

the repatriation of earnings, and, as a result, are more active, albeit reluctant, borrowers for working capital purposes.

All of this suggests that termination of capital controls in 1969 could result in a sharp increase in capital outflows and retained earnings—it is difficult to estimate the precise amount for much will depend upon market conditions and other factors, but there is a potential exposure of as much as \$3–\$4 billion. The outlook for 1969 does not permit taking the risk of that much additional direct investment hampering progress in our balance of payments program.

Basically, the 1969 Foreign Direct Investment Program will follow closely the format of this year's program. However, some additional leeway is needed (a) to provide additional flexibility for companies with limited or no overseas investment experience; (b) to make the Regulations more responsive to those companies whose investment quotas are unrealistically low in relation to the return flow of earnings from their direct investments; (c) to assure that the program does not unnecessarily inhibit the growth of inter-company exports of American goods and services to foreign affiliates; and (d) to enable the Office of Foreign Direct Investments to be more responsive to special industry problems and some of the inequities in the Regulations which have become apparent during 1968.

We recognize that just to maintain their existing overseas operations on a sound basis, companies must have the capability to retain abroad a certain percentage of their foreign earnings. Furthermore, retention of a portion of foreign earnings will be necessary to insure an orderly retirement of the growing debt being contracted abroad. We therefore recommended that the target level of direct investment be increased to insure that every company has, in 1969, an investment quota of at least 20 percent of its 1968 earnings from foreign direct investment. This change was announced on November 15.

Some adjustment in the target was also necessary to assure that United States companies have additional quotas to expand exports of goods and services through their foreign affiliates.

Further adjustments of the target were needed to make the Program more responsive to hardships arising from the application of the Regulations to special industries such as the international construction and transportation industries, whose operations and accounting procedures do not dovetail with the Regulations; to provide relief for companies whose ability to meet the repatriation requirements of the Regulations is restricted by law or lack of control; to encourage private investment of a developmental character in the less developed areas, and to provide companies with no or limited prior overseas investment experience with a somewhat higher level of permitted direct investment.