (4.9 percent annually), a rate of growth three times greater than that recorded for the entire paper and allied products industry of 18.1 percent (1.7 percent annually). (Tables 12 and 14).

Although the increase in foreign employment from 1960 to 1970 was less than half that in domestic employment in absolute terms, the percentage increase, 8.5 percent, was substantially greater. It should be emphasized, however, that only a very small part of the foreign employment could be attributed to exports by foreign affiliates to the United States market and even these exports consisted chiefly of traditional U. S. imports (i.e., pulp and newsprint).

Merchandise Trade Balance

Because of its historical dependence on imported pulp and newsprint, the paper industry has long had an adverse trade balance. During the decade 1960-70 this balance improved significantly, largely as a result of the activities of multinational paper corporations. Although the paper

industry as a whole ran a deficit of some \$442 million in 1970, this represented an improvement of \$193 million from the deficit recorded in 1960.

Our survey respondents fared even better, reporting a trade surplus of \$125 million in 1970 compared with deficits in both 1960 and 1965. The ratio of exports to sales for survey respondents, 7.0 percent in 1970, was significantly greater than that of 4.4 percent recorded for the overall paper industry (Tables 34 and I -8). Moreover, as previously indicated, a significant proportion of these exports are directly attributable to the construction of finished product plants abroad which provided a captive market for intermediate products supplied by the U. S. parent. In the judgment of the parent corporations, these exports could not have been attained without their foreign investments.

Contribution to U. S. Balance of Payments

The improvement in the trade balance of the respondents from 1960 to 1970 was partially offset by a net outflow of capital to foreign affiliates. (Table 39.) Nonetheless the marked improvement in the merchandise trade balance of the survey respondents resulted in an increase in their overall positive contribution to the balance of payments.

The Effects of Foreign Investments on the U. S. Investments, Exports, and Imports

Three respondents reported that foreign investments actually stimulated domestic investments while three indicated no effect. Only one reported

that foreign investments had adversely affected its level of domestic investment. The latter firm attributed the reduced level of domestic investment to a limitation on total corporate funds available, but it is indicated further that as its foreign investment begins to generate a positive cash flow in the early 1970's, it will make possible a higher level of domestic investment than would have otherwise been possible. Thus, the foreign investment decision merely deferred rather than reduced domestic investment programs.

The survey respondents reported a greater growth in their domestic investment activity than did the average paper manufacturer (15.0 percent per year vis-a-vis 13.4 percent). On balance, it appears that the foreign investments of U. S. paper manufacturers have in fact stimulated their domestic investment programs.

The Role of Technology Transfer

Although U. S. paper manufacturers have both sold technology to and purchased technology from foreign manufacturers in the past decade, none believe that these transactions have had a significant effect (either positive or negative) on the international competitive position of the United States paper industry. Four of the eight respondents in the industry sold technology abroad while two obtained foreign technology during the decade of the 1960's. (Table 45.)

In general, respondents indicated that the transfer of technology (in both directions) has been inconsequential to the international competitive position of U. S. industry since the manufacturing technology of the industry is widely diffused with British, Scandinavian, and Canadian producers sharing the leadership role with United States manufacturers.

Summary

Despite rapidly growing foreign sales, investment, and employment, the survey respondents have increased their domestic employment, sales, and exports more rapidly than the typical paper manufacturing firm. They also have succeeded in converting, partly through their foreign investment activities, a trade deficit into a trade surplus in contrast with the overall paper industry which continues to run a substantial (though declining) trade deficit.

Imports from affiliates have consisted almost entirely of pulp and newsprint which would otherwise have been purchased from indigenous foreign suppliers.

Indeed, it appears that U. S. ownership of the foreign affiliates may actually have reduced the negative trade balance of the paper industry by reducing the cost of raw material imports and thereby improving our terms of trade. On balance, it appears clear that foreign direct investments of U. S. paper manufacturers have had a salutary effect on the economic condition of the U. S. paper industry.

PAPER AND ALLIED PRODUCTS INDUSTRY^{1/}
 CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
 FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	1589	3196	15.0
Canada	222	402	12.6
Other Western Hemisphere	27	36	5.9
Western Europe	64	164	20.7
Far East	9	18	14.9
Rest of the World	15	35	18.5
Non Allocable**	-	-	-
Total, Outside United States	337	655	14.2
Total, Outside United States (except Canada)	115	253	17.1

Percentage Distribution of Capital Expenditures
 Outside The United States

	<u>1961-65</u>	<u>1966-70</u>
Canada	65.9	61.4
Other Western Hemisphere	8.0	5.5
Western Europe	19	25
Far East	2.7	2.8
Rest of the World	4.4	5.3
Non Allocable**	-	-
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

^{1/} Includes data for one firm primarily classified in the Lumber and Wood Products Industry.

Source: ECAT Survey.

Table I-7

**PAPER AND ALLIED PRODUCTS INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	569.0	1189.3	2097.6	100.0	100.0	100.0
Local Sales	332.0	794.7	1454.6	58.3	66.8	69.3
Export Sales to U.S.	157.0	260.6	352.0	27.6	21.9	16.8
Export Sales to Other Countries	80.0	134.0	291.0	14.1	11.3	13.9
Canadian Foreign Affiliates:						
Total Sales	423.0	725.3	1021.1	100.0	100.0	100.0
Local Sales	203.0	386.7	561.9	48.0	53.3	55.0
Export Sales to U.S.	157.0	259.6	338.0	37.1	35.8	33.1
Export Sales to Other Countries	63.0	79.0	121.2	14.9	10.9	11.9
Foreign Affiliates, except Canadian:						
Total Sales	146.0	464.0	1076.5	100.0	100.0	100.0
Local Sales	129.0	408.0	892.7	88.4	87.9	82.9
Export Sales to U.S.	-	1.0	14.0	-	.2	1.3
Export Sales to Other Countries	17.0	55.0	169.8	11.6	11.9	15.8

✓ Includes one firm primarily classified in the
Lumber and Wood Products Industry.

Table 1-8

PAPER AND ALLIED PRODUCTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	3385.0	4993.2	8356.8	8.1	10.9	9.5
Exports to Foreign affiliates	21.0	79.0	153.0	30.3	14.1	22.0
Purchases by affiliates from other U. S. firms	1.0	1.0	2.0	-	14.9	7.2
Subtotal, exports to affiliates	22.0	80.0	155.0	29.4	14.1	21.5
Exports to unaffiliated firms	122.0	176.0	431.0	7.6	19.6	13.5
TOTAL, EXPORTS	144.0	256.0	586.0	12.2	18.0	15.1
Imports from Affiliates	47.0	104.6	219.2	17.4	16.0	16.6
Sales by affiliates to other U. S. producers	154.0	203.0	166.0	5.7	-3.9	0.8
Subtotal, imports from affiliates	201.0	307.6	385.2	8.9	4.6	6.7
Imports from unaffiliated firms	25.0	34.0	76.0	6.3	17.5	11.8
TOTAL, IMPORTS	226.0	341.6	461.2	8.6	6.2	7.4
Merchandise Trade Balance:						
Based on transactions involving affiliates	-179.0	-227.6	-230.2	-6.2	-0.2	-6.5
Based on transactiojs with unaffiliated firms	97.0	142.0	355.0	7.9	20.0	13.9
TOTAL	-82.0	-85.0	124.8	0.9	28.2	13.3
RATIO OF:						
Imports from affiliates to U. S. sales	5.9%	6.2%	4.6%			
Total imports to U. S. sales	6.7%	6.8%	5.5%			
Exports to affiliates to U. S. sales	0.6%	1.6%	1.9%			
Total exports to U. S. Sales	4.3%	5.1%	7.0%			
Exports to affiliates to total exports	14.5%	30.8%	26.1%			
Imports from affiliates to total imports	20.8%	30.6%	47.5%			

Source: ECAT Survey

Table I-9

PAPER & ALLIED PRODUCTS INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of <u>Importance</u>	Trade Res- trictions *	<u>Number of Responses</u>				Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	3	5	14	-	8	30
2	3	8	9	4	3	27
3	17	1	4	1	2	25
4	3	8	2	5	1	19
5 (least)	-	4	-	6	2	12
Negligible	3	3	-	13	2	21
Total Responses	29	29	29	29	18	135
<u>Canada:</u>						
1 (most)	-	1	2	-	3	6
2	1	1	3	-	1	6
3	3	-	-	1	-	4
4	-	1	1	1	-	3
5 (least)	-	1	-	1	-	2
Negligible	2	2	-	3	-	7
Total Responses	6	6	6	6	4	28
<u>W. Hemisphere:</u>						
1 (most)	1	1	4	-	1	7
2	-	3	2	1	-	6
3	4	-	1	-	-	5
4	1	2	-	2	-	5
5 (least)	-	1	-	1	2	4
Negligible	1	-	-	3	1	5
Total Responses	7	7	7	7	4	32
<u>W. Europe:</u>						
1 (most)	1	-	4	-	1	6
2	1	2	1	1	1	6
3	4	-	1	-	1	6
4	-	2	-	1	1	4
5 (least)	-	1	-	1	-	2
Negligible	-	1	-	3	-	4
Total Responses	6	6	6	6	4	28
<u>Far East:</u>						
1 (most)	-	2	1	-	2	5
2	-	1	1	1	-	3
3	3	-	1	-	-	4
4	1	1	1	-	-	3
5 (least)	-	-	-	1	-	1
Negligible	-	-	-	2	-	2
Total Responses	4	4	4	4	2	18
<u>Rest of World:</u>						
1 (most)	1	1	3	-	1	6
2	1	1	2	1	1	6
3	3	1	1	-	1	6
4	1	2	-	1	-	4
5 (least)	-	1	-	2	-	3
Negligible	-	-	-	2	1	3
Total Responses	6	6	6	6	4	28

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-10

PAPER & ALLIED PRODUCTS INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Restrictions*	Percentage Distribution of Responses				Other Factors	Total, All Responses
		Investment Regula- tions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages			
<u>All Areas:</u>							
1 (most)	10	17	47	0	27	100	
2	11	30	33	15	11	100	
3	68	4	16	4	8	100	
4	16	42	11	26	5	100	
5 (least)	0	33	0	50	17	100	
Negligible	13	13	0	62	10	100	
<u>Canada:</u>							
1 (most)	0	17	33	0	50	100	
2	17	17	50	0	17	100	
3	75	0	0	25	0	100	
4	0	33	33	33	0	100	
5 (least)	0	50	0	50	0	100	
Negligible	29	29	0	43	0	100	
<u>W. Hemisphere:</u>							
1 (most)	14	14	57	0	14	100	
2	0	50	33	17	0	100	
3	80	0	20	0	0	100	
4	20	40	0	40	0	100	
5 (least)	0	25	0	25	50	100	
Negligible	20	0	0	60	20	100	
<u>W. Europe:</u>							
1 (most)	17	0	67	0	17	100	
2	17	33	17	17	17	100	
3	67	0	17	0	17	100	
4	0	50	0	25	25	100	
5 (least)	0	50	0	50	0	100	
Negligible	0	25	0	75	0	100	
<u>Far East:</u>							
1 (most)	0	40	20	0	40	100	
2	0	33	33	33	0	100	
3	75	0	25	0	0	100	
4	33	33	33	0	0	100	
5 (least)	0	0	0	100	0	100	
Negligible	0	0	0	100	0	100	
<u>Rest of World:</u>							
1 (most)	17	17	50	0	17	100	
2	17	17	33	17	17	100	
3	50	17	17	0	17	100	
4	25	50	0	25	0	100	
5 (least)	0	33	0	67	0	100	
Negligible	0	0	0	67	33	100	

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

CHEMICALS AND ALLIED PRODUCTS INDUSTRY**Introduction**

This industry group includes ten respondents engaged in the production of a wide variety of chemical products including drugs, soaps, cosmetics and industrial chemicals. The survey respondents had annual sales of \$7,950 million in 1970 which was equivalent to roughly 16 percent of total U. S. sales of all chemical products in that year.

It should be noted that although our survey includes data from a broad cross section of the chemicals industry, it does not include data on some of the largest chemical companies which are known to have substantial foreign holdings. One firm with a very high level of foreign direct investments responded to the survey, but was unable to provide complete data and therefore had to be excluded from industry totals. Although we believe the data provided by the survey respondents to be representative of those in the total chemical industry, we would urge caution in generalizing from the survey data to the overall performance of the chemical industry. In particular, the survey data on merchandise trade warrant a more detailed examination.

Pattern of Investment Activity

The U. S. chemical industry has long been an active participant in foreign markets through direct manufacturing investments abroad. The

foreign plant and equipment expenditures of our survey respondents were equivalent to roughly two-thirds of their domestic expenditures during both 1961-65 and 1966-70. (Table I-11.) Comparable data for the entire chemical industry (as reported by the Bureau of Census) indicate that foreign P & E expenditures were equivalent to 27 percent of domestic expenditures during 1961-65 and 39 percent during 1966-70. (Table I-11) During the latter period, chemical manufacturers accounted for roughly one-fourth of total plant and equipment expenditures by foreign affiliates of U. S. manufacturing firms, a substantially higher proportion than any other industry group. (Table 9.)

The foreign investments of chemical manufacturers are widely dispersed with approximately half located in Western Europe, followed by roughly equal proportions in Latin America, Canada, and the rest of the world. (Table 7.) The foregoing data, based on survey responses, indicate a geographic pattern of investment comparable to that for the entire chemical industry as reported by the U. S. Department of Commerce. (Table I-16.) The latter data, shown on an annual basis, provide a further insight into the changing pattern of geographic investment with expenditures in Japan rising rapidly, and those in "the rest of the world" declining sharply after 1968.

"Market demands" were ranked as the major determinant of foreign investment decisions in every area of the world, while trade restrictions were considered the second most important factor in every area of the world. (Tables I-14 and I-15) Labor cost advantages were consistently ranked as the least important factor influencing foreign investment decisions. The specific character of the market demands tended to differ among the various sectors of the industry, although relatively low unit values and high transportation costs were cited by several respondents. Among drug manufacturers, differing health and pharmaceutical regulations generally require local manufacture while marketing and transportation costs considerations (i.e., low unit values and high bulk) frequently dictated local manufacture of consumer chemical products.

Nearly all respondents emphasized the fact that most sectors of the chemical industry are highly capital intensive and that labor costs tend to be a minor consideration in investment decisions. The following response was typical:

"Relative to other considerations, foreign wage rates have not been a significant factor in our overseas investment decisions. Our chemical plants are generally capital intensive, and thus wage rates do not tend to be a decisive element. In areas where wage differentials exist, they are frequently offset by other factors, such as costs of training and differences in productivity."

Several firms also considered trade restrictions to be an important factor in their foreign investment decisions, particularly in the Far East.

Domestic and Foreign Sales

From 1960 to 1970, domestic sales of chemical companies included in the survey increased over two and one-half times while foreign sales nearly quadrupled. (Table 18.) The rate of domestic sales growth was second only to that of the instruments and related products industry while the rate of foreign sales was about average for survey respondents. As of 1970, foreign sales by chemical respondents were equivalent to more than half of their domestic sales.

An examination of available data with respect to the broader chemical industry indicates that the ratio of foreign to domestic sales by survey respondents was considerably larger than that of the average basic chemical firm. On the basis of a recent survey, the editors of Chemical & Engineering News^{1/} estimated that the foreign sales of the U. S. basic chemical industry^{2/} totaled over \$6 billion in 1971, compared with domestic sales of \$23 billion. The survey also indicated that, if

^{1/} Chemical & Engineering News, December 20, 1971.

^{2/} Does not include drug manufacturers.

partially owned subsidiaries were included, total volume of foreign sales by American chemical affiliates would approach \$7 billion in 1971. (See Table I-17 for company-by-company estimates of foreign sales by U. S. chemical manufacturers.)

Domestic and Foreign Employment

Despite the capital intensity of the chemical industry and its excellent record of productivity growth over the past decade, chemical manufacturers have increased their employment more rapidly than the average manufacturing industry both at home and abroad. In the United States, total employment by chemical manufacturers increased 28 percent from 1960 to 1970, compared with an increase of only 15 percent for the average manufacturing industry. (Tables 14.)

There is no evidence to suggest that the growing international activities of chemical firms have adversely affected their domestic employment. On the contrary, the survey respondents which show a higher level of international involvement than the typical chemical firm increased their employment nearly three times as rapidly as the average chemical firm and nearly five times as rapidly as the average manufacturing firm during the 1960's, despite the fact that their foreign employment more than doubled during that period. (Tables 12 and 14). Indeed, the foregoing data suggest, and the responses of the survey participants confirm, that if foreign investments have had any effect on U. S. employment, it has been a salutary one.

Merchandise Trade Balance

U. S. exports of chemical products doubled from approximately \$2 billion in 1960 to approximately \$4 billion in 1970. (Table 47.) Although the rate of increase in chemical imports was greater (from a far lower base), the U. S. trade surplus in chemical products increased steadily from \$1.6 billion in 1960 to \$2.7 billion in 1970. (Tables 37 and 32.)

The merchandise trade trends of the survey respondents, however, differed materially from those of the broader chemical industry. From 1960 to 1970, respondents' exports increased 7.4 percent annually, imports rose by 9.3 percent annually, and the merchandise trade surplus was virtually unchanged at \$130 million. (Table I-13) The disparity between the performance of the survey respondents and of the total chemical industry is primarily attributable to the following facts:

1. The survey respondents accounted for only about 12 percent of U. S. chemical exports in 1970 because of the omission of several very large firms from our survey totals. For example, one large chemical firm, whose questionnaire proved unusable, had a merchandise trade surplus of over \$200 million in 1970.

2. The survey respondents included a disproportionately high representation of drug companies, which have, for both marketing and legal (i.e., governmental regulations and trade barriers) reasons, been

increasingly forced to rely upon local production rather than exports in serving foreign markets.

