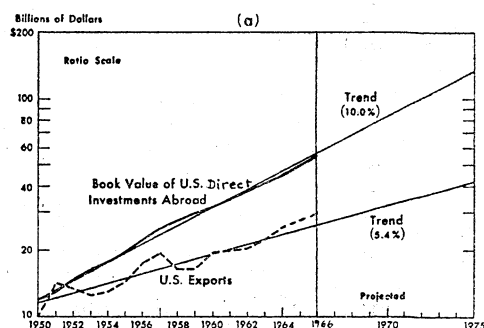
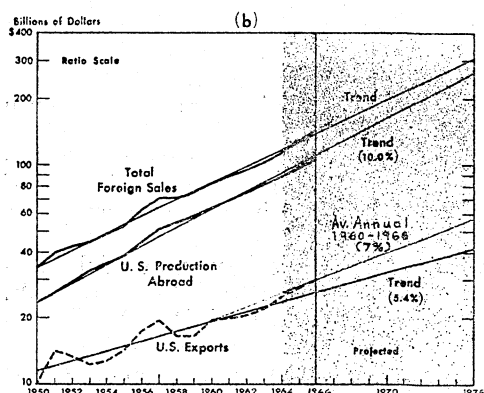


THE U.S. RESPONSE TO FOREIGN MARKET DEMAND



The graph at left generalizes the comparison of exports to sales of output from production abroad, the latter as estimated above (first graph). In 1950 the estimated U.S. sales of goods produced locally abroad were 2:1 over exports—a difference of \$13 billion. After 14 years of vigorous export growth, the difference was \$64 billion, the ratio 4:1.



The positive effect of investment on exports, which producers abroad commonly report they "see" in their own operations, is strongly suggested in the area growth-rate profiles:

	% Av. Annual Growth 1950-1966	
	Invsmnt	Exports
Europe	15	8
Canada	10	8
Lat. Am.	5	3
Other	11	8

Note: Trends shown are least square trends calculated for the period 1950 - 1964. Investment, exports and inferred foreign sales data for 1966 have been estimated and added to the actual performance lines. Similarly, a terminal-year average rate of growth (7%) has been calculated on the basis of the 1960 and 1966 figures, and is shown as being a further useful indication of the prevailing trend.

parallel growth, when coupled to the fact of the overriding quantitative importance which the high level of U.S. investment since World War II has given to production from facilities located abroad, constitutes a fact of utmost importance for United States foreign economic policy. For example, as against our present tendency to discourage investment and encourage exports in the thought that this realignment of delivery methods will have a beneficial effect on our net foreign exchange position, there stands the powerful inference from export and production trends that investment is a major stimulant to exports. Furthermore, detailed work with both national and company statistics suggests that the defense and extension of a sales position achieved through exports will require continuing investment.

Balance-of-payments accounting is trade oriented and largely neglects the economic impact of our foreign investment as the major channel through which U.S. producers operate in foreign markets. The investment shown in the accompanying graphs is limited to so-called direct investment; this is investment in which U.S. business has, by definition, at least a 10-percent equity, and has, in actual fact, outright