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STATEMENT MADE BY THE REPRESENTATIVE OF THE UNITED STATES, MR. JOHN KALMANOFF, ON FOREIGN INVESTMENT STUDIES

The United States Delegation shares the views expressed by several other Delegations that the Secretariat is to be commended for the preparation of these studies on foreign investments. With respect to the detailed content of the individual country studies, and with particular reference to the experiences of its investing nations in the countries concerned, the United States at this time would like to reserve its position with the thought of possibly making comments available to the Secretariat for consideration in connection with future revision or amplifications of the documents. In a general way, the United States Delegation would like to point out the desirability of the gathering by capital-importing countries in a periodic and systematic fashion of data on the amount, origin and nature of foreign investments, and in certain cases of clarifying their policies with respect to the investment of foreign capital. In this last connection, it appears to us very appropriate that, where necessary, actual procedures and practices be reviewed for conformity with laws and regulations appearing on the statute books. Such information of a statistical and policy nature both might well be made available to the Secretariat in a systematic fashion.

Because of the importance of foreign investments as a means of financing economic development, the United States Government believes that it would

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be desirable for the Secretariat to complete these studies so as to cover all the Latin American countries and to keep the studies up to date through revision and supplements. As indicated in connection with the studies already completed, it is desirable that they take account of actual administrative procedures and policies as well as of basic laws and regulations. To this end, governments should be urged to cooperate with the Secretariat by supplying information of the types mentioned earlier.

It may be of interest to the Commission to know that a similar program of work has been under way in the Economic Commission for Asia and the Far East. Furthermore, at a recent session of that Commission, it was resolved to be appropriate to request the United Nations Economic and Social Council to instruct the United Nations Secretariat to pursue studies regarding the legal measures and policies of capital-exporting countries affecting foreign investments by their nationals.

The United States Government believes it would be desirable for ECLA to associate itself with this request. In this connection, it may be noted that the United Nations Secretariat has already made a first step to this end. A section of Document E/1614 entitled "Survey of Policies Affecting Private Foreign Investments", prepared by the Secretariat in response to a directive of the Economic and Social Council contains a discussion of policies of the capital-exporting countries. As pointed out in that document, the United States is taking certain positive steps to encourage productive investment abroad by its nationals. Specific examples of these steps are the negotiation of Treaties of Friendship, Commerce and Economic Development such as the Treaty discussed by the Delegate of Uruguay; legislation which is before the present session of the United

States Congress authorizing the Export-Import Bank to guarantee United States private investments abroad in productive enterprises against certain risks peculiar to foreign investment, namely, the risk of inconvertibility of earnings received in local currencies and that of losses resulting from expropriation or nationalization; and the third example is the consideration being given by the Congress to certain proposals that would liberalize the application of United States tax legislation to the operations of individuals and firms abroad. These changes are designed to enlarge the area of credits against United States tax liabilities that can be claimed for taxes on income paid to foreign governments and to enable potential taxpayers to forego payment of taxes on income earned abroad until such time as the income is brought into the United States. It may be noted, in this connection, as pointed out by the Delegate of Uruguay, that under provisions of the United States Internal Revenue Code, foreign investors operating in this hemisphere are, under certain circumstances, subject to corporate income tax rates which are almost one-third less than the rates applicable to domestic or other foreign operations. Indeed, it is by no means clear that the incidence of United States taxation has been a determining factor in the minds of potential foreign investors.

As indicated in United Nations Document E/1614 referred to earlier, investigations of the subject conducted in our country indicate that United States taxes have little weight in the corporate investors' appraisal of foreign investment opportunities. That study points out that "in the United States and in most other countries which in the past have been important sources of foreign investments, present tax policies eliminate international double taxation, or mitigate its effects either by crediting

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the domestic taxpayer with the amount of taxes paid abroad as a unilateral undertaking or through bilateral treaties with capital-importing countries.... This is accomplished (unilaterally) by crediting the taxpayer for taxes paid abroad, thus eliminating double taxation to the extent that foreign tax liabilities so credited are equal to or less than the liabilities to the United States..... At least in the case of direct investments, the net effect of the United States system of foreign tax credits and special relief in certain cases is that only a minor proportion of the income abroad is absorbed by United States taxes."

