

Code retain, on a limited basis, some of the benefits of these foreign sales companies. The rules under which export trade companies qualify for these benefits should be simplified and liberalized in order to make these companies real incentives for additional exports.

If the proposed changes in the GATT rules could be negotiated to enable member countries to allow rebates or reductions in direct taxes on exports, several other tax incentives for exports would be available. These might include extending the Western Hemisphere trade corporation rates to companies dealing in other parts of the world. They could also include additional investment allowances or depreciation on capital equipment used in producing goods for export or allowing companies engaged in export activities to expense more than 100 percent of their actual costs incurred in promoting exports.

G. Foreign Investments as Force for Growth

The rapid growth of international investment has been one of the most dynamic forces at work in developing the world's economy in the two decades following World War II. It has opened up new fields of production, employment, and income. It has increased the flow of technology and trade. It has enhanced the wealth of nations and the prospects for a more durable peace. The United States has been the leader in international investment—particularly the chemical industry as referred to earlier.

Due to the persistent balance-of-payments deficit and the resultant drain on the nation's gold reserves, American companies were asked in 1965 to cooperate in a voluntary program of restraint in direct foreign investment. Nearly 700 companies including chemical companies voluntarily acted to curb the dollar outflow, modifying or postponing overseas projects, financing through foreign borrowing, and taking other measures to meet the short-term need of the United States in its efforts to balance its international accounts.

At the outset, the voluntary program was recognized and described as a stop-gap measure which would only temporarily interrupt the process of direct foreign investments which so successfully served the economic interests of the United States and its free world friends and trading partners. The flow-back income of U.S. subsidiaries and affiliates abroad exceeded \$4 billion, not including more than \$1 billion in royalties and fees, last year while the outflow, after deductions for foreign borrowing, amounted to \$2.9 billion. The positive contribution of direct foreign investment and the export growth it generates is one of the more significant factors in our international transactions. Faced with a worsening balance-of-payments problem, President Johnson announced, on January 1, 1968, a mandatory investment control program. This proves to be even more restrictive and contrary to the best interests of the U.S.

The beneficial force in foreign investment by U.S. companies has now been encumbered with restraints for three years. We urge a review of U.S. policy in this field with a view to ending the investment control program.

About 25 percent of all U.S. manufactured exports are shipped to overseas subsidiaries. The level of U.S. merchandise exports has closely followed the flow of direct foreign investments, conclusively indicating the relationship between export growth and capital investment abroad.

Curtailment of overseas expansion thus adversely affects our trade surplus as well as our competitive position in world markets. For competitive reasons or for reason of restrictive sovereign policies, it is necessary to operate production facilities within the borders of certain countries in order to gain or maintain access to markets. These plants are America's best overseas customer. Direct foreign investment benefits are exports through (1) shipment of capital goods, supplies, and components and (2) opening the door to other product lines.

American international investment exerts a powerful influence on the level and structure of world trade. Continued curtailment of foreign investment will tend to retard world growth and diminish our own prosperity and economic progress at home. U.S. foreign trade policy should therefore encourage direct foreign investment both as an instrument of world economic development and a positive long-term factor in the balance-of-payments.

VII. ROLE OF THE TARIFF COMMISSION

The U.S. Tariff Commission was created by the Congress to assist it in the exercise of Congress' power to regulate commerce with foreign nations. The Tariff Commission is an arm of the Congress, and one of its major functions is to investigate matters pertaining to foreign trade and their effect upon industry