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FINANCING OF ECONOMIC DEVELOPMENT

THE INTERNATIONAL FLOW OF PRIVATE CAPITAL, 1953-1955

Report by the Secretary-General

56-16777

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FOREWORD

The General Assembly of the United Nations, on 11 December 1954, adopted resolution 824 (IX) on the International flow of private capital for the economic development of under-developed countries. This resolution contains recommendations to countries seeking to attract private foreign capital and to countries able to export such capital. In addition, it requests the Secretary-General to prepare an annual report on the international flow of private capital and its contribution to an expanding international economy, and on measures affecting such flow which have been taken by Governments or announced by them to be under consideration.

An interim report, prepared in 1955 in response to this resolution, was confined to a review of governmental measures affecting private foreign capital which were adopted from the beginning of 1953 to mid-1955.[1] In compliance with the resolution, Members of the United Nations and non-members participating in the regional economic commissions, as well as the International Bank for Reconstruction and Development, and the International Monetary Fund, were given an opportunity to supply information and suggestions concerning measures and policies affecting the international flow of capital; in the preparation of the interim report, account was taken of the material thus received.

Besides bringing up to date the principal information relating to policies and measures contained in the interim report of 1955, the present study supplies information on the international movement of private capital during the past few years. For comparative purposes, certain data are presented on the export of public capital, particularly to less developed areas.

The report may usefully be read in conjunction with an earlier study by the United Nations entitled The International Flow of Private Capital, 1946-1952 (sales number: 1954.II.D.1), issued in response to General Assembly resolution resolution 622 C (VII) of 21 December 1952. That report contains statistical information concerning international capital movements before 1953, as well as a discussion of the nature of the capital flow and the factors tending to limit it.

1/ Recent Governmental Measures Affecting the International Flow of Private Capital (E/2766, 2 June 1955; mimeographed). Information on measures adopted prior to 1953 is contained in several reports referred to in that study.

During the period under review in the present report, there has been an increasing use of tax measures, in both capital importing and capital exporting countries, designed to provide incentives to foreign investment. The taxation of foreign investment income has been the subject of several special studies pursuant to resolutions adopted by the General Assembly and the Economic and Social Council. A review of recent governmental action in this field is included in a separate report, "Taxation in Capital Exporting and Capital Importing Countries of Foreign Private Investment" (E/2865 and addenda, 23 May 1956; mimeographed), and details on the subject are therefore not contained in the present study.

Reference may be made here to the Economic and Social Council's resolution resolution 585 E (XX) of 23 July 1955, which requested the Secretary-General, among other things, to include in a future report on the international flow of capital certain information on the feasibility of financing housing programmes from external sources. It did not prove possible to include the information in question within the time available for the preparation of the present report.

EXPLANATORY NOTE

The following symbols have been used in the tables throughout the report:

Three dots (...) indicate that data are not available or are not separately reported

A dash (—) indicates that the amount is nil or negligible

Use of a hyphen (-) between dates representing years, e.g., 1950-1954, signifies the full period involved, including the beginning and end years.

"Dollars" or "$" indicate United States dollars, unless otherwise stated.

The term "billion" signifies a thousand million.

Details and percentages in tables do not necessarily add to totals because of rounding.

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Chapter 1

THE NATURE OF RECENT CAPITAL MOVEMENTS

The net outflow of long-term capital, owned by residents as well as non-residents, from all nations that export capital on balance may have aggregated about $2 billion annually (including reinvestment of profits) in recent years.[1] However, since many countries are both importers of foreign private capital and exporters of domestic (resident-owned) private capital, a more significant figure may be the aggregate net outflow of resident-owned private capital from all countries (whether capital exporting or importing, on balance). Such a figure would be substantially higher. The net export of such capital from the United States and the United Kingdom alone, in the period 1951-1955, appears to have been in the neighbourhood of $2.3 billion annually; inclusion of the net export of such capital from all other countries would raise the total well above this figure.