The attitude of the United States Government towards the role of foreign investments in the financing of economic development has been stated in discussions of the United Nations and its appropriate specialized agencies and in meetings of the Organization of American States. Since certain comments of a general nature have been made on this issue by various delegations, the United States Delegation believes it appropriate to clarify and restate the position of its Government. In so doing, however, it wishes to call to the attention of the Commission that the United States Government and other governments are currently giving thorough study to a report by the Subcommittee on Economic Development of the United Nations Economic and Social Council embodying practical recommendations on the financing of economic development. This subject will be thoroughly discussed at the next session of the United Nations Economic and Social Council to take place in Geneva in July of this year.

The United States Government is of the belief that the bulk of the effort and financing for economic development must come from the peoples of the underdeveloped countries themselves. It recognizes, however, that

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domestic financing must be supplemented by international investment because the margin for savings is small and consequently the inflationary possibilities are great; indeed, in some cases the situations are fraught with a self-defeating element as a result of the lack of adequate fiscal measures.

Foreign investment proceeds of course through private and public channels. Private foreign capital is available through direct corporate investment as well as through the offering of foreign corporate securities to private investors, including bonds guaranteed by the International Bank for Reconstruction and Development. Funds for public investment are available through the International Bank and the Export-Import Bank. These are complementary, not competing, means of financing. Public capital is particularly appropriate for public works and certain other basic facilities required for development. Private capital, particularly in direct investments, can make a significant contribution in diverse activities, including those that require special techniques and management skills.

With respect to the development of basic facilities for which public capital appears to be most appropriate, the immediate need appears to the United States Government to be of assistance to countries in the formulation of development programs suited to their respective resources, needs, capacities, and abilities to service loans. In effect this is one of the important reasons for the technical assistance program which is now in the process of being expanded.

In connection with the recent activities of the International Bank, I should like to point out, as was indicated by the United States Delegate

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to the United Nations Economic and Social Council in March 1950, that the Bank authorized loans in 1949 amounting to almost 210 million dollars, of which 85 per cent was for under-developed areas. In 1948 the total loans authorized had been only 32 million dollars, of which 50 per cent had gone to under-developed areas. It would appear, then, that the reconstruction phase of the Bank's activities has been largely completed.

Parallel with this program of public investment, the United States Government believes that countries desiring the investments of private foreign capital, should examine their policies towards private foreign investment to the end of developing and consolidating cooperative programs that will provide assurance against exploitation on the one hand and against discriminatory and unjust treatment of investors on the other. The United States Government believes that the private capital market is potentially the major source of foreign funds for development if the conditions affecting investments are propitious. Private investors supply not only capital but managerial experience, technical knowledge and organizational talents. They train local labor simply as a part of efficient operation. The United States expects private investors to give due regard to the welfare of the persons dependent on their enterprises, to contribute their fair share of taxes to the local community, to conserve as well as to develop local resources, and to conduct their enterprises so that the investment will be of mutual benefit to the investor and to the recipient country;

Countries desiring such private foreign investment must make it generally known that they are areas where opportunities for profitable investment under fair circumstances exist. They must recognize that they
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are in competition with objects of investment for the potential supplier of capital both in other countries and in the domestic market of the investor; in the latter market conditions are very well known to him. The factors affecting private foreign investments in a given country which are foremost in the evaluating process of the potential investor have been indicated by the President of the United States Delegation in a general statement made before Committee I; it would be merely repetitious to introduce them once again here.

It is in the context of these considerations that the United States Government is of the opinion that the studies on foreign investments by the Secretariat should be amplified and completed, and that the member countries of this Commission should cooperate with the Secretariat to the end that the most complete information possible may be compiled on the economic and legal status of foreign investment in Latin America.