3. Most of the imports recorded by the respondents in 1970 consisted of raw food products (coffee, tea, and nuts) entered by conglomerate consumer product manufacturers classified in the chemicals industry.

4. Of the chemical products entered by the respondents, most consisted of raw materials and intermediate products for further processing in the U. S. Market. Imports in this category consisted of items which were not available (or which were available only in very limited quantities) from U. S. suppliers such as coconut and palm oils, and ammonia.

Company-by-company data clearly confirm the fact that U. S.-based multinational chemical companies are making a positive contribution to the U. S. trade balance. Nine of the ten companies had export surpluses in 1970. The ratio of exports to imports for respondents is shown in the following tabulation:

<u>Rank</u>	<u>Ratio of Exports to Imports</u>
1	Infinite, No Imports
2	7.3
3	7.1
4	6.6
5	3.5
6	3.2
7	3.2
8	2.0
9	1.2
10	<u>.4</u>
Average	3.8

In the case of one company with trade deficit, imports consisted almost entirely of unprocessed foods and other raw materials obtained from unaffiliated companies. For this latter firm, merchandise exports to affiliates were more than four times merchandise imports from affiliates and total merchandise exports were more than ten times imports from affiliates. Thus, even in the case of the company with an overall trade deficit, the international investment activities of the firm (as reflected in trade transactions with affiliates) resulted in a positive contribution to the U. S. merchandise trade balance. In virtually every case, the ratio of exports to imports based on transactions with affiliated companies exceeded the overall export/import ratios for the reporting firms.

Contribution to U. S. Balance of Payments

The corporate financial transactions of chemical companies arising from their direct foreign investments made a positive financial contribution to the U. S. balance of payments in each of the years covered by the survey. The net cash inflow resulting from non-trade transactions increased from approximately \$40 million in both 1960 and 1965 to \$185 million in 1970. Table 39.) The total contribution of survey respondents to the U. S. balance of payments nearly doubled from 1960 to 1970 in spite of the fact that their merchandise trade balance remained virtually unchanged. (Table 41.) If the data on international financial transactions provided

by the survey respondents are typical of those of the entire chemical industry, it appears that the U. S. chemical industry made a positive contribution of some \$3.5 billion to the United States balance of payments in 1970.

Role of Technology Transfer

The wide diffusion of technological discoveries and breakthroughs has long been a distinguishing characteristic of the chemical and allied products industry. Although U. S. chemical manufacturers appear to have the distinct edge over their foreign competitors in the "technology race," their competitive edge is probably somewhat smaller than that of any of the other major technology intensive sectors of the American economy. European chemical firms have proved formidable competitors in their home markets and have extended that competition to the U. S. market via both exports and direct investments.

A recent study of technology transfer by the Organisation for Economic Cooperation and Development (OECD) revealed that the chemicals and allied products sector accounted for roughly one-fourth of all U. S. revenues derived from patents and licenses abroad, but nearly half of U. S. payments to foreign licensors and patent holders. By contrast, receipts of the chemicals and allied products sectors

accounted for roughly one-half of total French receipts and two-fifths of German and Japanese receipts and only one-fourth of their payments on patents and licenses. (See Tables I-19 and I-20.) In absolute terms, however, payments by U. S. chemical manufacturers for foreign technology were less than one-third of their receipts in the year covered by the OECD study. (Table I-18 .)

The information provided via the respondents serves both to clarify and to confirm the increasingly international character of the chemical industry. All ten of the survey respondents have been both transferors and recipients in international technology exchanges (Table 45.) In the judgment of a strong majority of survey respondents, the process of technological exchange has had a net positive effect on the U. S. merchandise trade balance. In general, technology was licensed to foreign producers only when tariffs, investment regulations, or other commercial or governmental factors prevented the penetration of foreign markets through exports or direct investment. Some manufacturers noted, for example, that the licensing of patented products (chiefly drugs) has enabled them to sell U. S.-made intermediate components to markets which would otherwise be impenetrable. In virtually no cases have foreign manufacturers been able to penetrate the U. S. market based on technology obtained from survey respondents.

On the other hand, several manufacturers (mainly drug producers) noted that the production of patented products under foreign licenses has enabled them to materially reduce the share of the U. S. market supplied by imports of directly competitive products. One drug manufacturer estimated that its production of products under license from foreign manufacturers reduced imports by an estimated \$12 million in 1970. Moreover, licensees of foreign manufacturers have reported some success in penetrating third country markets, chiefly in Canada and Latin America, based upon imported technology. Thus, in the judgment of a strong majority of survey respondents, the international transfer of technology has made a significant positive contribution to the U. S. trade surplus.

Apparent Effect of Foreign Investment on Domestic Investment, U. S. Exports, and U. S. Imports

Chemical manufacturers were in general agreement that their foreign investment programs have had a neutral effect on U. S. imports. Only one of the ten respondents indicated that imports may have increased slightly as a result of its foreign investments.

While over one-half of the respondents indicated that their foreign investments had little net effect on their export volume, the two largest exporters indicated that such investments made a major contribution

to their export volume. The largest exporter in the survey group offered the following explanation:

"First, the markets now served directly by our foreign investments would nevertheless largely be served by manufacturing operations located in those markets... More important, our foreign investments are a key factor in our ability to export from the U. S., and three-quarters of our exports (which very substantially exceed our imports) are sold to or through our foreign affiliates. Our presence in foreign markets frequently results in sales opportunities for U. S.-made products--opportunities which would in many cases either not exist otherwise, or would not be apparent to us. Lacking a presence in the foreign market, the market share available to U. S. industry on a competitive basis would, therefore, probably be somewhat smaller."

Finally, it appears that, more often than not, foreign investments have had a positive effect on the domestic investment program. One firm reported that "There have been isolated cases (of foreign investment) which have had the effect of decreasing the domestic investment program," while three firms indicated a distinct positive effect. The following response is typical of those by firms which concluded that foreign investments favorably influenced their domestic investment program:

"The investment in most major markets overseas and the full marketing and administration staffing in those countries has enabled significant sales penetration in those markets which would not otherwise have been possible to the same degree. This sales expansion overseas has contributed to domestic expansion for (a) manufacturing capability to supply intermediate and finished materials for these markets, (b) research and development commensurate with expanding worldwide volume, (c) administration of a multi-national company."

In no case did firms indicate that foreign investments had created a shortage of capital for domestic expansion.

Summary

During the latter half of the 1960's, U. S. chemical companies accounted for roughly one-fourth of total foreign plant and equipment expenditures by U. S. manufacturing firms, a larger proportion than any other industry group. Notwithstanding their high level of overseas investments, the chemical industry achieved a record merchandise trade surplus of \$2.7 billion in 1970, second only to the non-electrical machinery industry (which incidentally, displaced them as the largest foreign direct investor ^{1/} in 1970). The rapid growth in foreign investment and in exports has been accompanied by a high rate of domestic economic expansion as reflected in the industry's above average growth rates in investment, sales, and employment. The information provided by the survey respondents strongly supports the conclusion that the foreign operations of U. S. chemical companies have made a positive contribution to their domestic economic growth.

^{1/} As measured by annual plant and equipment expenditures of foreign affiliates. (Tables 2-C and 2-D.)

**CHEMICALS AND ALLIED PRODUCTS INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70**

<u>Area</u>	(Value in Millions of Dollars)		Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	946.2	1964.8	15.7
Canada	44.6	159.3	29.0
Other Western Hemisphere	147.1	219.8	8.4
Western Europe	315.3	708.8	17.6
Far East	10.4	36.0	28.2
Rest of the World	131.3	184.9	7.1
Non Allocable**	-	-	-
Total, Outside United States	648.7	1308.8	15.1
Total, Outside United States (except Canada)	604.1	1149.5	13.7

**Percentage Distribution of Capital Expenditures
Outside The United States**

	<u>1961-65</u>	<u>1966-70</u>
	Canada	6.9
Other Western Hemisphere	22.7	16.8
Western Europe	48.6	54.2
Far East	1.6	2.7
Rest of the World	20.2	14.1
Non Allocable**	-	-
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

**CHEMICALS AND ALLIED PRODUCTS INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970.**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	1058.6	2055.0	4155.2	100.0	100.0	100.0
Local Sales	941.0	1735.8	3499.9	88.9	84.5	84.3
Export Sales to U.S.	26.5	46.5	84.9	2.5	2.3	2.0
Export Sales to Other Countries	91.1	272.7	570.4	8.6	13.3	13.7
Canadian Foreign Affiliates:						
Total Sales	167.8	258.2	574.4	100.0	100.0	100.0
Local Sales	156.1	242.0	520.5	93.0	93.7	90.6
Export Sales to U.S.	-	0.6	25.2	-	.2	4.4
Export Sales to Other Countries	11.7	15.6	28.7	7.0	6.1	5.0
Foreign Affiliates, except Canadian:						
Total Sales	890.8	1796.8	3580.8	100.0	100.0	100.0
Local Sales	784.9	1493.8	2979.4	88.1	83.1	83.2
Export Sales to U.S.	26.5	45.9	59.7	3.0	2.6	1.7
Export Sales to Other Countries	79.4	257.1	541.7	8.9	14.3	15.1

Source: ECAT Survey

CHEMICALS AND ALLIED PRODUCTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	1960	1965	1970	1960-65	1965-70	1960-70
U. S. Sales	3064.8	4667.5	7950.6	8.8	11.7	10.0
Exports to Foreign affiliates	115.0	141.1	302.8	4.2	16.5	10.2
Purchases by affiliates from other U. S. firms	82.0	98.0	50.3	3.6	-12.5	-4.8
Subtotal, exports to affiliates	197.0	239.1	353.1	4.0	8.1	6.0
Exports to unaffiliated firms	83.7	114.6	137.7	6.5	3.7	5.1
TOTAL, EXPORTS	280.7	353.7	490.8	4.7	6.8	5.7
Imports from Affiliates	14.0	30.3	72.6	16.7	19.1	17.9
Sales by affiliates to other U. S. producers	5.0	7.2	15.0	7.6	15.8	11.6
Subtotal, imports from affiliates	19.0	37.5	87.6	14.6	18.5	16.5
Imports from unaffiliated firms	129.0	194.3	272.5	8.5	7.0	7.8
TOTAL, IMPORTS	148.0	231.8	360.1	9.4	9.2	9.3
Merchandise Trade Balance:						
Based on transactions involving affiliates	178.0	201.6	265.5	2.5	5.7	4.1
Based on transactions with unaffiliated firms	-45.3	-79.7	-134.8	N.A.	-11.1	N.A.
TOTAL	132.7	121.9	130.7	-1.7	- 1.4	-0.2
RATIO OF:						
Imports from affiliates to U. S. sales	0.5%	0.7%	0.9%			
Total imports to U. S. sales	4.8%	5.0%	4.5%			
Exports to affiliates to U. S. sales	3.8%	3.0%	3.8%			
Total exports to U. S. sales	9.2%	7.6%	6.2%			
Exports to affiliates to total exports	41.0%	39.9%	61.7%			
Imports from affiliates to total imports	9.5%	13.1%	24.3%			

Source: ECAT Survey

Table I-14

**CHEMICALS AND ALLIED PRODUCTS INDUSTRY,
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA**

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses				Other Factors	Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages			
<u>All Areas:</u>							
1 (most)	9	2	34	-	2	47	
2	14	16	8	2	7	47	
3	18	15	-	8	3	44	
4	3	4	6	20	-	33	
5 (least)	-	2	-	4	-	6	
Negligible	5	10	1	15	7	38	
Total Responses	49	49	49	49	19	215	
<u>Canada:</u>							
1 (most)	1	-	9	-	-	10	
2	4	2	-	1	2	9	
3	2	2	-	2	1	7	
4	-	2	1	2	-	5	
5 (least)	-	-	-	1	-	1	
Negligible	3	4	-	4	1	12	
Total Responses	10	10	10	10	4	44	
<u>W. Hemisphere:</u>							
1 (most)	2	1	6	-	1	10	
2	2	4	3	-	1	10	
3	5	4	-	1	-	10	
4	1	1	1	5	-	8	
5 (least)	-	-	-	1	-	1	
Negligible	-	-	-	3	2	5	
Total Responses	10	10	10	10	4	44	
<u>W. Europe:</u>							
1 (most)	2	-	8	-	-	10	
2	5	2	1	-	1	9	
3	3	5	-	2	1	11	
4	-	-	1	6	-	7	
5 (least)	-	1	-	-	-	1	
Negligible	-	2	-	2	2	6	
Total Responses	10	10	10	10	4	44	
<u>Far East:</u>							
1 (most)	3	-	5	-	-	8	
2	2	4	2	1	1	10	
3	4	2	-	1	1	8	
4	-	1	2	4	-	7	
5 (least)	-	1	-	1	-	2	
Negligible	-	1	-	2	1	4	
Total Responses	9	9	9	9	3	39	
<u>Rest of World:</u>							
1 (most)	1	1	6	-	1	9	
2	1	4	2	-	2	9	
3	4	2	-	2	-	8	
4	2	-	1	3	-	6	
5 (least)	-	-	-	1	-	1	
Negligible	2	3	1	4	1	11	
Total Responses	10	10	10	10	4	44	

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table 1-15

**CHEMICALS AND ALLIED PRODUCTS INDUSTRY,
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA**

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	19	4	72	0	4	100
2	30	34	17	4	15	100
3	41	34	0	18	7	100
4	9	12	18	61	0	100
5 (least)	0	33	0	67	0	100
Negligible	13	26	3	39	18	100
<u>Canada:</u>						
1 (most)	10	0	90	0	0	100
2	44	22	0	11	22	100
3	29	29	0	29	14	100
4	0	40	20	40	0	100
5 (least)	0	0	0	100	0	100
Negligible	25	33	0	33	8	100
<u>W. Hemisphere:</u>						
1 (most)	20	10	60	0	10	100
2	20	40	30	0	10	100
3	50	40	0	10	0	100
4	13	13	13	63	0	100
5 (least)	0	0	0	100	0	100
Negligible	0	0	0	60	40	100
<u>W. Europe:</u>						
1 (most)	20	0	80	0	0	100
2	56	22	11	0	11	100
3	27	45	0	18	9	100
4	0	0	14	86	0	100
5 (least)	0	100	0	0	0	100
Negligible	0	33	0	33	33	100
<u>Far East:</u>						
1 (most)	38	0	63	0	0	100
2	20	40	20	10	10	100
3	50	25	0	13	13	100
4	0	14	29	57	0	100
5 (least)	0	50	0	50	0	100
Negligible	0	25	0	50	25	100
<u>Rest of World:</u>						
1 (most)	11	11	67	0	11	100
2	11	44	22	0	22	100
3	50	25	0	25	0	100
4	33	0	17	50	0	100
5 (least)	0	0	0	100	0	100
Negligible	18	27	9	36	9	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-16

Chemicals spending by foreign affiliates of U.S. firms will be off in 1972

	EXPENDITURES, MILLIONS OF DOLLARS					Total
	Europe	Canada	Latin America ^a	Japan	Other areas	
1966	\$462	\$221	\$146	\$55	\$156	\$1040
1967	636	166	150	81	177	1210
1968	524	158	179	128	219	1208
1969	483	169	198	108	160	1118
1970	676	186	170	110	152	1294
1971 ^b	749	146	165	157	93	1310
1972 ^b	705	133	193	197	75	1303

^a Plus other Western Hemisphere. ^b Projections. Source: U.S. Department of Commerce, Office of Business Economics

Source: Reproduced from Chemical and Engineering News, December 20, 1971.

Table I-17

Today foreign operations account for substantial portion of U.S. basic chemical industry sales

	Foreign sales (MILLIONS OF DOLLARS)		Total corporate sales 1970	Foreign sales as per cent of total sales 1970	Average annual growth in foreign sales (Per cent) 1965-70	Number of employees in foreign operations (Thousands)	
	1965	1970					1971 ^a
Union Carbide	\$535 ^a	\$870	\$920	\$3026	29%	10%	45
Dow Chemical	268	771	850	1911	40	23	19
W. R. Grace	380 ^b	668 ^b	670 ^b	1918	35	12	29
Du Pont	334	634	660	3618	18	14	24
Monsanto	311	472	480	1972	24	9	16
American Cyanamid	154 ^b	229 ^b	240 ^b	1250	18	8	9
Hercules	102	211	220	799	26	16	5
Celanese	200	193	n.a.	1037	19	—	9
Rohm and Haas	n.a.	153 ^a	160	465	33	—	5
Ethyl Corp.	n.a.	72 ^c	80 ^c	557	13	—	—
Pennwalt	n.a.	67	70	414	16	—	3
Air Products and Chemicals	13 ^{b,d,e,f}	48 ^{b,d,e,f}	52 ^{b,d,e,f}	261 ^d	18	30	2
Chemotron	n.a.	44	45	292	15	—	2
Stauffer Chemical	n.a.	17 ^d	18 ^d	483	35	—	2

^a C&EN estimates. ^b Excluding Canada. ^c Chemical sales only. ^d Excluding exports. ^e Fiscal year ending Sept. 30. ^f Gross sales.

Note: Of the 20 firms surveyed, six did not provide sufficient data for inclusion in the above table. The six are Allied Chemical, FIAC, Diamond Shamrock, Olin, Koppers, and Reichhold Chemicals.

Source: Reproduced from Chemical and Engineering News, December 20, 1971.