No precise figure for the total international flow of private capital can be given, however. The statistical information available on private capital movements is incomplete and does not provide a comprehensive picture. Reinvestment by foreign-owned or foreign-controlled companies of undistributed earnings is a principal source of additions to existing investment, and though reinvestment normally does not enter into international payments, it is recognized that, in a complete account of the foreign transactions of a given country, the earnings involved should be included as a current item and offset in the capital account as an addition to outstanding investments.[2] Figures for reinvestment are not always available, however. Further, business accounting procedures tend to blur

1/ For the purposes of the present study, private capital includes amounts placed by private investors, whether as loans or equity investment and, in the case of loans, whether the borrower is a private enterprise or a government. Attention is focused on long-term investments, traditionally counted as investments with a maturity of over twelve months. The available statistical information does not, however, always permit the segregation of long-term and short-term capital, or of public and private capital. Further, the granting of commercial credits of several years' duration has tended to blur the distinction between long-term and short-term investments. Unless otherwise indicated, the data presented include investment financed by reinvested earnings of enterprises overseas to the extent known.

2/ This principle has been adopted by the International Monetary Fund in its Balance of Payments Manual (Washington, D.C., 1950), but it is not always applied in the balance of payments accounts prepared by individual countries.

the distinction between gross and net investment and, particularly in the extractive industries, between capital outlays and current operating expenses. In several countries applying exchange control, there has been a clandestine export of capital, the amount of which cannot be ascertained. Finally, in spite of progress made in the recording of capital movements, classifications and methods of computation used by different countries are by no means identical.

In a previous study which reported private capital movements to 1952, it was suggested that the figure of $2 billion was similar to the annual capital outflow from capital exporting countries in the mid-nineteen twenties, and that in view of the considerable increase in the dollar prices of goods since then, private capital exports amounted, in real terms, to about half of those in the earlier period.[3]

Statistical comparisons of this kind cannot claim to be exact, and there are significant differences in the nature of the capital flow in the two periods. The export of private long-term capital was exceptionally high in the mid-nineteen twenties, in part because it was supported in some creditor countries by an inflow of short-term funds emanating largely from France, and in part because of the heavy demand for funds by Germany, at that time the world's largest borrower. Moreover, the nature of capital exports differed from that in the nineteen fifties - portfolio investments played a more important part, and direct investments were less important.

These considerations, however, cannot conceal the fact that during the past thirty years private capital exports have failed to keep pace with the quantum of international commodity trade, which has increased by something like three-fourths, and still less with world industrial production, the volume of which has in recent years been about two and a half times that of thirty years ago.[4] Similarly, the amount of private capital exported is smaller in proportion to domestic investment than it was in the nineteen twenties, whether in the capital exporting or the capital importing countries.[5] In fact, the great expansion since the war in

3/ International Flow of Private Capital, 1946-1952 (sales number: 1954.II.D.1).

4/ Excluding production in mainland China, eastern Europe and the Union of Soviet Socialist Republics.

5/ United States net private capital exports (excluding reinvested earnings of subsidiaries) averaged about $1 billion annually during the years 1950-1954, while annual gross private domestic capital formation was about $50 billion.

production and investment in the United States and western Europe has provided profitable domestic outlets for savings and thereby reduced the relative attraction of foreign investment.

While the outflow of private capital for portfolio investment has declined sharply since the nineteen twenties, particularly when measured in real terms, there is no doubt that the flow of capital for direct investment (including reinvested earnings) has increased. The annual growth of United States direct investments since the end of the war appears to have been considerably larger, in real terms, than in the peak period 1924-1928. This applies to capital flows both to the more developed countries as a group and to less developed areas. Further, despite the relatively small amount of private foreign capital absorbed by manufacturing in the less developed areas, the recent real volume of foreign investments in manufacturing in such areas, as a whole, has probably been above the level of the nineteen twenties. Foreign capital continues to be strongly attracted to extractive industries, however, and a high proportion of recent investments has been made in countries with plentiful mineral resources.

