

### PART III

## THE ROLE OF PRIVATE FOREIGN INVESTMENT IN ECONOMIC DEVELOPMENT

(By Raymond F. Mikesell)

### A. CONTRIBUTION TO ECONOMIC DEVELOPMENT

As has been the case with past administrations, President Kennedy's new AID program rightly stresses the importance of the role of U.S. private investment in the economic growth of developing countries. In recent years Government capital flow from the United States to the poorer countries of the world has been somewhat larger than private capital outflow. However for other members of DAG, total private capital flow to the less-developed countries has been nearly as large as official capital outflow. (See pt. II, table 1.) But more important than the volume of private capital outflow is the fact that private capital is accompanied by technical and managerial skills and entrepreneurial activities which are of the greatest importance in mobilizing the human and material resources of the less-developed countries for greater output. Thus in terms of the overall effectiveness of external assistance in increasing output of the less-developed countries, a private dollar in the form of direct private investment may be several times more effective than a public dollar. However, this is not to argue that all external capital flows to the less-developed countries should be in the form of private investment. There are many fields in which foreign private capital is either not interested or, as in the case of most social development projects, private capital investment would not be appropriate. Moreover, for one reason or another, many industries in less-developed countries, such as public power and railroad transportation, are operated by government. Thus, in most situations it is not a question of either private or public capital for maximizing growth and social progress in developing countries, but of providing the largest volume of both in their appropriate fields, which can be productively employed for achieving development goals.

#### *1. Pattern of U.S. foreign investment flow*

During the postwar period, 1946-60, total book value of U.S. direct investment abroad rose by \$27.5 billion of which \$15.6 billion represented increased investment in the relatively high-income countries, and \$8.5 billion in the low-income countries. (Relatively high-income countries include Canada, Western Europe, Japan, and Oceania—see table 1.) The remainder was accounted for by international shipping. Of the \$8.5 billion increase in U.S. investment in low-income countries, Latin America accounted for \$6.3 billion during the 1946-60 period. There was an increase of about a billion dollars