Table 10. RATIO OF RECEIPTS TO PAYMENTS ON PATENTS AND LICENCES,
BY INDUSTRY, FOR SELECTED COUNTRIES

	ISIC TITLES	UNITED STATES (1956)	FRANCE (1960)	FRANCE (1963)	GERMANY (1964)	ITALY (1963)	UNITED KINGDOM (1964)
Non-Electrical Machinery	36	12.4	0.2	0.2	0.4	0.3	0.2
Transport Equipment	38			0.6			1.0
Other Transport (aircraft)	386			0.3			0.9
Basic Metals and Metal Products	34.35	5.1	0.8	0.3			n.a.
Electrical Machinery	37	30.0	0.1	0.1	0.4	0.2	1.2
Chemicals and Allied	13.30	3.3	0.8	0.8	0.6	0.3	1.7
	31.37						
Food, Drink and Tobacco	20.21	6.0	0.1	0.1	1	0.3	3.7
	22.0						
Others		4.0	0.4	0.4	0.3	0.2	1.0 ²
Total ratio		5.9	0.4	0.4	0.4	0.2	1.1

1. Less than 0.05.

2. The ratio for "textiles, clothing and footwear" is 4.1.

Source: Reproduced from Gaps in Technology Analytical Report,
Organisation for Economic Cooperation and Development, Paris, 1970.

Table A. RECEIPTS BY SECTOR ON PATENTS AND LICENCES

SECTOR	ISIC GROUPS	U.S.A. 1956 ¹²	FRANCE 1960	FRANCE 1963	GERMANY 1964	ITALY 1963	U.K. 1964	JAPAN 1950-64
Non-electrical machinery	36	} 3.6	} 13.8	7.5	} 26.4 ⁴	} 40.2	5.3	9.9 ⁷
Transport equipment	38			9.5			3.0	2.3
Other transport (aircraft)	386	8.2	6.9	2.7			-	
Basic metals and metal products	34, 35	6.1	7.3	8.4			5	18.6 ⁸
Electrical machinery	37	15.7	7.8	4.2	25.3	13.5	16.8	1.4
Chemicals and allied ¹⁰	13, 30, 31, 32,	26.8	51.3	49.0	39.1 ²	36.8	28.5	38.6
Food, drink and tobacco	20, 21 22	0.9	2.8	1.1	0.6 ¹	1.2	10.4	1.6 ¹¹
Others	6	16.9	17.0	20.3	8.6	8.3	36.0 ⁹	27.6
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0

- NOTES:
1. Including part of chemicals (ISIC 31).
 2. Including part of stone, clay and glass (ISIC 33) and others (ISIC 39).
 3. Excluding petroleum extraction (ISIC 13) and rubber products.
 4. Including only part of fabricated metal products (ISIC 35)
 5. Included in "others".
 6. Includes all ISIC groups not mentioned.
 7. Includes precision instruments.
 8. Of which 18.4% is in iron and steel industries.
 9. Of which 9.4% is in textiles, clothing and footwear sector.
 10. Petroleum, gas, rubber, petroleum and coal products, chemicals and chemical products.
 11. Foodstuffs only.
 12. Including management fees and service charges.

Source: Reproduced from Gaps in Technology Analytical Report, Organisation for Economic Cooperation and Development, Paris, 1970.

Table B. PAYMENTS BY SECTOR ON PATENTS AND LICENCES

SECTOR	ISIC GROUPS	U.S.A. 1956	FRANCE 1960	FRANCE 1963	GERMANY 1964	ITALY 1963	U.K. 1964	JAPAN ⁵ 1950-62
Non-electrical machinery	36	16.0	21.9	13.7			23.4	9.9
Transport Equipment	38			6.4	} 30.3 ⁴	} 35.4	3.2	9.5
Other transport (aircraft)	386	8.0	8.1	1.2				
Basic metals and metal products	34, 35	7.1	3.8	10.2				14.9
Electrical machinery	37	3.1	22.9	13.4	23.8	17.4	14.2	12.7
Chemicals and allied ⁹	13, 30, 31, 32	47.6	26.3	25.0	26.6 ²	34.3	17.4 ³	25.7
Food, drink and tobacco	20, 21, 22	0.9	9.2	7.1	8.5 ¹	2.1	2.9	27.3
Others	6	25.3	15.9	24.2	10.8	10.8	38.9 ⁸	
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0

NOTES: 1, 2, 3, 4 and 6, as in Table A.

5. Number of technology import agreements by sector.

7. Included in "others".

8. Of which 1.9% is textiles, clothing and footwear.

9. Petroleum, gas, rubber, petroleum and coal products, chemicals and chemical products.

Source: Reproduced from Gaps in Technology Analytical Report,
Organisation for Economic Cooperation and Development, Paris, 1970.

PRIMARY AND FABRICATED METAL PRODUCTS**Introduction**

This industry group includes data on four firms which accounted for roughly 5 percent of U. S. sales of primary and fabricated metal products in 1970. Three of the four respondents are primarily engaged in the production of fabricated metal products (chiefly containers) while the fourth is a major aluminum manufacturer.

Although the survey respondents cover only a small percentage of total domestic shipments, and clearly do not constitute a representative sample from the domestic industry engaged in the production of primary and fabricated metal products (i. e., no basic steel manufacturers are included), the respondents are believed to be typical of U. S. metal firms with significant overseas investments. Nonetheless, because of the relatively small number of respondents, the survey data for this industry group must be interpreted with caution.

Pattern of Investment Activity

Survey respondents reported a lower rate of growth in investment activity, both at home and abroad, than the typical manufacturing firm from 1961-65 to 1966-70. (Table 6.) Domestic capital expenditures increased more rapidly than foreign expenditures; consequently, the ratio of foreign investment to domestic investment declined slightly from

32 percent in the early 1960's to 31 percent in the latter half of the decade. (Table I-21.) The rate of growth in domestic investments by survey respondents was about equal to that of all domestic producers of primary metal products (comparable data on the fabricated metal products industry are not available), but they increased their foreign investments less rapidly than the typical U. S. metal products producer. (Tables 7 and 9.) As of December 31, 1970, the book value of foreign investments by survey respondents in the primary and fabricated metal products industries amounted to approximately \$1 billion, or roughly one-tenth of the total foreign investments by survey respondents. (Table 3.)

The geographic pattern of foreign investment differs significantly from that of most other industries, reflecting the strong resource orientation of the respondents. Roughly one-fifth of new investment during the period 1966-70 was in Europe, while one-tenth was in Canada, with the remainder distributed around the globe in response to the availability of raw materials (e.g., bauxite).

With the exception of foreign facilities designed to extract and process raw materials, the foreign investments of the respondents, like those of respondents in virtually every other industry group, were made almost exclusively to serve the local market in which the investments were located. Respondents were virtually unanimous in their view that market

demands, in particular the inability to ship low-unit value, bulky containers (which account for a large proportion of the overseas product mix of the respondents) any significant distance, were the critical factor in their foreign investment decisions. In the case of the primary product producer, the availability of raw materials was obviously the crucial consideration. All were agreed that labor costs were a very minor consideration in their foreign investment decisions. (Table I-24 and I-25.)

Domestic and Foreign Sales

The annual growth in domestic sales of survey respondents during the decade (5.2 percent) was significantly smaller than the average for the entire survey group, reflecting the stagnation in certain major end product markets. Sales by foreign affiliates, however, almost quadrupled from the relatively low base which existed in 1960. (Table 18.)

Domestic and Foreign Employment

Respondents in the primary and fabricated metal products industry reported the lowest rate in growth in domestic employment, 0.7 percent annually, from 1960 to 1970, while their foreign employment nearly doubled. (Table 12.) All four of the respondents reported relatively stable domestic employment levels with three reporting slight gains and the fourth a slight reduction in domestic employment from 1960 to 1970.

It should be emphasized that the relatively slow rate of growth in employment by survey respondents in this group is not attributable to their foreign trade or investment activities, but to an above average rate of productivity growth. The one firm which reported a decline in domestic employment actually tripled its merchandise trade surplus from 1960 to 1970.

Merchandise Trade Balance

Despite the almost complete dependence of one respondent on imported raw materials, this industry group, by tripling its exports, was able to triple its merchandise trade surplus from 1960 to 1970. Three of the four firms included in the survey reported trade surpluses in 1970. In the case of the respondent reporting a trade deficit, imports consisted almost entirely of raw materials used in their U. S. manufacturing operations. (Table 31.)

A comparison of the merchandise trade balance of the respondents with total U. S. trade in primary and fabricated metal products helps to illustrate the positive role played by the U. S. based multinational corporation in our overall trade performance. The survey respondents achieved a trade surplus of some \$100 million, while total U. S. trade in primary and fabricated metal products resulted in a net trade deficit of \$1 billion

in 1970 (a deficit of \$1.6 billion in primary metal products was offset by a surplus of \$.6 billion in fabricated metal products).

(Table 32.) The trade deficits of the industry are attributable almost wholly to large imports of primary steel products (\$2.0 billion in 1970)- products of an industry which has not been a significant overseas investor. By contrast, survey respondents in the nonferrous metals and fabricated metal products areas reported a substantial export surplus.

Contribution to U. S. Balance of Payments

The international financial transactions of the survey respondents (exclusive of merchandise trade) generated a net cash inflow of \$15 million in both 1960 and 1965 and a net cash outflow of some \$70 million in 1970. (Table 39.) Although the net cash inflow attributable to earnings, fees, and royalties more than tripled between 1960 and 1970, the gain was more than offset by an outflow of some \$160 million reflecting net new investments in affiliates in the latter year.

The net outflow attributable to financial transactions, however, was more than offset by the improvement in the industry's trade surplus; thus the net effect of all international corporate transactions on the balance of payments was favorable.

The Role of Technology Transfer

All four of the respondents have licensed some technology to foreign manufacturers while two have obtained technology from abroad. (Table 45.)

The majority view was that the process of exchange had had little if any effect on either U. S. exports or U. S. imports. The largest exporter in the group, however, reported that the technology which it has made available had increased its level of exports. One of the two firms which imported technology reports that it now employs over 600 people manufacturing a product whose production was made possible through imported technology.

Apparent Effect of Foreign Investment on U. S. Investment, U. S. Exports, and U. S. Imports

The respondents were unanimous in their view that their foreign investment program had virtually no effect on either the level of U.S. imports or on the level of their domestic investment programs. The two largest exporters indicated that their foreign investments have facilitated their export growth as a result of the sales and promotional activities of their local manufacturing affiliates. One of the two remaining firms indicated its investments had no effect on its exports while the fourth firm indicated a possible adverse effect. (Tables 42 and 43.)

Summary

Although the growth in domestic sales, employment, and investment for respondents in this industry group was substantially below that of the average manufacturing industry, the record makes it clear that international activities of the member companies have had a favorable effect on their overall economic performance. A growing level of imports, consisting preponderantly of imported raw materials not available in the United States, was more than offset by a tripling of exports during the decade.

**PRIMARY AND FABRICATED METAL PRODUCTS INDUSTRY
CAPITAL EXPENDITURES BY U. S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70.**

	(Value in Millions of Dollars)		Percent Change 1961-65 to 1966-70
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	1,283.8	2,196.4	11.3
Canada	<u>1/</u>	<u>1/</u>	<u>1/</u>
Other Western Hemisphere	<u>1/</u>	<u>1/</u>	<u>1/</u>
Western Europe	<u>1/</u>	<u>1/</u>	<u>1/</u>
Far East	<u>1/</u>	<u>1/</u>	<u>1/</u>
Rest of the World	<u>1/</u>	<u>1/</u>	<u>1/</u>
Non Allocable**	-	-	-
Total, Outside United States	410.0	681.3	10.7
Total, Outside United States (except Canada)	<u>1/</u>	<u>1/</u>	<u>1/</u>

**Percentage Distribution of Capital Expenditures
Outside the United States**

	<u>1961-65</u>	<u>1966-70</u>
Canada	<u>1/</u>	<u>1/</u>
Other Western Hemisphere	<u>1/</u>	<u>1/</u>
Western Europe	<u>1/</u>	<u>1/</u>
Far East	<u>1/</u>	<u>1/</u>
Rest of the World	<u>1/</u>	<u>1/</u>
Non Allocable**	-	-
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

1/ Cannot be shown without disclosing the operations of individual companies.

PRIMARY AND FABRICATED METAL PRODUCTS INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970.

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u> (million dollars)	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u> (percent)	<u>1970</u>
All Foreign Affiliates:						
Total Sales	362.3	644	1414.9	100.0	100.0	100.0
Local Sales	298.2	517	1079.4	82.3	80.3	76.3
Export Sales to U.S.	46.0	73.0	165.8	12.7	11.3	11.7
Export Sales to Other Countries	18.1	54.0	169.7	5.0	8.4	12.0
Canadian Foreign Affiliates:						
Total Sales	192.6	225.5	296.2	100.0	100.0	100.0
Local Sales	182.5	213.4	268.3	94.8	94.6	90.6
Export Sales to U.S.	10.0	12.0	26.8	5.2	5.3	9.0
Export Sales to Other Countries	0.1	0.1	1.1	-	-	0.4
Foreign Affiliates, except Canadian:						
Total Sales	169.7	418.5	1118.7	100.0	100.0	100.0
Local Sales	115.7	303.6	811.1	68.2	72.5	72.5
Export Sales to U.S.	36.0	61.0	139.0	21.2	14.6	12.4
Export Sales to Other Countries	18.0	53.9	168.6	10.6	12.9	15.1

Source: FCAT Survey.

PRIMARY AND FABRICATED METAL PRODUCTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	2962.4	3557.4	4901.2	3.7	6.6	5.2
Exports to Foreign affiliates	52.8	69.1	180.4	5.4	21.2	13.1
Purchases by affiliates from other U. S. firms	12.2	25.4	44.8	15.8	12.0	13.9
Subtotal, exports to affiliates	65.0	94.5	225.2	7.8	19.0	13.2
Exports to unaffiliated firms	21.3	33.5	44.4	9.5	5.8	7.6
TOTAL, EXPORTS	86.3	128.0	269.6	8.2	16.1	12.1
Imports from Affiliates	39.0	65.0	134.0	10.8	15.6	13.1
Sales by affiliates to other U. S. producers	7.0	8.0	24.0	2.7	24.5	13.1
Subtotal, imports from affiliates	46.0	73.0	158.0	9.7	16.7	13.1
Imports from unaffiliated firms	9.4	16.1	16.1	11.4	-	5.5
TOTAL, IMPORTS	55.4	89.1	174.1	10.0	14.3	12.1
Merchandise Trade Balance:						
Based on transactions involving affiliates	19.0	21.5	67.2	2.5	25.6	11.7
Based on transactions with unaffiliated firms	11.9	17.4	28.3	9.0	10.2	9.0
TOTAL	30.9	38.9	95.5	4.7	19.7	7.7
RATIO OF:						
Imports from affiliates to U. S. sales	1.6%	2.1%	3.2%			
Total imports to U. S. sales	1.9%	2.5%	3.5%			
Exports to affiliates to U. S. sales	1.8%	1.9%	3.9%			
Total exports to U. S. sales	2.9%	3.6%	5.5%			
Exports to affiliates to total exports	61.2%	54.0%	66.9%			
Imports from affiliates to total imports	70.4%	73.0%	77.0%			

Source: ECAT Survey

Table I-24

PRIMARY AND FABRICATED METALS INDUSTRY,
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking In Order of Importance	Trade Res- trictions *	Number of Responses				Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	1	1	12	-	3	17
2	3	4	1	1	6	15
3	5	2	-	1	1	9
4	2	2	-	5	-	9
5 (least)	-	-	-	1	-	1
Negligible	7	8	2	10	-	27
Total Responses	18	17	15	18	9	77
<u>Canada:</u>						
1 (most)	-	-	3	-	-	3
2	1	1	-	-	1	3
3	1	1	-	-	-	2
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	1	-	-	2	-	4
Total Responses	3	3	3	3	1	13
<u>W. Hemisphere:</u>						
1 (most)	-	1	2	-	1	4
2	-	-	1	1	-	3
3	1	1	-	-	-	2
4	2	-	-	1	-	3
5 (least)	-	-	-	-	-	-
Negligible	1	2	-	2	-	5
Total Responses	4	4	3	4	1	16
<u>W. Europe:</u>						
1 (most)	1	-	3	-	-	4
2	1	1	-	-	1	3
3	1	-	-	1	-	2
4	-	1	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	1	1	-	2	-	4
Total Responses	4	3	3	4	1	15
<u>Far East:</u>						
1 (most)	-	-	2	-	1	3
2	1	1	-	-	1	3
3	1	-	-	-	1	2
4	-	1	-	1	-	2
5 (least)	-	-	-	1	-	1
Negligible	1	1	1	1	-	4
Total Responses	3	3	3	3	3	15
<u>Rest of World:</u>						
1 (most)	-	-	2	-	1	3
2	-	1	-	-	1	2
3	1	-	-	-	-	1
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	3	3	1	3	-	10
Total Responses	4	4	3	4	2	17

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-25

PRIMARY AND FABRICATED METALS INDUSTRY,
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	6	6	70	0	18	100
2	20	27	7	7	40	100
3	56	22	0	11	11	100
4	22	22	0	56	0	100
5 (least)	0	0	0	100	0	100
Negligible	26	30	7	37	0	100
<u>Canada:</u>						
1 (most)	0	0	100	0	0	100
2	33	33	0	0	33	100
3	50	50	0	0	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	25	25	0	50	0	100
<u>W. Hemisphere:</u>						
1 (most)	0	25	50	0	25	100
2	0	0	33	33	33	100
3	50	50	0	0	0	100
4	67	0	0	33	0	100
5 (least)	0	0	0	0	0	100
Negligible	20	40	0	40	0	100
<u>W. Europe:</u>						
1 (most)	25	0	75	0	0	100
2	33	33	0	0	33	100
3	50	0	0	50	0	100
4	0	50	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	25	25	0	50	0	100
<u>Far East:</u>						
1 (most)	0	0	67	0	33	100
2	33	33	0	0	33	100
3	50	0	0	0	50	100
4	0	50	0	50	0	100
5 (least)	0	0	0	100	0	100
Negligible	25	25	25	25	0	100
<u>Rest of World:</u>						
1 (most)	0	0	67	0	33	100
2	0	50	0	0	50	100
3	100	0	0	0	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	30	30	10	30	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

MACHINERY (EXCEPT ELECTRICAL) INDUSTRY^{1/}

Introduction

This industry group includes thirteen respondents covering a broad spectrum of the U. S. machinery industry including farm machinery, mining equipment, elevators, computers and office machines,^{1/} construction machinery, and engines. The thirteen respondents had annual sales of \$15.3 billion in 1970 which was equivalent to 27.2 percent of total U.S. shipments by the machinery industry of \$56.1 billion. (Tables I-28 and 35.)

