control in the great majority of instances. The growth in investment includes new dollar capital outflow, which appears in the balance of payments, and retained earnings—which do not, but which are followed and published by the Department of Commerce. In the typical instance of investment, these two sources of financing are of roughly equal importance. But more important in evaluating the local impact of investment is a quantification of the value of product to be associated with the expanded productive facilities. From data now available on, for example, the value of sales by U.S. manufacturing subsidiaries abroad, a reasonable rule of thumb ratio of 2 to 1 can be derived for output to book value. From this, the implication of these figures is that gains in U.S.-initiated output abroad for, say, Europe grew from $6 billion in 1950—against U.S. exports of roughly half that amount—to some $32 billion in 1966—against exports of $10 billion, or less than a third. Moreover, at this level of local output from U.S. investment, a substantial tendency for an increase in local imports—perhaps $1½ billion—may reasonably be inferred as the import share of the increase in local income, and supplementary to imports directly associated with the capital increase, notably capital equipment. In the case of the less-developed countries this tendency to import more as income rises contributes to the chronic foreign exchange shortages with which most of them grapple, and is curtailed by familiar import and exchange restrictions.

The basic income-import relationships have been more fully explored in the National Industrial Conference Board's report, "U.S. Production Abroad and the Balance of Payments" (1966). The recapitulation here is intended to show the extent to which local production abroad has outdistanced exports as a means of delivering goods to foreign markets, and how the gains in local production, so vital to the basic process of development, have been compatible with regular growth in traditional deliveries via exports.

Does Production Abroad Displace Exports?

The answer to this question appears to be clearly "Yes" for specific products, but for total exports, clearly "No" and for products in the same general industrial classification, probably "No." It is a commonplace of policy in less-developed countries to interdict imports in favor of programs of local production.[2] The Mexican industrialization program is a nearby familiar example. A familiar response of U.S. companies to such programs has been to set up local production facilities, where cost-profit-risk factors warrant. In such cases, the alternative export of equipment, raw materials, and even other related finished products more than offsets the loss of the original product export.

In other cases, relative cost considerations lead to production aboard. In still other cases, and these are the most frequent, the marketing advantages obtainable only through the maintenance of a local foreign establishment prompt the decision. The many motivations of foreign investment, and the primacy of marketing considerations among them,

[2] Europe in the days of postwar reconstruction similiarly restricted imports for consumption and favored imports for production.