the United States. In fact, excluding transactions with U.S.-owned trading companies abroad, in 1957 total U.S. direct investment capital outflow from the United States was $2,482 million while U.S. exports of capital equipment and other goods to U.S. enterprises abroad totaled $2,629 million. In the case of U.S. manufacturing enterprises abroad, imports from the United States by these concerns totaled nearly 2½ times the value of capital outflow in 1957, and U.S. exports to U.S. manufacturing enterprises abroad also exceeded U.S. imports from these enterprises in 1957. (See table 2.)

Of course, U.S. firms investing abroad in less-developed countries are free to purchase capital equipment and other needed commodities from whatever source they choose; and where U.S. machinery and other goods are not competitive, they may buy in Britain, or Germany, or elsewhere. However, U.S. firms operating in an underdeveloped country are, by and large, more likely to make purchases in the United States than are German or other European firms which make investments in the same country. This is because U.S. firms are more familiar with American products, and in many cases the U.S. parent companies are producers of the equipment or components of products required by their affiliates abroad.

In the case of many developing countries with expanding markets, there is increasing competition among U.S. and other foreign firms for selling in these markets; and as these countries industrialize, products currently imported will sooner or later be produced in the developing countries themselves. Thus in many cases U.S. firms must produce abroad in order to maintain their markets in competition with the products of other countries. It is not simply a matter of the U.S. firm deliberately deciding to produce abroad at lower cost as against exporting the products of American labor.

In those cases where the U.S. AID authorities deem it desirable to provide special incentives for U.S. firms to invest abroad, either in the form of all-risk guarantees or by providing a large proportion of the capital in the loans, the Government is usually providing an opportunity for a type of investment which is of strategic importance to the developing economy. Of course, the U.S. Government could supply these commodities directly as a part of the AID program, but the purpose of a development assistance program is to enable a country to become self-sustaining. Moreover, it may represent a much more economical use of resources for the United States to encourage U.S. private investment to expand output of a particular commodity than for a local firm, or perhaps the foreign government itself, to undertake the job. In addition, our own economy is likely to benefit more from having a U.S. firm undertake to produce a particular product in a developing country than would be the case if it were produced by, say, a European enterprise. In any case, because of the low purchasing power of the developing countries, the choice is again not between exports and investment, even though foreign investment inevitably changes somewhat the pattern of our export trade.

2. Expansion of exports by the developing countries

Developing countries are having to turn increasingly to producing manufactures, not simply for their domestic requirements, but also for exports to world markets, including the United States. This again is an inevitable consequence of economic growth as countries move to