Pattern of Investment Activity

Foreign investments have been a major factor in the growth of the U. S. non-electrical machinery industry (subsequently referred to simply as the machinery industry) and the industry has in turn been an important factor contributing to the rapid growth of U. S. foreign direct investment. As of December, 1970, the book value of foreign investments by survey respondents in the machinery industry amounted to \$3.0 billion equivalent to 20.8 percent of the total reported by survey respondents and 9.3

^{1/} Office machines were originally classified in the non-electrical, rather than the electrical, machinery industry by the Bureau of Census because of their mechanical origins. Despite the fact that most office machines are now electrical, this category (which includes most computers) continues to be classified by the Census Bureau in the non-electrical machinery industry (chiefly for reasons of continuity of data).

percent of that of all foreign direct investment in manufacturing as reported by the Bureau of Census. (Table 3).

Machinery manufacturers have been a dynamic factor in the world economy, more than doubling their foreign and domestic capital expenditures from 1961-65 to 1966-70, which significantly outpaces the investment activity of the average manufacturing industry both at home and abroad. Expenditures for plant and equipment abroad by survey respondents were equivalent to 46-47 percent of those in the United States during both 1961-65 and 1966-70. (Table 6.) Respondents showed a significantly higher level of international involvement than the overall machinery industry which reported that foreign plant and equipment expenditures amounted to 27 percent of domestic plant and equipment expenditures during 1961-65 and 30 percent during 1966-70. (Tables 7 and 9.)

The survey indicated that Western Europe accounted for a large and increasing share of foreign plant and equipment expenditures by machinery manufacturers. (Table I-26.) During 1966-70 Western Europe accounted for over two-thirds of such expenditures, followed by the Far East and Canada with 9 percent each. The remainder was relatively evenly distributed around the world.

Machinery manufacturers' rankings of major determinants of foreign investment decisions reveal an unusually complex pattern of interacting factors. In part, this reflects the diverse character of the respondents, ranging from firms in the capital-intensive construction machinery sector to the labor-intensive calculator and office machine industry to the technology-intensive sectors supplying custom-built industrial machinery. In general, firms engaged primarily in the production of office machines (other than computers) were sensitive to labor cost advantages while most other manufacturers ranked labor cost as a relatively minor factor in their overall pattern of foreign investment decisions.

The varied pattern of investment determinants for this industry reflects in part the broad geographic scope of the respondents' investments. (Tables I-27 and I-30.) In Western Europe, where the bulk of plant and equipment expenditures have occurred, respondents were equally divided as to whether or not trade restrictions, market demands, or labor cost advantages were the most important factor in their investment decisions. Most agreed that either trade restrictions or market demands were the second most important determinant of their investments. In Canada and "rest of world," trade restrictions were clearly considered the most important factor while investment regulations (i.e., chiefly local content requirements) were most frequently cited by investors in Latin America.

Domestic and Foreign Sales

U. S. machinery manufacturers enjoyed a steady growth in their domestic and foreign sales throughout the 1960's. The near quadrupling (from \$1.6 to \$7.0 billion) of sales by foreign affiliates of survey respondents from 1960 to 1970 did not prevent their parent corporations from more than doubling their domestic sales, and incidentally, more than tripling their exports. (Tables I-27 and I-28.) The growth in domestic sales by survey respondents of 131 percent from 1960 to 1970 (8.7 percent annually) exceeded that of the entire U. S. machinery industry, 117 percent (8.1 percent annually), and was far above the 77 percent growth rate (5.8 percent annually) of the average manufacturing industry during the corresponding period. (Tables I-28 and 35.)

An examination of the origin and destination of sales by foreign affiliates helps to reveal why such sales have not adversely affected domestic sales volume. Over 96 percent of the total sales by foreign affiliates were in local or third country markets and less than 4 percent were exported to the United States. (Tables I-27.) In the case of Canada, some companies treat Canada as an integral part of a single North American market (to the extent that tariffs and trade restrictions permit). The proportion of Canadian affiliate production exported to the United States is considerably higher--18 percent in 1970. (It should be emphasized that imports from Canada are frequently more than offset by exports to Canadian affiliates.) By contrast, only 1.5 percent of the total sales

by foreign affiliates outside Canada enter the U. S. market.

Domestic and Foreign Employment

The employment trends of the survey respondents closely paralleled those indicated for sales. From 1960 to 1970 the domestic employment of the survey respondents increased at the annual rate of 3.4 percent, while their foreign employment rose by 7.0 percent annually. (Table 12.) The rate of growth in the domestic employment of survey respondents was more than double that of the average U. S. manufacturing industry and significantly exceeded that of the overall U. S. machinery industry. An increasing proportion of the respondents domestic employment in the 1960's was attributable to exports (mainly to affiliates) which accounted for 16.5 percent of total sales in 1970 compared with only 12.8 percent in 1960. (Table I-28.)

Merchandise Trade Balance

The machinery industry was consistently the most important single contributor to the U. S. merchandise trade surpluses in the 1960's. (Table 32.) The industry's trade surplus of \$2.7 billion in 1960 had more than doubled, to \$5.5 billion, by 1970. The survey respondents were a major factor in this improvement. From 1960 to 1970, their combined trade surpluses nearly tripled from \$812 million in 1960 to \$2,214 million in 1970. (Table 31.)

Although imports from affiliates increased rapidly (in percentage terms) during the decade, they remained less than one-eighth as large as

exports in 1970. Critics of multinational corporations have suggested that foreign direct investments have been made largely at the expense of American workers, because that investment acts as a substitute for actual or potential U. S. exports, and is increasingly responsible for the manufacture of products abroad which are subsequently exported to the U. S. market. A company-by-company examination of trade balances may help to illustrate the error in these allegations. Our analysis of the trade transactions of the respondents and their foreign affiliates reveals the following information concerning the pattern of trade in 1970:

1. All respondents had trade surpluses.
2. Twelve of the thirteen respondents had exports of over \$75 million. Each of those twelve respondents had trade surpluses of over \$70 million.
3. Three of the thirteen firms had no imports.
4. Seven additional firms had imports of less than \$12 million.
5. Only three firms had imports of over \$12 million. These three firms were among the four largest exporters. Each of these firms exported more than twice as much as it imported and achieved a merchandise trade surplus of over \$125 million.
6. All twelve of the firms with exports over \$75 million substantially increased their exports from 1960 to 1965 to 1970. (The products of

the remaining firm do not lend themselves readily to international trade except under unusual circumstances. As a result, both exports and imports have been very small--under \$5 million--and have displayed an erratic pattern.)

It is significant, moreover, that more than one-half of the total imports by the machinery manufacturers originated in Canada--the highest wage foreign supplier--rather than in the low wage countries which allegedly pose a threat to American jobs.

Contribution to U. S. Balance of Payments

In both 1960 and 1965, capital outflows to affiliates exceeded revenues from royalties, fees, and investment income. Thus, financial transactions partially offset the trade surpluses of the respondents. By 1970, however, growing earnings on foreign investments more than offset new investments, loans, and other payments to foreign affiliates.

(Table 39.) With this net inflow of capital, the industry achieved a positive contribution of over \$2.4 billion to the U. S. balance of payments in 1970. (Table 41.)

The Role of Technology Transfer

Eleven of the thirteen respondents transferred manufacturing technology abroad during the decade of the 1960's while seven obtained technology from foreign manufacturers during this period. (Table 45.) The consensus of the respondents appears to be that the transfer of technology

has generally had a positive effect on their trade balances. As one major exporter put it:

"Usually the export of technology is the only way to participate with certain products in specific markets. This export of technology can result in the export of complementary products to these specific markets."

Several other firms echoed this response indicating that the licensing of technology usually resulted in increased sales of components and associated exports. None of those firms surveyed anticipated any significant increase in imports as a result of the technology which they licensed abroad.

Similarly, foreign manufacturers have generally made technology available to U. S. firms only when they were unable to penetrate the U. S. market with their own exports. In one instance, however, a major U. S. firm indicated that it has been able, as a result of technology obtained from abroad, to reclaim part of a U. S. market previously dominated by imports.

The principal conclusion suggested by the survey is that the manufacturers transfer technology through licensing arrangements as a third-best alternative--when neither exports nor direct investments which, incidentally, usually generate substantial licensing revenues from affiliates, appear practicable. The effect on trade has, therefore, been small, but positive, being limited chiefly to those instances where the licensing process makes possible complementary or associated exports.

Apparent Effect of Foreign Investments on Domestic Investments, U.S. Exports, and U. S. Imports

Seven of the survey respondents indicated their foreign investments had a positive effect on their domestic investment program. Five indicated no significant effect, while only one reported a slight negative effect. The latter firm reported that:

"Imports from overseas factories have reduced slightly domestic investments which would otherwise have been required. However, they have increased investments in other products because of increased markets created by exports of related products."

Each of the firms that reported that foreign investments had a salutary effect on its domestic investment programs attributed the favorable effect to the increased export opportunities created by foreign investments.

In this regard, the following comments by respondents were typical:

"In general, to reach foreign markets for products we produce requires local representation, market development effort, service capability and, in most instances, some manufacturing facilities. We could never establish ourselves in most countries' markets from a U. S. export effort alone."

"Since we are among the leaders in our line, the production of certain models overseas has created a demand for other models manufactured by us in the U. S. but not currently being produced overseas."

"A large part of our overseas investment is in service, distribution and assembly plants which helps the sale of domestically produced products. If these foreign investments are constrained, it will hurt our domestic production."

The universality of these views among machinery manufacturers is illustrated by the fact that seven of the thirteen respondents indicated U. S. exports would be "much smaller" in the absence of their foreign investments, two indicated that U. S. exports would be "somewhat smaller," three indicated that U. S. exports would be "about the same," while only one respondent indicated that foreign investments had adversely affected its export performance.

With respect to imports, a majority of firms indicated that their foreign investments have had little or no effect on the level of U. S. imports. Two respondents indicated that imports would be larger if they had no investments and five indicated that imports would be smaller. The majority view was perhaps best expressed by the following response:

"The overall import share of market is very small, and the gains that have been made are concentrated on products where overseas competitors have a technologically superior product. Without overseas investment by American firms, some of the foreign competitors have the potential to develop production, technological, and marketing capabilities to increase penetration in the domestic market."

Those firms which indicated that imports would be somewhat smaller in the absence of their foreign investments were generally equivocal in their responses. The largest volume importer in this category offered the following explanation:

"We do not import very many products. Those that we do, are either of a size class that is not economic to produce in relatively small quantities in the U. S., or were originally designed overseas and would probably not have been developed for the U. S. market or where imported competitive products require us to import."

Although respondents were somewhat ambivalent with respect to whether foreign investments had a positive or negative effect on imports (virtually all agreed that the effect in either direction was small), there was a strong concensus that foreign investments had a positive effect on U. S. exports and domestic investment. Therefore, given the overwhelming export orientation of the machinery industry, the data (and the respondents' judgments) strongly suggest that foreign investments have had a substantial positive effect on domestic activities of the U. S. machinery industry.

Summary

The record of the machinery industry, and of the survey respondents, speaks for itself concerning the relationships between foreign trade and investment. The three largest foreign direct investors in the machinery industry are also the three largest exporters in the machinery industry. U. S. exports and the U. S. trade surplus in machinery have grown steadily paralleling the rapid increase in foreign plant and equipment expenditures by U. S. machinery manufacturers. Among survey respondents, with a relatively higher level of international involvement than the typical machinery firm, the trade surpluses have grown even more rapidly. The net result has been an increase in domestic sales, investment, and employment--not to mention a strong positive contribution to the U. S. balance of payments.

MACHINERY, EXCEPT ELECTRICAL, INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	1,787.2	3,641.6	15.3
Canada	64.6	148.7	18.1
Other Western Hemisphere	60.9	98.0	48.0
Western Europe	492.4	1,167.2	18.8
Far East	86.6	157.9	12.8
Rest of the World	27.7	77.7	22.9
Non Allocable**	97.7	77.0	3.9
Total, Outside United States	829.3	1,726.5	15.8
Total, Outside United States (except Canada)	764.7	1,577.8	15.6

Percentage Distribution of Capital Expenditures
Outside The United States

	<u>1961-65</u>	<u>1966-70</u>
Canada	7.8	8.6
Other Western Hemisphere	7.3	5.7
Western Europe	59.4	67.6
Far East	10.4	9.1
Rest of the World	3.3	4.5
Non Allocable**	11.8	4.5
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

MACHINERY (EXCEPT ELECTRICAL) INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970.

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u> (million dollars)	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u> (percent)	<u>1970</u>
All Foreign Affiliates:						
Total Sales	1660.2	3269.8	7174.0	100.0	100.0	100.0
Local Sales	1434.3	2784.3	5872.1	86.4	85.2	81.9
Export Sales to U. S.	33.0	60.4	265.1	2.0	1.8	3.7
Export Sales to Other Countries	192.9	425.1	1036.8	11.6	13.0	14.4
Canadian Foreign Affiliates:						
Total Sales	426.1	633.4	1024.5	100.0	100.0	100.0
Local Sales	376.2	567.9	826.1	88.3	89.7	80.6
Export Sales to U. S.	30.0	42.6	172.0	7.0	6.7	16.8
Export Sales to Other Countries	19.9	22.9	26.4	4.7	3.6	2.6
Foreign Affiliates, except Canadian:						
Total Sales	1234.1	2636.4	6149.5	100.0	100.0	100.0
Local Sales	1058.1	2216.4	5046.0	85.8	84.1	82.1
Export Sales to U. S.	3.0	17.8	93.1	0.2	0.7	1.5
Export Sales to Other Countries	173.0	402.2	1010.4	14.0	15.3	16.4

MACHINERY (EXCEPT ELECTRICAL) INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	6612.0	10134.0	15276.1	8.9	8.6	8.7
Exports to Foreign affiliates	483.4	946.0	1771.0	14.4	13.4	13.9
Purchases by affiliates from other U. S. firms	4.0	10.3	31.7	20.8	25.2	23.0
Subtotal, exports to affiliates	487.4	956.3	1802.7	14.4	13.5	14.0
Exports to unaffiliated firms	359.0	523.5	722.9	7.8	6.7	7.3
TOTAL, EXPORTS	846.4	1479.8	2525.6	11.8	11.3	11.6
Imports from Affiliates	28.0	61.2	256.0	16.9	33.1	24.8
Sales by affiliates to other U. S. producers	-	-	-	-	-	-
Subtotal, imports from affiliates	28.0	61.2	256.0	16.9	33.1	24.8
Imports from unaffiliated firms	6.2	13.9	55.2	17.5	31.8	24.4
TOTAL, IMPORTS	34.2	75.1	311.2	17.0	32.9	24.7
Merchandise Trade Balance:						
Based on transactions involving affiliates	459.4	895.1	1546.7	14.3	11.6	12.9
Based on transactions with unaffiliated firms	352.8	509.6	667.7	7.6	5.6	6.6
TOTAL	812.2	1404.7	2214.4	11.6	9.5	10.5
RATIO OF:						
Imports from affiliates to U. S. sales	0.4%	0.6%	1.7%			
Total imports to U. S. sales	0.5%	0.7%	2.0%			
Exports to affiliates to U. S. sales	7.3%	9.3%	11.6%			
Total exports to U. S. sales	12.8%	14.6%	16.5%			
Exports to affiliates to total exports	57.1%	63.9%	70.1%			
Imports from affiliates to total imports	81.9%	81.5%	82.3%			

Source: ECAT Survey

Table I-29

MACHINERY (EXCEPT ELECTRICAL) INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Number of Responses</u>					Total, All Responses
	<u>Trade Res- trictions *</u>	<u>Investment Regulat- ions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	22	13	21	10	2	68
2	28	13	11	4	4	60
3	6	14	12	11	6	49
4	1	11	4	23	3	42
5 (least)	-	1	1	4	2	8
Negligible	1	6	9	6	-	22
Total Responses	58	58	58	58	17	249
<u>Canada:</u>						
1 (most)	6	1	4	3	1	15
2	6	1	1	1	1	10
3	-	5	3	1	1	10
4	-	2	1	4	-	7
5 (least)	-	-	1	1	1	3
Negligible	-	3	2	2	-	7
Total Responses	12	12	12	12	4	52
<u>W. Hemisphere:</u>						
1 (most)	4	6	4	1	-	15
2	6	3	2	-	1	12
3	1	2	4	2	1	10
4	1	1	-	6	1	9
5 (least)	-	-	-	1	-	1
Negligible	-	-	2	2	-	4
Total Responses	12	12	12	12	3	51
<u>W. Europe:</u>						
1 (most)	4	2	4	4	1	15
2	5	1	4	2	1	13
3	3	3	2	2	-	10
4	-	3	1	4	1	9
5 (least)	-	1	-	-	1	2
Negligible	-	2	1	-	-	3
Total Responses	12	12	12	12	4	52
<u>Far East:</u>						
1 (most)	3	2	5	1	-	11
2	6	2	2	1	1	12
3	1	2	-	5	1	9
4	-	4	1	2	1	8
5 (least)	-	-	-	1	-	1
Negligible	1	1	3	1	-	6
Total Responses	11	11	11	11	3	47
<u>Rest of World:</u>						
1 (most)	5	2	4	1	-	12
2	5	6	2	-	-	13
3	1	2	3	1	3	10
4	-	1	1	7	-	9
5 (least)	-	-	-	1	-	1
Negligible	-	-	1	1	-	2
Total Responses	11	11	11	11	3	47

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-30

MACHINERY (EXCEPT ELECTRICAL) INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Percentage Distribution of Responses					Total, All Responses
	Trade Restrictions*	Investment Regula- tions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	32	19	31	15	3	100
2	47	22	18	7	7	100
3	12	29	24	22	12	100
4	2	26	10	55	7	100
5 (least)	0	13	13	50	25	100
Negligible	5	27	41	27	0	100
<u>Canada:</u>						
1 (most)	40	7	27	20	7	100
2	60	10	10	10	10	100
3	0	50	30	10	10	100
4	0	29	14	57	0	100
5 (least)	0	0	33	33	33	100
Negligible	0	43	29	29	0	100
<u>W. Hemisphere:</u>						
1 (most)	27	40	27	7	0	100
2	50	25	17	0	8	100
3	10	20	40	20	10	100
4	11	11	0	57	11	100
5 (least)	0	0	0	100	0	100
Negligible	0	0	50	50	0	100
<u>W. Europe:</u>						
1 (most)	27	13	27	27	7	100
2	38	8	31	15	8	100
3	30	30	20	20	0	100
4	0	33	11	44	11	100
5 (least)	0	50	0	0	50	100
Negligible	0	67	33	0	0	100
<u>Far East:</u>						
1 (most)	27	18	45	9	0	100
2	50	17	17	8	8	100
3	11	22	0	55	11	100
4	0	50	13	25	13	100
5 (least)	0	0	0	100	0	100
Negligible	17	17	50	17	0	100
<u>Rest of World:</u>						
1 (most)	42	17	33	8	0	100
2	38	46	15	0	0	100
3	10	20	30	10	30	100
4	0	11	11	77	0	100
5 (least)	0	0	0	100	0	100
Negligible	0	0	50	50	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

ELECTRICAL MACHINERY

Introduction

This industry group includes six respondents engaged in the production of a broad range of electrical machinery and apparatus including household appliances, telecommunications equipment, semi-conductors and related items, electronic tubes and components, and heavy electrical machinery. The survey respondents had sales of approximately \$7.5 billion in 1970, which was equivalent to roughly 15 percent of total U. S. shipments of electrical machinery in that year.

