

(3) Specifically, in regard to the commodity trade balance, we recommend accelerated efforts to reduce existing quantitative and tax barriers to expansion of U.S. exports. This is an area that has been relatively neglected in previous trade negotiations. Particular attention should be given to the trade-restrictive effects of state trading enterprises and other non-conventional types of quantitative controls.

These recommendations deal with the fundamental causes of the balance of payments' deficit rather than with its symptoms as do direct controls. Only action along these lines can reduce the deficit. Trade and investment restrictions are contrary to the foreign trade policies we have followed in the past and can do irreparable harm to the U.S. balance of payments and American industry abroad.

MANDATORY INVESTMENT PROGRAM

As we indicated in our statement to the Trade Information Committee, the Mandatory Investment Program is particularly inimical to the interests of this country. The program was imposed as an expedient in the hopes of some short-term gains to the balance of payments. These gains, if any, are far outweighed by the longer-term harm to the country's international payments' balance and to the position of American industry abroad.

As is commonly known, direct investments abroad return substantial funds to the United States far in excess of the capital outflow for such investments. This has been true for every year during the entire post-war period. In 1967, for which data have recently been released, the capital outflow totaled \$2.7 billion (excluding \$290 million of funds obtained abroad), while dividends, profits, fees and royalties remitted to the United States by direct investors increased to \$5.6 billion, more than twice the outflow. This is an outstanding performance by any standard, but it would not have been possible had mandatory restrictions on capital outflow been in effect for an extended period in the past. By their continuation, we face the risk of a slow-up in American business expansion abroad, the loss of markets to foreign competitors, and even ability to replace and modernize existing investments. These prospective developments would soon begin to reduce the substantial benefits that direct investment now contributes to the balance of payments.

Many in the federal government recognize these facts, but are willing to take the risk in restricting capital outflow for a short-term benefit. The thought that the current substantial return flow of dividends and royalties to the United States will not be adversely affected by reducing capital outflows for a few years overlooks two factors. One is the very short balance-of-payments payback of direct foreign investment. For example, U.S. petroleum investments abroad, as discussed further in Texaco's statement to the Trade Information Committee, have on average a payback of three years or less in terms of benefits to the balance of payments. Secondly, there is a strong possibility of retaliatory action against the United States. Already many foreign countries have indicated growing concern about the effects of U.S. investment controls upon their economies and have threatened to take countermeasures. The consequence would be a reduction of U.S. trade. In view of these factors, the risk of continuing the Mandatory Investment Program for a possible short-term gain is shortsighted. The country cannot afford to run such a risk, particularly since there is no doubt that the U.S. balance of payments will be seriously damaged in the longer term. The continuation of the Mandatory Investment Program will also hamper the ability of American industry abroad despite increasing resort to foreign borrowing. We cannot regard such a development with complacency as American overseas investments strengthen the U.S. political and strategic position in many foreign areas.

CONCLUSIONS

The United States is at a crossroads in regard to its foreign commercial policy. Decisions taken now will substantially contribute to the shaping of the future of the world economy. The country must decide whether to continue to move forward in reducing trade and investment barriers, or return to a period of more restrictive trade practices. While we do not want to minimize the seriousness of the balance of payments' problem, we believe that continuation of the Mandatory Investment Program will not help, but instead harm, our payments position. We urge again that the program be rapidly phased out. The correction of the deficit can be accomplished by other means consistent with maintaining a world trading environment that encourages trade and investment. This is in the best interests of the United States and its free world allies.