In less developed countries, in particular, the function formerly performed by foreign private portfolio investment has been taken over to a large extent by public capital in the form of loans or grants channelled through national agencies and the International Bank for Reconstruction and Development. The bulk of assistance in the form of grants has, however, been directed to a few countries, particularly in Asia and the Far East, and to dependencies of western European countries. In other areas, public capital has been made available mainly in the form of loans and credits, which have a closer resemblance to the portfolio investments of the past. The chief objective has been the development of power, transport and other facilities in the "public sector" of the economy. The quantitative importance of public loans and private investments from abroad has differed among the less developed areas. In Latin America, net disbursements of loans by the United States Export-Import Bank of Washington and the International Bank for Reconstruction and Development averaged about $100 million during the years 1954 and 1955; this is less than half the annual growth in the private investments of the United States alone in Latin America. In the less developed areas of Asia and the Far East, on the other hand, public loans have been of

greater importance than the inflow of private capital. In both regions there was, of course, wide variation in the relative size of public and private capital inflows among particular countries.

The border line between public and private capital is not always clearcut, and several types of association between the two, involving varying degrees of risk on the part of the private lender, have emerged. Bonds floated in the capital market of a few lending countries now cover a substantial proportion of the loan commitments of the International Bank for Reconstruction and Development. The Bank has also attracted private capital, mainly from investment institutions, for participation in loans of relatively short maturity and for purchase from its portfolio; in the year ending 30 June 1955, the sum involved was $99 million. Almost the entire amount was without the Bank's guarantee.[6] Another significant development with regard to some of the Bank's loans has been the simultaneous public offering of the borrower's bonds by private bankers in the United States. The Bank has also developed a technique of channelling its loans to private enterprises through intermediary financial institutions in capital importing countries, partly in order to avoid difficulties connected with the requirements under the Bank's articles that loans to private borrowers must carry a government guarantee. There has also been a substantial growth of development banks, development corporations and other financial institutions in capital importing countries. The institutions frequently employ both public and private capital, part of the latter sometimes being supplied by foreign investors.

The projected International Finance Corporation which is to work in close relation with the International Bank for Reconstruction and Development, is also expected to be an instrument by which capital subscribed by governments may be invested in association with private capital (though not in the capital stock of private enterprises); the corporation's holdings may later be turned over to private investors. The International Finance Corporation would expect its private partners to provide the major share of the assets of an enterprise. Since this corporation is designed to perform a catalytic function, it would presumably be

6/ International Bank for Reconstruction and Development. Tenth Annual Report, 1954-1955 (Washington, D.C., 1955), page 5.

more inclined to invest modest sums in a number of enterprises than to invest large sums in relatively few ventures.[7] The charter of the corporation requires a minimum membership of thirty countries whose capital subscriptions total at least $75 million, before the corporation can be established. At the end of April 1956, twenty countries, whose subscriptions total over $61 million, had completed the necessary formalities.

In addition to lending from its own resources, the United States Export-Import Bank has obtained the participation of private lending institutions and industrial firms in its lending operations.[8] In 1955 a group of five commercial banks in the United States established the American Overseas Finance Corporation, with a capital of $10 million, to provide medium-term credits to exporters. The corporation is expected to supply a major portion of each loan from its own capital without guarantee; the remainder will usually be covered by guarantee of the Export-Import Bank. The Commonwealth Development Finance Company, formed in the United Kingdom in 1953 to make long-term foreign investments, is a joint enterprise the capital of which is divided between the United Kingdom Government (through the Bank of England) and a wide group of industrial, commercial and financial concerns.[9]

In a number of western European countries, there seems to have been a continuing growth of short-term and medium-term credits to finance exports, a large part of which has been extended under various types of governmental

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7/ International Bank for Reconstruction and Development, The Proposed International Finance Corporation (Washington, D.C., May 1955).

8/ Among the devices used are the guarantee of letters of credit issued by commercial banks; advances by commercial banks to borrowers from the bank on a guaranteed basis; and participation with the bank in its credits without the bank's guarantee. Thus, in the first half of 1955, commercial banks and United States exporters agreed to join with the Export-Import Bank in extending loans without the bank's guarantee to the extent of $61 million.