Although the survey respondents represent a broad cross section of the electrical machinery industry, it should perhaps be noted that only one of the major manufacturers of electronic home entertainment products (e.g., radio and television receivers, tape recorders, etc.) is among the survey respondents. In view of the fact that most radio and television manufacturers are known to have a significant involvement in international trade and investment,^{1/} the information provided by our survey respondents may not be completely representative of the international trade and investment activities of U. S. electrical machinery manufacturers.

^{1/} The international activities of this sector of the industry have been analyzed in considerable detail by the U. S. Tariff Commission in its investigation of operations under Section 807 of the Tariff Act of 1930 and in its recent escape clause investigation of television receivers.

Pattern of Investment Activity

U. S. electrical machinery manufacturers more than doubled their domestic plant and equipment expenditures from 1961-65 to 1966-70. The rate of growth in capital expenditures for the entire industry (as reported by the Department of Commerce), 17.5 percent annually was second only to that of the rubber and plastics products industry. (Table 9.) Among survey respondents, electrical machinery manufacturers ranked second only to instrument manufacturers in their rate of growth of domestic capital equipment expenditures.^{1/}

The rate of growth in foreign expenditures for plant and equipment (exclusive of that obtained through acquisition) from 1961-65 to 1966-70 was significantly smaller than the domestic growth rate. As a result, the ratio of foreign to domestic expenditures for plant and equipment declined from 26 percent during 1961-65 to 22 percent during 1966-70. (Tables 7 and 9.) Survey respondents also reported a reduction in the ratio of foreign to domestic investment from 21 percent during 1961-65 to 17 percent during 1966-70. (Table I-31.) The geographic pattern of capital expenditures by the industry changed slightly from 1961-65 to 1966-70 with capital expenditures rising more rapidly in the Far East,

^{1/} Data on the capital expenditures of instrument and related product manufacturers (which recorded the most rapid rate of investment growth among survey respondents) are not separately reported in the quarterly surveys of plant and equipment expenditures by the U. S. Department of Commerce.

Latin America, and Western Europe and somewhat less rapidly in Canada. In the latter half of the 1960's Western Europe accounted for over half, Canada for a fifth, and Latin America for a tenth of the foreign capital expenditures of survey respondents in the electrical machinery industry.

In the judgment of the survey respondents, market demands were considered to be the most important determinant of foreign investment decisions. Trade restrictions and investment regulations were also considered to be important determinants of foreign investment decision. In Western Europe, where over half of the foreign expenditures have occurred, trade restrictions and market demands (in that order) were consistently ranked as the most important determinants of investment decisions. In Canada, Latin America, and "rest of world" market demands were considered the decisive factor while investment regulations and labor costs played major roles in Far Eastern investment decisions.

Domestic and Foreign Sales

From 1960 to 1970, U. S. electrical machinery manufacturers increased their sales from U.S.-based manufacturing facilities by 116 percent, the fourth fastest rate of growth among the 21 major manufacturing industries. The domestic sales of survey respondents increased even more rapidly, by 147 percent (9.5 percent annually) while their foreign sales nearly tripled. (Tables I-32 and I-33.) The rapid expansion of foreign sales clearly did not prevent the survey respondents from achieving an above average rate of growth in their domestic sales.

Sales by foreign affiliates of U. S. electrical machinery manufacturers, like those of the foreign affiliates of other industries, are heavily concentrated in the local markets where the products are manufactured. In the case of respondents in the electrical machinery industry, 93 percent of total sales by foreign affiliates in 1970 were in local markets, 4 percent were to third country markets, and only 3 percent were to the United States market. (Table 43-B.) Moreover, contrary to the strenuous assertions of some critics of the multinational firm, the proportion of affiliate sales entering the U. S. market declined from 4 percent in 1965 to 3 percent in 1970.

Domestic and Foreign Employment

Domestic employment of the electrical machinery industry increased twice as rapidly as that of the average manufacturing industry during the 1960's. (Table 24.) Domestic employment by survey respondents in the electrical machinery industry increased even more rapidly, by 39 percent (3.4 percent annually) while the employment of their foreign affiliates nearly doubled. (Table 12.)

Merchandise Trade Balance

In the case of the electrical machinery industry, there is a major disparity between overall merchandise trade trends and the merchandise trade transactions of U. S. multinational firms. The U. S. trade surplus in the electrical machinery category declined from approximately \$700 million

in 1960 and 1965 to only \$350 million in 1970. (Table 32.) The decline in the trade surplus occurred despite the fact that U. S. exports of electrical machinery trebled from \$1 billion in 1960 to \$3 billion in 1970. (Table 36.) A deterioration in the trade balance is attributable wholly to an extraordinary increase in imports from only \$300 million in 1960 to roughly \$2.6 billion in 1970. (Table 35.) The latter increase, in turn, is chiefly attributable to a dramatic increase in imports of consumer electronic products (mostly from Japan) from \$146 million in 1960 to \$1,357 million in 1970. Imports of heavy electrical apparatus from Europe also increased substantially.

Survey respondents in the electrical machinery industry, by contrast, more than doubled their export surpluses from \$158 million in 1960 to \$339 million in 1970. (Table 43-C.) The growth in the trade surplus of survey respondents was broadly based with all six participants reporting trade surpluses in 1970. The ratio of exports to imports for each of the six respondents is shown in the following tabulation:

<u>Rank</u>	<u>Ratio of Exports to Imports</u>
1	13.7
2	5.1
3	3.6
4	2.5
5	1.2
<u>6</u>	<u>1.1</u>
Average	4.5

The foregoing data indicate that U. S. electrical machinery manufacturers have, through the rapid growth in their export activities, helped to prevent a serious erosion of the U. S. merchandise trade surplus in electrical products.

Contribution to the U. S. Balance of Payments

Financial transactions associated with the foreign direct investments of survey respondents in the electrical machinery industry resulted in net balance of payment inflows in 1960 and 1965 and a small net outflow, \$9 million, in 1970. (Table 39.) The adverse shift attributable to financial transactions, however, was small in relation to the improvement in the respondents' merchandise trade surplus. Consequently, their positive contribution to the U. S. balance of payments increased from \$178.2 million in 1960 to \$330.3 million in 1970. (Table 41.)

The Role of Technology Transfer

All six of the survey respondents have made their technology available to foreign manufacturers and all but one have obtained technology from abroad. (Table 45.) All respondents were agreed that the technological exchanges in which they were involved had little, if any, effect on merchandise trade in either direction except in very isolated instances. This result apparently stems from the fact that both U. S. and foreign firms generally resort to foreign licensing only when exports or local manufacture do not appear to be viable alternatives.

Effect of Foreign Investments on Domestic Investment, U. S. Exports, and U. S. Imports

Electrical machinery manufacturers were virtually unanimous in their view that their foreign direct investments have had a favorable effect on U. S. exports and investment. (Tables 42 and 43.) One-half of the respondents indicated that their export volume would be somewhat smaller if they had no foreign investments while the other half indicated that their exports would be "much smaller" under such circumstances. The favorable effect of investment on exports was most frequently attributed to the opportunities such investment created for the exports of U. S. components and parts to markets which were otherwise inaccessible. Respondents also stressed the importance of sales, service, and technical support provided by foreign manufacturing affiliates and the growing importance which many foreign governments attach to the local manufacture of "prestige" products. The enlarged volume of exports made possible by foreign investments made a significant contribution to the rapid growth in domestic investments during the past decade.

The majority of electrical machinery manufacturers felt that the overall level of electrical machinery imports had not been affected by their investments although about half acknowledged that they had made investments in overseas assembly plants (chiefly in the Far East and Latin America) which export a significant proportion of their output to the United States. It was the judgment of these manufacturers, however,

that, without foreign assembly operations, the markets for these products would have been abandoned almost entirely to foreign producers and U. S. manufacturers would have lost the benefit of component manufacture, which accounts for a very substantial proportion of the total value of the finished and intermediate products imported from affiliates.

The operations described in the preceding paragraph fit the pattern frequently referred to by labor critics as "runaway plants." These critics have asserted that "runaway plants" have been a major source of the deterioration in the U. S. trade balance in electronic products and have had a serious adverse effect on U. S. employment in the electronics industry.

Inasmuch as the "runaway plant" phenomenon is most common in the electronics industry (particularly in electronic components which are a major product of several of our survey respondents), we believe the information provided in this survey is extremely useful in interpreting this phenomenon. The following salient facts may help to put the "runaway plant" phenomenon into a more reasonable perspective:

1. Despite the fact that several of the survey respondents are heavily involved in the electronics components area, exports to the United States markets accounted for an almost negligible proportion (less than 3 percent) of foreign affiliate sales in 1970,

2. All six of the survey respondents have expanded their domestic employment, and

3. All six of the survey respondents have significant export surpluses.

The foregoing data simply do not support the popularly held opinion that U. S. electronic manufacturers have transferred production at will to take advantage of lower labor costs for private gain without regard to the consequences for other affected parties. Rather, they serve to further confirm the results of the Tariff Commission's study of Section 807 which indicated that U. S. firms have generally resorted to offshore production only as a last resort in meeting competition from foreign suppliers, and that such foreign production probably had a net favorable impact on U. S. foreign trade and employment.

Summary

The industry producing electrical machinery and supplies has been among the most rapidly growing of U. S. industries. Although the U. S. trade surplus in electrical machinery declined during the 1960's, the deterioration cannot be attributed to U. S.-based multinational firms which achieved a rapid rate of growth in both their exports and their merchandise trade surpluses. On the contrary, the overseas investments of U. S. electrical machinery manufacturers appear to have made a major

contribution to their export growth and have enabled the industry to maintain a merchandise trade surplus in the face of the growing competition from increasingly efficient foreign suppliers. The diminution in our trade balance is due chiefly to an extraordinary increase in imports of consumer electronic products from Japan, while a number of major European suppliers have become increasingly formidable competitors in the areas of heavy electrical machinery and advanced electronic products. In short, all available evidence suggests that the foreign investment activities of the U. S. electrical machinery manufacturers have had a salutary effect on the economic well-being of the domestic industry.

ELECTRICAL MACHINERY INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	665.5	1782.9	21.0
Canada	37.9	59.5	9.4
Other Western Hemisphere	7.8	29.7	30.5
Western Europe	71.6	173.2	19.3
Far East	.2	6.3	99.3
Rest of the World	13.8	29.8	16.6
Non Allocable**	11.0	9.0	-6.4
Total, Outside United States	142.3	307.5	16.7
Total, Outside United States (except Canada)	104.4	248.0	18.9

Percentage Distribution of Capital Expenditures
Outside The United States

	<u>1961-65</u>	<u>1966-70</u>
Canada	26.6	19.4
Other Western Hemisphere	5.5	9.7
Western Europe	50.3	56.3
Far East	.2	2.0
Rest of the World	9.7	9.7
Non Allocable**	7.7	2.9
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

**ELECTRICAL MACHINERY INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970.**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	732.4	1124.6	2193.4	100.0	100.0	100.0
Local Sales	689.3	1021.8	2035.1	94.1	90.8	92.8
Export Sales to U.S.	17.1	42.3	63.7	2.3	3.8	2.9
Export Sales to Other Countries	26.0	60.5	94.6	3.5	5.4	4.3
Canadian Foreign Affiliates:						
Total Sales	201.1	303.4	481.6	100.0	100.0	100.0
Local Sales	185.1	272.4	442.6	92.0	89.8	91.9
Export Sales to U.S.	8.0	12.0	17.0	4.0	4.0	3.5
Export Sales to Other Countries	8.0	19.0	22.0	4.0	6.2	4.6
Foreign Affiliates, except Canadian:						
Total Sales	531.3	821.2	1711.8	100.0	100.0	100.0
Local Sales	504.2	749.4	1592.5	94.9	91.3	93.0
Export Sales to U.S.	9.1	30.3	46.7	1.7	3.7	2.7
Export Sales to Other Countries	18.0	41.5	72.6	3.4	5.0	4.3

Source: ECAT Survey.

ELECTRICAL MACHINERY INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	3025.7	4515.9	7481.5	8.4	10.6	9.5
Exports to Foreign affiliates	54.0	106.1	217.1	14.5	15.4	14.9
Purchases by affiliates from other U. S. firms	2.0	2.5	3.0	4.6	3.7	4.1
Subtotal, exports to affiliates	56.0	108.6	220.1	14.1	15.2	14.7
Exports to unaffiliated firms	119.1	216.5	278.6	12.7	5.2	8.9
TOTAL, EXPORTS	175.1	325.1	498.7	13.2	8.9	11.0
Imports from Affiliates	15.1	40.9	88.8	22.1	16.9	19.4
Sales by affiliates to other U. S. producers	-	-	-	-	-	-
Subtotal, imports from affiliates	15.1	40.9	88.8	22.1	16.9	19.4
Imports from unaffiliated firms	2.0	11.0	70.7	40.6	45.1	42.8
TOTAL, IMPORTS	17.1	51.9	159.5	24.8	25.2	25.2
Merchandise Trade Balance:						
Based on transactions involving affiliates	40.9	67.7	131.3	10.6	14.2	12.3
Based on transactions with unaffiliated firms	117.1	205.5	207.9	11.9	0.3	5.9
TOTAL	158.0	273.2	339.2	11.6	4.4	7.9
RATIO OF:						
Imports from affiliates to U. S. sales	0.5%	0.9%	1.2%			
Total imports to U. S. sales	0.6%	1.2%	2.1%			
Exports to affiliates to U. S. sales	1.8%	2.4%	2.9%			
Total exports to U. S. sales	5.8%	7.2%	6.7%			
Exports to affiliates to total exports	30.8%	32.6%	43.5%			
Imports from affiliates to total imports	88.3%	78.8%	55.7%			

Source: ECAT Survey

ELECTRICAL MACHINERY INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses				Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
All Areas:						
1 (most)	6	7	19	3	-	35
2	18	3	6	2	5	34
3	9	3	6	8	5	31
4	-	11	2	5	4	22
5 (least)	-	1	-	5	3	9
Negligible	-	8	-	10	3	21
Total Responses	33	33	33	33	20	152
Canada:						
1 (most)	1	-	6	-	-	7
2	4	1	1	-	1	7
3	2	-	-	2	1	5
4	-	2	-	1	1	4
5 (least)	-	1	-	1	-	2
Negligible	-	3	-	3	1	7
Total Responses	7	7	7	7	4	32
W. Hemisphere:						
1 (most)	-	2	3	1	-	6
2	3	-	2	-	1	6
3	3	-	1	1	1	6
4	-	3	-	1	1	5
5 (least)	-	-	-	1	1	2
Negligible	-	1	-	2	-	3
Total Responses	6	6	6	6	4	28
W. Europe:						
1 (most)	4	-	3	-	-	7
2	2	1	3	1	1	8
3	1	1	1	3	1	7
4	-	3	-	-	1	4
5 (least)	-	-	-	1	1	2
Negligible	-	2	-	2	-	4
Total Responses	7	7	7	7	4	32
Far East:						
1 (most)	-	3	2	2	-	7
2	5	1	-	-	1	7
3	2	1	3	1	1	8
4	-	1	2	2	-	5
5 (least)	-	-	-	1	1	2
Negligible	-	1	-	1	1	3
Total Responses	7	7	7	7	4	32
Rest of World:						
1 (most)	1	2	5	-	-	8
2	4	-	-	1	1	6
3	1	1	1	1	1	5
4	-	2	-	1	1	4
5 (least)	-	-	-	1	-	1
Negligible	-	1	-	2	1	4
Total Responses	6	6	6	6	4	28

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-35

ELECTRICAL MACHINERY INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	17	20	54	9	0	100
2	53	9	18	6	15	100
3	29	10	19	26	16	100
4	0	50	9	23	18	100
5 (least)	0	11	0	56	33	100
Negligible	0	38	0	48	14	100
<u>Canada:</u>						
1 (most)	14	0	86	0	0	100
2	57	14	14	0	14	100
3	40	0	0	40	20	100
4	0	50	0	25	25	100
5 (least)	0	50	0	50	0	100
Negligible	0	43	0	43	14	100
<u>W. Hemisphere:</u>						
1 (most)	0	33	50	17	0	100
2	50	0	33	0	17	100
3	50	0	17	17	17	100
4	0	60	0	20	20	100
5 (least)	0	0	0	50	50	100
Negligible	0	33	0	67	0	100
<u>W. Europe:</u>						
1 (most)	57	0	43	0	0	100
2	25	13	38	13	13	100
3	14	14	14	43	14	100
4	0	75	0	0	25	100
5 (least)	0	0	0	50	50	100
Negligible	0	50	0	50	0	100
<u>Far East:</u>						
1 (most)	0	43	29	29	0	100
2	71	14	0	0	14	100
3	25	13	38	13	13	100
4	0	20	40	40	0	100
5 (least)	0	0	0	50	50	100
Negligible	0	33	0	33	33	100
<u>Rest of World:</u>						
1 (most)	13	25	63	0	0	100
2	67	0	0	17	17	100
3	20	22	20	20	20	100
4	0	50	0	25	25	100
5 (least)	0	0	0	100	0	100
Negligible	0	25	0	50	25	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

MOTOR VEHICLES AND PARTS

Introduction

This industry group includes data on six firms which account for the preponderant part of U. S. production of motor vehicles and parts. Survey participants include the three major U. S. automobile manufacturers and three firms primarily engaged in the production of motor vehicle parts.

