

affiliates in the less developed countries. Nevertheless, we shall seek to deal specifically with the impact of U.S. private investment in the developing countries under the assumption that the investment is made directly by firms located in the United States.

As was pointed out above, the bulk of our investment in the developing countries in the past has been in the extractive industries and this is particularly true for countries outside of Latin America. Although many of the minerals produced abroad are competitive with U.S. products, the United States is a net importer of most of them and will be increasingly so in the future. A portion of the petroleum, copper, lead, zinc, and other commodities produced by American enterprise operating in the developing countries is sold on world markets, mainly to Western Europe. From the standpoint of the overall foreign economic interest of the United States as well as from the standpoint of the economic and security interests of the free world generally, it would be a very short-sighted policy to deter, or even to fail to provide reasonable encouragement to, the flow of U.S. investment into the extractive industries in the developing countries. This is true even in times of temporary surpluses, since we know that the long-run demand for petroleum and for most minerals is bound to increase and it is necessary to carry on continual exploration and development of these basic resources if long-run supplies are to keep pace with demand. In addition, we never know when political developments, such as occurred in Cuba (which cut off our supply of nickel from that country), may reduce our ability to obtain supplies of petroleum or other minerals from certain areas. Thus from the standpoint of free world security interests, widely dispersed sources of supplies of fuels and of basic raw materials are quite important.

1. Effects on U.S. exports of manufactures to the developing countries

However, it is not in the field of raw materials production that special inducements to private capital are needed; it is mainly in manufactures and to some extent in the processing of raw materials produced in the less developed countries, both for local use and for export. As was pointed out in part II of this study, developing countries need to diversify their economies and to industrialize, both as a means of providing increased employment and output, and as a means of limiting their demand for imports in some areas in order to release foreign exchange for expanding their imports of capital goods and specialized commodities and services not yet produced domestically, and for making foreign investment and debt service payments. As countries develop, the pattern of their imports inevitably changes, but the total volume of their imports continues to rise and must indeed do so if a constant rate of economic progress is to be maintained. There are few, if any, examples of countries with free enterprise economies that have been able to maintain reasonable rates of growth over long periods of time while their imports have stagnated.

A substantial proportion of the direct private capital flow from the United States to both developed and underdeveloped areas takes the form of exports of capital equipment and other commodities and services from the United States. This is indicated by table 2 which shows transactions of U.S. direct investment enterprises abroad with