9/ Since March 1953, the company has agreed to make loans or purchase equities amounting to about £9.3 million for projects in Canada, India, New Zealand, Pakistan and the Union of South Africa. The company's authorized capital is £15 million, of which £6,750,000 is subscribed by the Bank of England and £8,250,000 by private sources. The company is empowered to borrow up to twice the amount of its authorized capital.

insurance and guarantee.[10] It appears that the average maturity of such credits is relatively short; some credits extended in connexion with the export of capital goods, however, have had a maturity of five years or even longer. There have also been several instances in recent years in which short-term commercial credits - sometimes of an involuntary character, resulting from commercial arrears - have been converted into long-term loans, in some cases with a change in the creditor, from exporters or commercial banks to the government of the creditor country.

The United States has accounted for well over half of the world's private capital exports in recent years. Canada has been the principal recipient of United States capital, but considerable sums have been absorbed by Latin America and western Europe and by the Middle East, where investment has been chiefly in petroleum extraction. Private capital exports of the United Kingdom have gone principally to the sterling area; in spite of some increase in United Kingdom direct investments in the United States and Canada, there appears to have been a steady net inflow of private funds into the United Kingdom from the dollar area. The private capital movements of continental Europe follow a complex and variable pattern; however, a substantial portion of capital exports from these countries has been in their dependencies.

In general, there has continued to be a considerable movement of private capital to Canada and a number of Latin American countries, and also a sizable flow of funds to some countries in Europe, to the Middle East for petroleum investment and to parts of Africa for mineral development; in other areas the inflow of private capital has continued to be quite small.[11] In some countries

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10/ Comprehensive data on the volume and maturity of such credits and on the proportion covered by governmental guarantee are not available. The balance of payments statements published by the International Monetary Fund do not indicate foreign commmercial credits separately.

11/ This impression is confirmed by study of the "Summary Statements" in International Monetary Fund, Balance of Payments Yearbook, vol. 6 (Washington, D.C., 1955). The term "private capital" used there, however, includes short-term funds and thus does not reflect the more stable movement of long-term capital for investment.

usually considered potential capital importers, the balance of payments data have frequently indicated an outflow of private capital during the post-war period. Burma, Ceylon, India and Indonesia are examples. In certain cases, however, it appears that the figures are misleading because they fail to reflect the growth of existing foreign enterprises through reinvestment of earnings.[12]

During the early post-war years, aggregate private capital exports tended to increase. Since about 1952, however, there has been hardly any clear trend. A decline occurred in United States capital exports in 1953, largely because of repatriation of portfolio investments in Canada and elsewhere in that year, and some drop in direct investments. The decline did not continue, however, and the flow from the two principal capital supplying countries, the United States and the United Kingdom, increased again in 1954. In that year the net outflow of United States private long-term capital was over $1,600 million (including reinvested earnings). In the United Kingdom, the movement of domestic and foreign private long-term capital, combined, resulted in a net outflow of some £200 million ($560 million), the highest level for some years.

Aggregate capital exports from the United States in 1955 remained at about the 1954 level, but movements in the components of this flow differed. The outflow of capital for direct investments remained approximately unchanged. There was a decline in new foreign security issues and a rise in redemption of foreign bonds, influenced, it appears, by the rise in interest rates and the monetary stringency in the United States. The effect of this development on total capital movements was offset, however, by a rise in medium-term lending abroad by commercial banks despite the tightening of credit conditions (see table 1, in chapter 2, below).

12/ Thus, there was an estimated net increase in foreign private investment in India of 1.3 billion rupees (about $275 million) between July 1948 and December 1953, whereas the balance of payments statements for the same period indicate a net outflow of private capital of 0.5 billion rupees. The difference of 1.8 billion rupees appears due chiefly to reinvested earnings of foreign enterprises. Reserve Bank of India, Report of the Survey of India's Foreign Liabilities and Assets (New Delhi, November 1955). About 85 per cent of the recorded increase in investment represented reinvistment or imports of goods not requiring immediate release of currency (International Monetary Fund, Balance of Payments Yearbook, vol. 6). In 1954 and 1955, the balance of payments account continued to show an outflow of private capital - in the latter year amounting to 66.2 million rupees ($14 million).