Survey data with respect to this industry group are subject to two important qualifications. First, it shall be noted that the domestic operations of motor vehicle manufacturers, and consequently of their suppliers, were severely curtailed by a strike in the final quarter of 1970, the terminal year of our analysis. As a result, the actual growth in the major indicators of domestic economic activity (i.e., sales, investments, and exports) is substantially understated vis-a-vis that of other manufacturing industries. Secondly, the U. S.-Canadian Automobile Agreement, which was designed to rationalize the production of motor vehicles on the North American continent, resulted in an abnormal growth in U. S.-Canadian trade in motor vehicles.

Pattern of Investment Activity

U. S. motor vehicle manufacturers^{1/} have participated in foreign markets through local manufacturing activities since the 1920's. As of

^{1/} Subsequent references to motor vehicle manufacturers in this analysis include parts suppliers unless otherwise noted.

December, 1970, the book value of the foreign direct investments of motor vehicle manufacturers amounted to approximately \$4.3 billion, or nearly one-third of the total book value of direct investments in foreign manufacturing affiliates included in the survey as of that date. (Table 3.) Presumably because of the long-standing character of their foreign investments, motor vehicle manufacturers increased their foreign investments less rapidly than those of any other industry from 1961-65 to 1966-70. (Table 6.) Domestic expenditures for new plant and equipment were increased three times as rapidly as comparable expenditures abroad from 1961-65 to 1966-70, resulting in a decline from 45 percent to 35 percent in the ratio of foreign to domestic investment.

The geographic pattern of foreign investment by motor vehicle manufacturers shifted somewhat during the 1960's, with Western Europe accounting for a somewhat smaller share and Canada and Latin America accounting for a somewhat larger share of total foreign investments in the latter half of the 1960's compared with the period 1961-65. Nonetheless, Europe continued to account for the bulk (three-fifths) of foreign capital expenditures in the latter half of the 1960's with Canada accounting for most (over one-fifth) of the remainder. Investments in Latin America and "rest of world" were relatively less important, though still also substantial.

Motor vehicle manufacturers rated "market demands" as the major determinant of their foreign investment decisions in every geographic area. (Tables I-39 and I-40.) In Canada and the Far East, trade restrictions were frequently cited as an important factor in foreign investment decisions while investment regulations (e.g., local content requirements) appear to have played an important role in certain areas, chiefly the developing countries (i.e., Latin America, the Far East, "rest of world") and Canada. Labor cost advantages were consistently rated as a relatively unimportant factor in foreign investment decisions. The relative importance of various factors in the foreign investment decisions of automobile companies was perhaps best summarized in the following response:

"The motivation for the establishment and operation of our world-wide facilities has been the challenge of competition for buyers of our products throughout those areas of the world to which they are permitted access. The search for markets and not the search for low-cost labor or special investment and tax incentives has been the dominant factor influencing our overseas investment decisions. This does not suggest, however, that we are not greatly concerned about rates of wage increases in the U. S. which far exceed rates of increases in productivity..."

Domestic and Foreign Sales

Domestic sales of motor vehicle manufacturers rose from \$20.3 billion in 1960 to \$34.1 billion in 1970, an increase of \$13.8 billion. (Table 18.)

As previously noted, sales in the latter year were adversely affected, not only by generally depressed economic conditions, but by a major strike in the motor vehicle industry. ^{1/}

Sales by foreign affiliates of motor vehicle manufacturers more than tripled in the 1960's reflecting rising per capita income and increased motor vehicle ownership in virtually every major market. With the exception of Canada, where special circumstances prevail, nearly all sales by foreign affiliates are in local (76 percent) or third country (21 percent) markets, while only three percent entered the United States market. In the case of Canada, export sales to the U. S. have risen rapidly and now account for over one-half of the total sales by Canadian foreign affiliates of U. S. motor vehicle manufacturers. However, the exports by Canadian affiliates to the U. S. market (which were induced by the U. S. - Canadian Automobile Agreement) have been partly offset by an increase in U. S. exports to the Canadian market. (Table I-37.)

Domestic and Foreign Employment

Employment by U. S. motor vehicle manufacturers in domestic facilities rose at an average annual rate of 2.5 percent during the 1960's. ^{2/} (Table 12.)

Employment by foreign affiliates during the corresponding period more than doubled

^{1/} Aggregate sales of motor vehicles and parts in 1970, \$45.1 billion, were over 12 percent below those in the preceding year of \$51.5 billion. (See Table 46.)

from 268 thousand persons in 1960 to 565 thousand in 1970. The disparate growth rates reflect the same factors discussed in the preceding section-- rapidly rising motor vehicle ownership abroad and the U.S. recession which severely curtailed major consumer expenditures on durable goods in 1970.

Merchandise Trade Balance

Merchandise exports of the survey respondents rose from approximately \$1 billion in 1960 to approximately \$3.5 billion in 1970. During the same period, their imports rose from slightly over \$100 million to nearly \$3 billion, resulting in a decline in the industry's merchandise trade surplus from \$949 million in 1960 to \$556 million in 1970. (Table 31.) Despite the reduction, the overall merchandise trade surplus of the respondent companies contrasts markedly with the net overall U. S. trade balance in automotive products which deteriorated from a surplus of \$767 million in 1960 to a deficit of \$1,953 million in 1970 (as compiled by the American Automobile Association, see Table 36-F). This deficit, however, is overstated because our automotive trade balance with Canada is distorted in the official U.S. statistics because of valuation and definition problems. Adjusting that part of the trade balance reduces the deficit by one-third to a level of \$1,249 million in 1970. This revision does not alter the 1960 figure (Table I-42). The contrast between the surplus of the respondents and the deficit of the entire industry makes it abundantly clear that the

reversal in our trade balance in automotive products is due primarily to the growing competitive strength of European and Japanese competitors and not to the overseas activities of U.S.-based motor vehicle manufacturers.

Contribution to U. S. Balance of Payments

The non-trade international financial transactions of motor vehicle manufacturers resulted in a net cash outflow of \$258 million in 1960 and net cash inflows of approximately \$150 million and \$200 million in 1965 and 1970 respectively. (Table 39.) The reversal of the cash flows associated with direct investment activities, which is attributable to both an increase in investment income and a decline in net new investments abroad, more than offset the deterioration in the respondents' merchandise trade balance from 1960 to 1970. The net balance of payments surplus in 1970, \$754 million, therefore, exceeded that of the decade earlier (though it remained well below the level of \$1,658 million achieved in 1965). (Table 41.)

The Role of Technology Transfer

All six of the survey respondents have made their manufacturing technology available to foreign producers while a majority have also obtained technology from abroad. (Table 45.) In the view of the motor vehicle manufacturers, the exchange of technology generally occurred only when "foreign industrial policy already had excluded or sharply reduced U. S. exports" and consequently it has had a minimal effect on U. S. trade.

Parts suppliers, by contrast, noted that the licensing of technology abroad has facilitated their export growth. As one major parts exporter reported:

"As license programs are initiated to penetrate foreign markets and to capture otherwise unavailable business, and as licensees in many cases purchase an appreciable percentage of their parts and supplies from us, the share of foreign markets supplied by us is increased by licensing."

The respondents were in general agreement that the technology which they imported had had little if any effect on either U. S. exports or imports.

Effect of Foreign Investment on Domestic Investments, U. S. Exports, and U. S. Imports

U. S. motor vehicle manufacturers, and parts suppliers as well, were unanimous in their view that the share of the U. S. market supplied by imports has not been significantly affected by their foreign investments. On the other hand, firms accounting for the preponderant part of the total exports concluded that their exports would be materially reduced in the absence of their foreign investment programs. Specifically, they cited the fact that foreign investments made possible the exports of parts to markets which are otherwise totally foreclosed. Moreover, the existence of large volume foreign manufacturing affiliates supports a full range of service and distribution facilities which are essential to the exportation

of passenger cars from the United States. Without those facilities, U. S. exports of finished passenger cars would undoubtedly be materially reduced.

Most survey respondents indicated that their foreign investments had had little if any effect on their domestic investment programs, except to the extent that such investments have contributed to expanded export volume and thereby to a higher overall level of domestic investments. (Table 42.) In one case, however, a respondent noted that the commencement of manufacture abroad had delayed the construction of plant capacity in the United States.

Summary

Although the overall U. S. trade balance on motor vehicles and parts has been reversed from significant surpluses in the early 1960's to a net trade deficit of \$2.4 billion in 1970 (Table 32), the survey data make it clear that the deterioration in the industry's trade balance is primarily attributable to the growing competitive strength of European and Japanese competitors and an apparent shift in U. S. consumer preferences to the smaller cars typically supplied by those manufacturers. The deterioration in our trade surplus is also attributable in part to the elimination of our historic trade surplus with Canada following the implementation of the U. S.-Canadian Automobile Agreement. Notwithstanding the reversal of

foreign trade trends, U. S. automobile manufacturers have maintained a rapid rate of export growth and continue to make a major contribution to the U. S. merchandise trade surplus and an even larger contribution to the U. S. balance of payments.

**MOTOR VEHICLES AND PARTS INDUSTRY
CAPITAL EXPENDITURES BY U. S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70.**

	(Value in Millions of Dollars)		Average Annual Change <u>1961-65 to 1966-70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	4,916.5	7,512.3	8.8
Canada	336.3	568.8	11.1
Other Western Hemisphere	153.1	221.1	7.6
Western Europe	1,412.7	1,532.8	1.6
Far East	6.0	8.1	6.2
Rest of the World	289.6	237.4	-3.9
Non Allocable**	-	-	-
Total, Outside United States	2,197.7	2,568.2	3.2
Total, Outside United States (except Canada)	1,861.4	1,999.4	1.4

**Percentage Distribution of Capital Expenditures
Outside the United States**

	<u>1961-65</u>	<u>1966-70</u>
Canada	15.3	22.2
Other Western Hemisphere	7.0	8.6
Western Europe	64.3	59.7
Far East	0.2	0.3
Rest of the World	13.2	9.2
Non Allocable**	-	-
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Table I-37

**MOTOR VEHICLES AND PARTS INDUSTRY: PERCENTAGE
DISTRIBUTION OF SALES BY FOREIGN AFFILIATES, 1960, 1965 AND 1970**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u>	<u>1970</u>
	(million dollars)			(percent)		
All Foreign Affiliates:						
Total Sales	4,391.2	8,596.3	14,613.2	100.0	100.0	100.0
Local Sales	3,540.0	7,007.6	9,756.7	80.6	81.5	66.8
Export Sales to U.S.	72.1	202.7	2,503.4	1.6	2.4	17.1
Export Sales to Other Countries	779.1	1,386.0	2,353.1	17.8	16.1	16.1
Canadian Foreign Affiliates:						
Total Sales	831.0	1,894.3	3,990.2	100.0	100.0	100.0
Local Sales	771.4	1,707.5	1,646.5	92.8	90.1	41.3
Export Sales to U.S.	4.9	119.9	2,188.8	.6	6.3	54.8
Export Sales to Other Countries	54.7	66.9	154.9	6.6	3.5	3.9
Foreign Affiliates, except Canadian:						
Total Sales	3,560.2	6,702.0	10,623.0	100.0	100.0	100.0
Local Sales	2,768.6	5,300.1	8,110.2	77.8	79.1	76.3
Export Sales to U.S.	67.2	82.8	314.6	1.9	1.2	3.0
Export Sales to Other Countries	724.4	1,319.1	2,198.2	20.3	19.7	20.7

Source: ECAT Survey.

MOTOR VEHICLES AND PARTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	20347.1	32577.0	34137.3	9.9	0.9	5.3
Exports to Foreign affiliates	716.4	1232.7	2522.6	11.5	15.4	13.4
Purchases by affiliates from other U. S. firms	90.2	249.5	452.2	22.6	12.6	17.5
Subtotal, exports to affiliates	806.6	1482.2	2974.8	12.9	15.0	13.9
Exports to unaffiliated firms	260.0	373.0	534.2	7.5	7.4	7.5
TOTAL, EXPORTS	1066.6	1855.2	3509.0	11.7	13.6	12.6
Imports from Affiliates	54.3	216.4	2578.0	31.8	60.0	47.1
Sales by affiliates to other U. S. producers	-	0.9	4.4	-	37.4	-
Subtotal, imports from affiliates	54.3	217.3	2582.4	32.0	60.0	47.1
Imports from unaffiliated firms	63.6	127.4	370.4	14.9	23.9	19.3
TOTAL, IMPORTS	117.9	344.7	2952.8	24.0	50.7	37.2
Merchandise Trade Balance:						
Based on transactions involving affiliates	752.3	1264.9	392.4	11.0	N.A.	-6.3
Based on transactions with unaffiliated firms	196.4	245.6	163.8	4.6	-7.8	-1.8
TOTAL	948.7	1510.5	556.2	9.8	N.A.	-5.2
RATIO OF:						
Imports from affiliates to U. S. sales	0.3%	0.7%	7.6%			
Total imports to U. S. sales	0.6%	1.1%	8.6%			
Exports to affiliates to U. S. sales	4.0%	4.5%	8.7%			
Total exports to U. S. sales	5.2%	5.7%	10.3%			
Exports to affiliates to total exports	75.6%	79.9%	84.8%			
Imports from affiliates to total imports	46.1%	62.8%	87.3%			

Source: ECAT Survey

Table I-39

MOTOR VEHICLES AND PARTS
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses				Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	3	4	21	-	-	28
2	11	14	1	3	-	29
3	8	3	2	7	-	20
4	3	1	1	6	-	11
5 (least)	-	-	-	-	-	-
Negligible	-	3	-	9	-	12
Total Responses	25	25	25	25	-	100
<u>Canada:</u>						
1 (most)	2	1	3	-	-	6
2	2	2	1	-	-	5
3	1	2	-	1	-	4
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	-	-	1	3	-	4
Total Responses	5	5	5	5	-	20
<u>W. Hemisphere:</u>						
1 (most)	-	1	4	-	-	5
2	2	4	-	-	-	6
3	2	-	1	2	-	5
4	1	-	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	-	-	2	-	2
Total Responses	5	5	5	5	-	20
<u>W. Europe:</u>						
1 (most)	-	-	5	-	-	5
2	3	2	-	1	-	6
3	2	-	-	1	-	3
4	-	1	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	2	-	2	-	4
Total Responses	5	5	5	5	-	20
<u>Far East:</u>						
1 (most)	1	1	5	-	-	7
2	1	3	-	1	-	5
3	2	-	-	2	-	4
4	1	-	-	2	-	3
5 (least)	-	-	-	-	-	-
Negligible	-	1	-	-	-	1
Total Responses	5	5	5	5	-	20
<u>Rest of World:</u>						
1 (most)	-	1	4	-	-	5
2	3	3	-	1	-	7
3	1	1	1	1	-	4
4	1	-	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	-	-	2	-	2
Total Responses	5	5	5	5	-	20

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-40

MOTOR VEHICLES AND PARTS INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	11	14	75	0	0	100
2	38	48	3	10	0	100
3	40	15	10	35	0	100
4	27	9	9	55	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	25	0	75	0	100
<u>Canada:</u>						
1 (most)	33	17	50	0	0	100
2	40	40	20	0	0	100
3	25	50	0	25	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	25	75	0	100
<u>W. Hemisphere:</u>						
1 (most)	0	20	80	0	0	100
2	33	67	0	0	0	100
3	40	0	20	40	0	100
4	50	0	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	100	0	100
<u>W. Europe:</u>						
1 (most)	0	0	100	0	0	100
2	50	33	0	17	0	100
3	67	0	0	33	0	100
4	0	50	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	50	0	50	0	100
<u>Far East:</u>						
1 (most)	14	14	71	0	0	100
2	20	60	0	20	0	100
3	50	0	0	50	0	100
4	33	0	0	67	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	100	0	0	0	100
<u>Rest of World:</u>						
1 (most)	0	20	80	0	0	100
2	43	43	0	14	0	100
3	25	25	25	25	0	100
4	50	0	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	100	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

Table I-41.

U.S. AUTOMOTIVE EXPORTS & IMPORTS

1950-1970

(Millions of Dollars)	Exports			Imports			Net Balance of Exports over Imports			
	Year	Total	To Canada	To Balance of World	Total	From Canada	From Balance of World	Total	Canada	Balance of World
1950	794	168	626	24	-	24	770	168	602	
1951	1,306	238	1,068	40	2	38	1,266	236	1,030	
1952	1,124	255	869	61	3	58	1,063	252	811	
1953	1,082	317	765	56	1	55	1,026	316	710	
1954	1,157	257	900	56	1	55	1,101	256	845	
1955	1,367	376	991	89	1	88	1,278	375	903	
1956	1,516	461	1,055	150	2	148	1,366	459	907	
1957	1,467	380	1,087	345	7	338	1,122	373	749	
1958	1,227	342	885	563	7	556	664	335	329	
1959	1,281	424	857	868	21	847	413	403	10	
1960	1,411	419	992	644	14	630	767	405	362	
1961	1,300	389	911	398	11	387	902	378	524	
1962	1,401	487	914	534	13	521	867	474	393	
1963	1,567	544	1,023	588	25	563	979	519	460	
1964	1,900	659	1,241	743	82	661	1,157	577	580	
1965	2,198	927	1,271	862	168	694	1,336	759	577	
1966	2,474	1,287	1,187	1,878	865	1,013	596	422	174	
1967	2,888	1,772	1,116	2,603	1,541	1,062	285	231	54	
1968	3,579	2,428	1,151	4,268	2,528	1,740	-689	-100	-589	
1969	4,069	2,787	1,282	5,287	3,365	1,922	-1,218	-578	-640	
1970	3,871	2,505	1,366	5,824	3,447	2,377	-1,953	-942	-1,011	

Source: AMA - Report of U.S. Department of
Commerce, Bureau of the Census.

U.S. AUTOMOTIVE EXPORTS & IMPORTS
 (Adjusted for U.S. Canada Trade Agreement)
 1950-1970

(Millions of Dollars)	Exports			Imports			Net Balance of Exports over Imports		
	Year	Total	To Balance of	Total	From	From Balance of	Total	To	Balance of
			Canada*		World			Canada*	
	\$	\$	\$	\$	\$	\$	\$	\$	\$
1950	794	168	626	24	-	24	770	168	602
1951	1,306	238	1,068	40	2	38	1,266	236	1,030
1952	1,124	255	869	61	3	58	1,063	252	811
1953	1,082	317	765	56	1	55	1,026	316	710
1954	1,157	257	900	56	1	55	1,101	256	845
1955	1,367	376	991	89	1	88	1,278	375	903
1956	1,516	461	1,055	150	2	148	1,366	459	907
1957	1,467	380	1,087	345	7	338	1,122	373	749
1958	1,227	342	885	563	7	556	664	335	329
1959	1,281	424	857	868	21	847	413	403	10
1960	1,411	419	992	644	14	630	767	405	362
1961	1,300	389	911	398	11	387	902	378	524
1962	1,401	487	914	534	13	521	867	474	393
1963	1,567	544	1,023	588	25	563	979	519	460
1964	1,900	659	1,241	743	82	661	1,157	577	580
1965	2,202	931	1,271	921	227	694	1,281	704	577
1966	2,584	1,397	1,187	1,824	811	1,013	760	586	174
1967	3,071	1,956	1,115	2,457	1,395	1,062	614	561	53
1968	3,737	2,586	1,151	4,006	2,266	1,740	-269	320	-589
1969	4,468	3,186	1,282	5,011	3,089	1,922	-543	97	-640
1970	4,333	2,967	1,366	5,582	3,205	2,377	-1,249	-238	-1,011

* For 1965 and following years source of U.S.-Canada trade is Annual Report to Congress on the operation of the Automotive Products Trade Act of 1965.

Source: AMA - from Report of U.S. Department of Commerce, Bureau of the Census.

AIRCRAFT AND PARTS ^{1/}

Few firms in the aircraft industry are truly multinational in the popular sense of that term--that is, few carry on a significant volume or proportion of manufacturing activity outside the United States. In the case of the five survey respondents, sales by foreign affiliates, employment by foreign affiliates, and capital expenditures outside the United States during the 1960's, each amounted to less than 5 percent of corresponding domestic levels.

In view of the very limited and specialized role of the international manufacturing activities of U. S. aircraft companies, the pattern of analysis followed for other industry groups is neither appropriate nor instructive for this industry. The very limited foreign direct investments of aircraft companies have been confined almost entirely to investments in parts suppliers or sub-contractors. The preponderant part of such overseas investment has been in Canada.

Although the considerations which have dictated overseas investments have been diverse, the concept of "reciprocity" has played an important

^{1/} Detailed data on the geographic distribution of foreign expenditures by the survey respondents and on the distribution of foreign affiliate sales by area and destination cannot be revealed without disclosing the operations of individual respondents.

role in most foreign investment (or procurement) decisions. Briefly stated, under the reciprocity concept the decision to produce or to buy parts abroad is explicitly or implicitly related to the prospects for exports of completed aircraft from the United States. It appears clear that the net result of these exchanges is a net increase in U. S. exports and consequently in the level of domestic investment and employment.

The aircraft industry depends on export sales to a greater extent than any other industry group in our survey with exports accounting for nearly one-fourth of total sales by the survey respondents. Despite the fact that foreign sourcing increased significantly from 1960 to 1970, the merchandise trade surplus of survey respondents increased from roughly \$600 million in 1960 to nearly \$2 billion in 1970.

AIRCRAFT AND PARTS INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	530.6	1,632.2	25.2
Canada	<u>1/</u>	<u>1/</u>	<u>1/</u>
Other Western Hemisphere	<u>1/</u>	<u>1/</u>	<u>1/</u>
Western Europe	<u>1/</u>	<u>1/</u>	<u>1/</u>
Far East	<u>1/</u>	<u>1/</u>	<u>1/</u>
Rest of the World	<u>1/</u>	<u>1/</u>	<u>1/</u>
Non Allocable	<u>1/</u>	<u>1/</u>	<u>1/</u>
Total, Outside United States	14.0	54.2	+287.1
Total, Outside United States (except Canada)	<u>1/</u>	<u>1/</u>	<u>1/</u>
Percentage Distribution of Capital Expenditures Outside The United States			
	<u>1961-65</u>	<u>1966-70</u>	
Canada	<u>1/</u>	<u>1/</u>	
Other Western Hemisphere	<u>1/</u>	<u>1/</u>	
Western Europe	<u>1/</u>	<u>1/</u>	
Far East	<u>1/</u>	<u>1/</u>	
Rest of the World	<u>1/</u>	<u>1/</u>	
Non Allocable	<u>1/</u>	<u>1/</u>	
Total, Outside United States	100.0	100.0	

* Exclusive of that obtained through acquisitions.

1/ Cannot be shown without disclosing the operations of individual companies.

Source: ECAT Survey

AIRCRAFT AND PARTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS: 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Percent Change		
	1960	1965	1970	1960-65	1965-70	1960-7
U. S. Sales	4,436	5,699	8,948	5.1	9.4	7.1
Merchandise Exports	611	714	2,134	3.2	24.5	13.1
Merchandise Imports	24	54	180	17.6	27.2	22.1
Merchandise Trade Balance	587	660	1,955	2.4	24.3	12.1

RATIO OF:

Imports to U. S. Sales	0.5%	0.9%	2.0%
Exports to U. S. Sales	13.8%	12.5%	23.8%

Source: ECAT Survey

**AIRCRAFT AND PARTS INDUSTRY
SALES BY FOREIGN AFFILIATES, 1960, 1965, AND 1970^{1/}
(In Millions of Dollars)**

1960	30
1965	63
1970	210

^{1/} Detailed data on the distribution of foreign affiliate sales by origin and destination cannot be shown without disclosing the operations of individual companies.

Source: ECAT Survey.

AIRCRAFT AND PARTS INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses				Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	1	-	6	-	-	7
2	-	5	1	3	-	9
3	1	2	1	3	-	7
4	5	-	-	2	-	7
5 (least)	-	-	-	-	-	-
Negligible	2	2	1	1	-	6
Total Responses	9	9	9	9	-	36
<u>Canada:</u>						
1 (most)	1	-	2	-	-	3
2	-	2	-	1	-	3
3	-	-	1	1	-	2
4	1	-	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	2	2	1	1	-	6
Total Responses	4	4	4	4	-	16
<u>W. Hemisphere:</u>						
1 (most)	-	-	1	-	-	1
2	-	1	1	1	-	3
3	1	1	-	-	-	2
4	1	-	-	1	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	-	-	-	-	-
Total Responses	2	2	2	2	-	8
<u>W. Europe:</u>						
1 (most)	-	-	2	-	-	2
2	-	2	-	-	-	2
3	-	-	-	2	-	2
4	2	-	-	-	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	2	2	2	-	6
Total Responses	2	2	2	2	-	8
<u>Far East:</u>						
1 (most)	-	-	1	-	-	1
2	-	-	-	1	-	1
3	-	1	-	-	-	1
4	1	-	-	-	-	1
5 (least)	-	-	-	-	-	-
Negligible	-	-	-	-	-	-
Total Responses	1	1	1	1	-	4
<u>Rest of World:</u>						
1 (most)	-	-	-	-	-	-
2	-	-	-	-	-	-
3	-	-	-	-	-	-
4	-	-	-	-	-	-
5 (least)	-	-	-	-	-	-
Negligible	-	-	-	-	-	-
Total Responses	-	-	-	-	-	-

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table 1-47

AIRCRAFT AND PARTS INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	Percentage Distribution of Responses					Total, All Responses
	Trade Restrictions*	Investment Regula- tions (e.g. local content regulations)	Market** Demands	Labor Cost Advantages	Other Factors	
<u>All Areas:</u>						
1 (most)	14	0	86	0	0	100
2	0	56	11	33	0	100
3	14	29	14	43	0	100
4	71	0	0	29	0	100
5 (least)	0	0	0	0	0	100
Negligible	33	33	17	17	0	100
<u>Canada:</u>						
1 (most)	33	0	67	0	0	100
2	0	67	0	33	0	100
3	0	0	50	50	0	100
4	50	0	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	33	33	17	17	0	100
<u>W. Hemisphere:</u>						
1 (most)	0	0	100	0	0	100
2	0	33	33	33	0	100
3	50	50	0	0	0	100
4	50	0	0	50	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	0	0	100
<u>W. Europe:</u>						
1 (most)	0	0	100	0	0	100
2	0	100	0	0	0	100
3	0	0	0	100	0	100
4	100	0	0	0	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	0	0	100
<u>Far East:</u>						
1 (most)	0	0	100	0	0	100
2	0	0	0	100	0	100
3	0	100	0	0	0	100
4	100	0	0	0	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	0	0	100
<u>Rest of World:</u>						
1 (most)	0	0	0	0	0	100
2	0	0	0	0	0	100
3	0	0	0	0	0	100
4	0	0	0	0	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	0	0	0	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

INSTRUMENTS AND RELATED PRODUCTS INDUSTRY**Introduction**

This industry group includes data on four firms which accounted for roughly 40 percent of U. S. sales of instruments and related products in 1970. Among the respondents were firms engaged in the production of photographic instruments, scientific and engineering instruments, and industrial process controls. This industry group represents one of the most technologically advanced sectors of the U. S. economy.

Pattern of Investment Activity

The instruments and related products industry achieved the highest rate of investment growth, both foreign and domestic, of any industry group in the survey. Domestic plant and equipment expenditures almost tripled from 1961-65 to 1966-70 while foreign expenditures increased five-fold from the relatively low base of the early 1960's. (Table I-48.) The book value of these investments stood at \$738 million as of December, 1970. This was equivalent to approximately 5 percent of the total reported by all participants in the survey.

Foreign plant and equipment expenditures by instrument manufacturers have been heavily concentrated in the West European market. (Table I-48.) During the periods 1961-65 and 1966-70 roughly 80 percent of total foreign plant and equipment expenditures occurred in Europe while 10 percent were in Canada. Expenditures in the Far East and Latin America were negligible.

Instrument manufacturers displayed a remarkable unanimity of viewpoint with respect to the relative importance of various factors in their foreign investment decisions. Three of the four respondents concluded that market demands were clearly the most important factor in their foreign investment decisions while the fourth ranked tariffs and trade restrictions as the most important factor in every geographic area. The latter firm explained, however, that, "Once a business of any size is begun in a major market, . . . (our firm) has found it advantageous to manufacture locally." Each of the four firms ranked labor costs as the least significant of any of the rated factors in their foreign investment decisions. The response below appears to be representative of instrument manufacturers' views on this subject:

"International marketing decisions have been keyed to competitive factors, not wages. International manufacturing decisions have likewise been keyed to competition. Lower wage rates abroad do not favorably influence international manufacturing decisions. Lower production quantities abroad with consequent relatively lower production mechanization and efficiencies and strong dependence on U. S. origin parts and components means that, so far as our products are concerned, U.S. finished products are still the least expensive."

Domestic and Foreign Sales

Survey respondents in the instruments and related products industry compiled an outstanding record of sales growth both at home and abroad during the 1960's. As was the case with most other indicators

of economic health (investment, employment, and exports) firms in this industry group outperformed every other industry grouping. (Table 18.) Domestic sales more than trebled from 1960 to 1970 and almost doubled between 1965 and 1970. (Table I-50.) At the same time, foreign sales increased six-fold during the past decade. (Table I-49.)

Sales by foreign affiliates of instrument manufacturers are heavily concentrated in the local markets where the manufacturing facilities are located. Approximately 99 percent of total sales by foreign affiliates are in local markets while only 1 percent enters the United States market. (Table I-49.) Export sales to third country markets are negligible.

Domestic and Foreign Employment

Survey respondents more than doubled their domestic employment and more than tripled their foreign employment during the 1960's. (Table 12.) Both the foreign and domestic growth rates exceeded those of any other industry. The employment gains were broadly based with each of the survey respondents reporting large gains in both domestic and foreign employment. The foreign investments of instrument manufacturers obviously had no adverse effect on domestic employment opportunities.

Merchandise Trade Balance

Despite its relatively small size, the instruments and related products industry was the fourth largest contributor to the U. S. merchandise

trade surplus in 1970. (Table 32.) Moreover, the industry achieved the second highest rate of growth in exports (after lumber and wood products) and it achieved the largest rate of growth in its merchandise trade surplus (162 percent) during the 1960's. (Tables 32 and 36.)

Survey respondents in the instruments and related products industry fared even better, quadrupling both their exports and trade surpluses during the decade. (Table I-50.) Although imports tripled during the decade, they remained small in relation to exports in 1970. Moreover, it is significant that over two-thirds of total imports by instrument manufacturers came from unaffiliated firms indicating, the absence of any causal connections between foreign investments and the increased volume of imports.

Contribution to U. S. Balance of Payments

The total balance of payment inflows attributable to the non-trade transactions of survey respondents in the instruments and related products industry increased nearly ten-fold from 1960 to 1970. (Table 39) After taking into account their cash outflows for new investments, the net contribution of the respondents' non-trade transactions to the U. S. balance of payments changed from a deficit of \$19 million in 1960 to a surplus of 43,000,000 in 1970. When the net cash inflows attributable to non-trade transactions are combined with the industry's rapidly growing merchandise trade surplus, the respondent's total positive contribution to the U. S. balance of payments increased more than five-fold from less than \$100 million in 1960 to over \$500 million in 1970.

Role of Technology Transfer

Three of the four respondents have licensed their technology to foreign producers and three have obtained technology from abroad. (Table 45) All but one of the respondents indicated that the exchange of technology has had a negligible impact on U. S. trade. The remaining firm, which had not licensed its technology to foreign producers, indicated that one of its major products embodying foreign technology "has come to dominate a number of foreign markets" largely as a result of further product improvements made by the respondent. Thus, in this instance, the transfer of technology has had a favorable impact on U. S. merchandise trade.

Apparent Effect of Foreign Investment on Domestic Investment, U. S. Exports and U. S. Imports

In the judgment of a majority of survey respondents, foreign investments have had a positive effect on U. S. exports and investment and have helped to curtail the growth in U. S. imports. Three firms indicated that foreign investments clearly had a beneficial effect on U. S. exports, while only one concluded that it may have realized some incremental increase in its exports if it had made no foreign investments. As one firm, which accounted for roughly half of the exports of the industry group stated:

"Our foreign investment is an extremely important factor in enabling us to meet the needs of customers in these markets and, hence, promote the sale of U.S. manufactured products."

As in the case of most other industries, the positive effect on domestic investment was attributed to the increased exports made possible by foreign direct investments.

The apparently paradoxical conclusion that foreign direct investments tend to reduce U. S. imports may require further elaboration. In the first place, exports by foreign affiliates to the U. S. market have been, and are likely to remain, inconsequential. More important, U.S. manufacturers have expressed the view that engaging foreign competitors in their home markets has tended to reduce both the desire and the ability of those foreign manufacturers to meet the needs and demands of the U. S. market. (It must be recognized, of course, that, in some instances, entry into a foreign market might elicit the opposite response from indigenous competitors.)

Summary

The instruments and related products industry had compiled an extraordinary record of economic growth both in the United States and abroad during the 1960's. Although the international activities of instrument manufacturers increased more rapidly than those of any other industry group, the industry also realized a more rapid rate of growth in its domestic sales, employment, investment, and exports than any other group included in the survey. The information (both qualitative

and quantitative) provided by the survey respondents strongly indicates that, on balance, foreign investments had a positive effect upon the level of domestic economic activity of the industry.

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INSTRUMENTS AND RELATED PRODUCTS INDUSTRY
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	710.9	2065.9	23.8
Canada	20.2	109.5	40.3
Other Western Hemisphere	1.0	7.0	48.6
Western Europe	159.6	889.3	40.0
Far East	1.0	9.0	55.3
Rest of the World	20.6	61.5	24.4
Non Allocable**	-	-	-
Total, Outside United States	202.4	1076.3	39.7
Total, Outside United States (except Canada)	182.2	966.8	39.6

Percentage Distribution of Capital Expenditures
Outside The United States

	<u>1961-65</u>	<u>1966-70</u>
Canada	10.0	10.2
Other Western Hemisphere	.5	.7
Western Europe	78.9	82.6
Far East	.5	.8
Rest of the World	10.1	5.7
Non Allocable**	-	-
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

**INSTRUMENTS AND RELATED PRODUCTS INDUSTRY: PERCENTAGE DISTRIBUTION
OF SALES BY FOREIGN AFFILIATES, 1960, 1965 and 1970.**

Sales by Area and Destination.	Value of Sales			Percentage Distribution of Sales		
	<u>1960</u> (million dollars)	<u>1965</u>	<u>1970</u>	<u>1960</u>	<u>1965</u> (percent)	<u>1970</u>
All Foreign Affiliates:						
Total Sales	376.6	852.7	2323.3	100.0	100.0	100.0
Local Sales	372.7	845.9	2298.5	99.0	99.2	98.9
Export Sales to U.S.	3.9	6.8	24.8	1.0	0.8	1.1
Export Sales to Other Countries	-	-	-	-	-	-
Canadian Foreign Affiliates:						
Total Sales	25.0	59.0	153.0	100.0	100.0	100.0
Local Sales	25.0	59.0	153.0	100.0	100.0	100.0
Export Sales to U.S.	-	-	-	-	-	-
Export Sales to Other Countries	-	-	-	-	-	-
Foreign Affiliates, except Canadian:						
Total Sales	351.6	793.7	2170.3	100.0	100.0	100.0
Local Sales	347.7	786.9	2145.5	98.9	99.1	98.9
Export Sales to U.S.	3.9	6.8	24.8	1.1	0.9	1.1
Export Sales to Other Countries	-	-	-	-	-	-

INSTRUMENTS AND RELATED PRODUCTS INDUSTRY
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS; 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	1960	1965	1970	1960-65	1965-70	1960-70
U. S. Sales	1430.8	2590.5	4905.7	12.6	13.6	13.1
Exports to Foreign affiliates	84.4	212.0	459.1	20.2	16.7	18.5
Purchases by affiliates from other U. S. firms	-	1.0	2.0		14.9	-
Subtotal, exports to affiliates	84.4	213.0	461.1	20.3	16.7	18.5
Exports to unaffiliated firms	57.8	69.3	102.6	3.7	8.2	5.9
TOTAL, EXPORTS	142.2	282.3	563.7	14.7	14.8	14.8
Imports from Affiliates	3.9	6.8	26.8	11.8	31.6	21.3
Sales by affiliates to other U. S. producers	-	-	-	-	-	-
Subtotal, imports from affiliates	3.9	6.8	26.8	11.8	31.6	21.3
Imports from unaffiliated firms	21.4	33.2	58.4	9.2	12.0	10.6
TOTAL, IMPORTS	25.3	40.0	85.2	9.6	16.3	12.9
Merchandise Trade Balance:						
Based on transactions involving affiliates	80.5	206.2	434.3	20.7	16.1	18.4
Based on transactions with unaffiliated firms	36.4	36.1	44.2	-0.1	4.1	2.0
TOTAL	116.9	242.3	478.5	15.7	14.6	15.1
RATIO OF:						
Imports from affiliates to U. S. sales	0.3%	0.3%	0.6%			
Total imports to U. S. sales	1.8%	1.5%	1.7%			
Exports to affiliates to U. S. sales	5.9%	8.2%	9.4%			
Total exports to U. S. sales	9.9%	10.9%	11.5%			
Exports to affiliates to total exports	59.4%	75.1%	81.4%			
Imports from affiliates to total imports	15.4%	17.0%	31.4%			

Source: ECAT Survey

Table I-51

INSTRUMENTS AND RELATED PRODUCTS INDUSTRY
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses			Other Factors	Total, All Responses
		Investment Regulat- ions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages		
<u>All Areas:</u>						
1 (most)	5	-	14	-	-	19
2	11	3	-	5	-	19
3	3	9	-	2	-	14
4	-	-	-	7	-	7
5 (least)	-	-	-	-	-	-
Negligible	-	7	5	5	-	17
Total Responses	19	19	19	19	-	76
<u>Canada:</u>						
1 (most)	1	-	3	-	-	4
2	2	1	-	1	-	4
3	1	1	-	1	-	3
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	-	2	1	1	-	4
Total Responses	4	4	4	4	-	16
<u>W. Hemisphere:</u>						
1 (most)	1	-	3	-	-	4
2	2	1	-	1	-	4
3	1	2	-	-	-	3
4	-	-	-	2	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	1	1	1	-	3
Total Responses	4	4	4	4	-	16
<u>W. Europe:</u>						
1 (most)	1	-	3	-	-	4
2	3	-	-	1	-	4
3	-	2	-	1	-	3
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	-	2	1	1	-	4
Total Responses	4	4	4	4	-	16
<u>Far East:</u>						
1 (most)	1	-	3	-	-	4
2	2	1	-	1	-	4
3	1	2	-	-	-	3
4	-	-	-	2	-	2
5 (least)	-	-	-	-	-	-
Negligible	-	1	1	1	-	3
Total Responses	4	4	4	4	-	16
<u>Rest of World:</u>						
1 (most)	1	-	2	-	-	3
2	2	-	-	1	-	3
3	-	2	-	-	-	2
4	-	-	-	1	-	1
5 (least)	-	-	-	-	-	-
Negligible	-	1	1	1	-	3
Total Responses	3	3	3	3	-	12

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-52

INSTRUMENTS AND RELATED PRODUCTS INDUSTRY
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of <u>Importance</u>	<u>Percentage Distribution of Responses</u>					<u>Total, All Responses</u>
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	26	0	74	0	0	100
2	58	16	0	26	0	100
3	21	64	0	14	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	41	29	29	0	100
<u>Canada:</u>						
1 (most)	25	0	75	0	0	100
2	50	25	0	25	0	100
3	33	33	0	33	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	50	25	25	0	100
<u>W. Hemisphere:</u>						
1 (most)	25	0	75	0	0	100
2	50	25	0	25	0	100
3	33	67	0	0	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	33	33	33	0	100
<u>W. Europe:</u>						
1 (most)	25	0	75	0	0	100
2	75	0	0	25	0	100
3	0	67	0	33	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	50	25	25	0	100
<u>Far East:</u>						
1 (most)	25	0	75	0	0	100
2	50	25	0	25	0	100
3	33	67	0	0	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	33	33	33	0	100
<u>Rest of World:</u>						
1 (most)	33	0	67	0	0	100
2	67	0	0	33	0	100
3	0	100	0	0	0	100
4	0	0	0	100	0	100
5 (least)	0	0	0	0	0	100
Negligible	0	33	33	33	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey

MISCELLANEOUS MANUFACTURING INDUSTRIES

Introduction

This industry group includes data on seven companies engaged in the production of a broad range of manufactured goods. Aggregate sales of these companies amounted to over \$8 billion in 1970. Three of the seven respondents were primarily engaged in the manufacture of rubber products while the activities of the other four firms included the production of athletic goods, non-metallic mineral products, tobacco products and publishing. Because of the heterogeneous character of the respondents, there is little to be gained by comparative-type analysis. The major trends reported by the survey respondents are summarized briefly below:

1. Cumulative expenditures for plant and equipment both in the United States and abroad were approximately doubled from 1961-65 to 1966-70. The ratio of foreign to domestic investment was in the range of 40-45 percent during both periods (Table 6). The three respondents in the rubber industry accounted for a large proportion of both foreign and domestic capital expenditures reported by this industry group.

2. Domestic sales of the survey respondents increased at the annual rate of 5.5 percent from 1960 to 1970 while corresponding foreign affiliates sales rose by 9.8 percent per year. (Table 18.) The preponderant part (over 80 percent) of total

sales by foreign affiliates were in local markets while only about 3 percent of such sales represented exports to the United States.

3. From 1960 to 1970, domestic employment of the survey respondents increased at a somewhat faster rate than their foreign employment. (Table 12.)

4. Exports of the survey respondents increased more rapidly than their imports from 1960 to 1970, making possible an increase of about \$30 million in their merchandise trade surplus. (Table 31.) Six of the seven respondents in the group reported merchandise trade surpluses (two reported no imports) while the seventh reported a small trade deficit attributable entirely to imports of raw materials which were not available in the United States.

5. Balance of payments inflows attributable to non-trade international financial transactions increased from \$14 million in 1960 to \$68 million in 1970. (Table 39.) Their total net contribution to the U. S. balance of payments amounted to \$272 million in 1970, an increase of 47 percent over that in 1960. (Table 41.)

6. The qualitative responses of the survey participants suggest the conclusion that their foreign investments have had relatively little effect on their level of domestic investments. (Table 42.) Similarly, the effect of foreign investments on imports and exports appears, on balance, to have been neutral.

7. All of the survey respondents have licensed their technology to foreign manufacturers while five have been the recipients of foreign technology. (Table 45.) In only one case did the survey respondents report any significant trade effects arising from the exchange of technology. In that case, the respondents indicate that the importation of production technology involving the radial tire, a European innovation, and subsequent U. S. improvements in the imported technology, have contributed materially to reducing U. S. tire imports.

Summary

Survey respondents in this residual category reported a healthy growth in their domestic sales, investment, employment, and exports in the 1960's. Although the majority of survey participants come from industries recording merchandise trade deficits (SIC Groups such as 30, 32, and 39), the international activities of the respondents have made a growing positive contribution to the U. S. balance of trade and U. S. balance of payments.

MISCELLANEOUS MANUFACTURING INDUSTRIES
U. S. SALES, EXPORTS, IMPORTS, MERCHANDISE TRADE BALANCE
AND SELECTED ECONOMIC RATIOS: 1960, 1965 and 1970.

	(Values in Millions of Dollars)			Average Annual Change		
	<u>1960</u>	<u>1965</u>	<u>1970</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1960-70</u>
U. S. Sales	4,746.0	6,123.0	8,112.7	5.2	5.8	5.5
Merchandise Exports	228.7	300.5	374.1	5.6	4.5	5.1
Merchandise Imports	57.9	95.2	170.8	10.5	12.4	11.4
Merchandise Trade Balance	170.8	205.3	203.3	3.8	-0.2	1.8
 Ratio of:						
Imports to U. S. Sales	1.2%	1.6%	2.1%			
Exports to U. S. Sales	4.8%	4.9%	4.6%			

SOURCE: ECAT Survey

MISCELLANEOUS MANUFACTURING INDUSTRIES
CAPITAL EXPENDITURES BY U.S. MULTINATIONAL FIRMS AND THEIR
FOREIGN AFFILIATES BY GEOGRAPHIC AREA, 1961-65 AND 1966-70

<u>Area</u>	(Value in Millions of Dollars)		Average Annual Change <u>1961/65 to 1966/70</u>
	Cumulative Expenditures for Plant and Equipment*		
	<u>1961-65</u>	<u>1966-70</u>	
United States	1,075.4	2,121.3	14.6
Canada	59.0	150.7	20.7
Other Western Hemisphere	67.0	136.4	15.3
Western Europe	168.0	326.8	14.2
Far East	72.0	114.4	9.7
Rest of the World	85.9	219.7	20.7
Non Allocable**	--	--	--
Total, Outside United States	451.9	948.0	16.0
Total, Outside United States (except Canada)	392.9	797.3	15.2

**Percentage Distribution of Capital Expenditures
Outside The United States**

	<u>1961-65</u>	<u>1966-70</u>
Canada	13.1	15.9
Other Western Hemisphere	14.8	14.4
Western Europe	37.2	34.5
Far East	15.9	12.0
Rest of the World	19.0	23.2
Non Allocable**	--	--
Total, Outside United States	100.0	100.0

* Exclusive of that obtained through acquisitions.

** Includes data for companies which were unable to provide a geographic breakdown of their foreign capital expenditures.

Source: ECAT Survey

MISCELLANEOUS MANUFACTURING INDUSTRIES SALES
BY FOREIGN AFFILIATES, 1960, 1965, and 1970 ^{1/}
(In Millions of Dollars)

1960	\$ 1,102.0
1965	1,654.4
1970	2,807.3

^{1/} Detailed data on the distribution of foreign affiliate sales by origin and destination cannot be shown without disclosing the operations of individual companies.

SOURCE: ECAT Survey

Table I-56

MISCELLANEOUS MANUFACTURING INDUSTRIES
RANKING OF MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS,
BY GEOGRAPHIC AREA

Ranking in Order of Importance	Trade Res- trictions *	Number of Responses				Other Factors	Total, All Responses
		Investment Regula- tions (e.g. local content regulations)	Market ** Demands	Labor Cost Advantages			
<u>All Areas:</u>							
1 (most)	3	1	12	4	5	25	
2	11	9	5	5	5	35	
3	9	2	2	13	-	26	
4	1	5	3	2	2	13	
5 (least)	-	5	1	-	1	7	
Negligible	-	2	1	-	-	3	
Total Responses	24	24	24	24	13	109	
<u>Canada:</u>							
1 (most)	1	-	3	-	1	5	
2	2	2	-	2	1	7	
3	2	-	1	2	-	5	
4	-	1	-	1	-	2	
5 (least)	-	1	-	-	-	1	
Negligible	-	1	1	-	-	2	
Total Responses	5	5	5	5	2	22	
<u>W. Hemisphere:</u>							
1 (most)	1	-	2	1	1	5	
2	3	2	2	-	-	7	
3	1	1	-	4	-	6	
4	-	1	1	-	1	3	
5 (least)	-	1	-	-	-	1	
Negligible	-	-	-	-	-	-	
Total Responses	5	5	5	5	2	22	
<u>W. Europe:</u>							
1 (most)	-	-	3	1	1	5	
2	2	2	1	1	1	7	
3	3	-	-	3	-	6	
4	-	1	1	-	1	3	
5 (least)	-	1	-	-	-	1	
Negligible	-	1	-	-	-	1	
Total Responses	5	5	5	5	3	23	
<u>W. Hemisphere East:</u>							
1 (most)	-	1	2	1	1	5	
2	2	1	1	1	1	6	
3	2	-	-	2	-	4	
4	-	1	-	-	-	1	
5 (least)	-	1	1	-	1	3	
Negligible	-	-	-	-	-	-	
Total Responses	4	4	4	4	3	19	
<u>Rest of World:</u>							
1 (most)	1	-	2	1	1	5	
2	2	2	1	1	2	8	
3	1	1	1	2	-	5	
4	1	1	1	1	-	4	
5 (least)	-	1	-	-	-	1	
Negligible	-	-	-	-	-	-	
Total Responses	5	5	5	5	3	23	

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Table I-57

MISCELLANEOUS MANUFACTURING INDUSTRIES
MAJOR DETERMINANTS OF FOREIGN INVESTMENT DECISIONS
RANKED IN ORDER OF SIGNIFICANCE, BY GEOGRAPHIC AREA

Ranking in Order of Importance	<u>Percentage Distribution of Responses</u>					Total, All Responses
	<u>Trade Restrictions*</u>	<u>Investment Regula- tions (e.g. local content regulations)</u>	<u>Market ** Demands</u>	<u>Labor Cost Advantages</u>	<u>Other Factors</u>	
<u>All Areas:</u>						
1 (most)	12	4	48	16	20	100
2	31	26	14	14	14	100
3	35	8	8	50	0	100
4	8	38	23	15	15	100
5 (least)	0	71	14	0	14	100
Negligible	0	67	33	0	0	100
<u>Canada:</u>						
1 (most)	20	0	60	0	20	100
2	29	29	0	29	14	100
3	40	0	20	40	0	100
4	0	50	0	50	0	100
5 (least)	0	100	0	0	0	100
Negligible	0	50	50	0	0	100
<u>W. Hemisphere:</u>						
1 (most)	20	0	40	20	20	100
2	43	29	29	0	0	100
3	17	17	0	67	0	100
4	0	33	33	0	33	100
5 (least)	0	100	0	0	0	100
Negligible	0	0	0	0	0	100
<u>W. Europe:</u>						
1 (most)	0	0	60	20	20	100
2	29	29	14	14	14	199
3	50	0	0	50	0	100
4	0	33	33	0	33	100
5 (least)	0	100	0	0	0	100
Negligible	0	100	0	0	0	100
<u>Far East:</u>						
1 (most)	0	20	40	20	20	100
2	33	17	17	17	17	100
3	50	0	0	50	0	100
4	0	100	0	0	0	100
5 (least)	0	33	33	0	33	100
Negligible	0	0	0	0	0	100
<u>Rest of World:</u>						
1 (most)	20	0	40	20	20	100
2	25	25	13	13	25	100
3	20	20	20	40	0	100
4	25	25	25	25	0	100
5 (least)	0	100	0	0	0	100
Negligible	0	0	0	0	0	100

* Includes tariffs, quotas, and other nontariff barriers to trade.

** Includes major differences between domestic and foreign product specifications, product perishability, and service and distribution requirements.

Source: ECAT Survey