In the United Kingdom a fairly sharp decline in long-term outflow occurred 1955; it appears that the heightened domestic demand for funds and rising interest rates may have tended to check the amount of capital invested abroad and may also have attracted foreign funds to the United Kingdom.13/

Direct investments are not unaffected by changes in interest rates in the creditor country. A rise in the cost of raising capital tends to reduce the profitability of new investments and hence renders such investment less attractive. However, much of the capital involved in direct investment is not closely affected by financial conditions in the capital exporting country. A substantial part of the growth in direct investments is usually financed by ploughing back undistributed profits, and this may continue even during years when little capital is added through the transfer of "fresh" funds. So long as profits are maintained, the reinvestments of subsidiaries contribute to the steady expansion of such investment. As the stock of outstanding investments has grown since the end of the war, this source of funds has increased relative to the flow of fresh capital and is now of the same importance for direct investment as transferred funds. Furthermore, in many instances even transferred funds are advanced by the parent company from its retained earnings.

Most direct investments require durable plant and equipment and are planned in terms of expectations over a relatively long period. Their profitability thus cannot be judged on the basis of a temporary situation as to interest rates. This is true in particular when the funds involved do not have to be raised in the capital market but are withheld from current profits. An example of long-term budgeting of foreign capital expenditure is afforded by petroleum enterprises. Between 1951 and 1955, average annual gross expenditure abroad for property, plant, equipment and drilling by United States enterprises in this field amounted to $2.2 billion, and according to a recent projection such outlays during the period 1956-1965 will amount to $4.1 billion per year. It is estimated that during 1951 to 1955 only 2 to 5 per cent of the gross outlay has been raised in the capital market.14/

13/ The Government of the United Kingdom attributes the decline in capital outflow in 1955 partly to difficult conditions obtaining in the London capital market (Economic Survey, 1956, Cmd 9728 (London, 1956), paragraph 58).

14/ Joseph E. Pogue and Kenneth E. Hill, Future Growth and Financial Requirements of the World Petroleum Industry (Chase Manhattan Bank, New York, 1956).

Foreign portfolio investment to a large degree are subject to different influences from those indicated above.[15/] Year-to-year changes in portfolio investments in corporate securities have been strongly influenced of late by speculative reactions to changing conditions in various capital markets and by shifts in interest rates and anticipations of fluctuation in rates of exchange. Most portfolio investment in such securities takes place between the United States and Canada, the United States and western Europe, among countries of western Europe and within the sterling area. Until quite recently it has been highly compartmentalized, largely because of exchange restrictions on capital transfers relating to portfolio investments. Furthermore, foreign portfolio investments are rarely made in the securities of domestic corporations of less developed countries, since trading in them normally requires a well-developed capital market based on a substantial and diversified industrial structure.

The purchase of bonds issued by governments and other public authorities is likewise subject to widely different influences from those governing direct investments. During the past two or three years, there have been indications of renewed interest of private investors in loans for the account of public authorities, and the number of governments that have been able to raise loans in the international capital market has increased moderately. Nevertheless, new bond issues for foreign account remain a minor item in international private capital movements.

Under present conditions, therefore, the flow of private capital, particularly to less developed countries, takes the form chiefly of an expansion of business investments controlled in the capital exporting country. A thorough study of the significance of such investments in the economies of the capital importing countries has not been attempted in the present study, but a few comments on certain aspects of this question may be offered.

15/ Portfolio investments are made up of many elements, but mainly consist of market purchases of new and outstanding corporate securities and purchases of bonds issued by governments and other public authorities.

In capital importing countries, the capital inflow has generally been small in relation to domestic capital formation, but there are significant exceptions, such as Canada, Venezuela, the oil producing countries of the Middle East and several countries in Latin America and Africa which have attracted sizable investments in mining. The extensive use of foreign capital has been heavily concentrated in certain branches of economic activity, particularly the extractive industries. In the expansion of manufacturing that has occurred in a number of less developed countries since the war, it appears that the bulk of the new capital has generally been supplied locally. Recently, however, this branch of activity, particularly in Latin America, has drawn increasingly on foreign capital and enterprise.

Foreign enterprises have been particularly active in less developed countries in manufacturing requiring advanced technology in such fields as chemicals and pharmaceuticals, various types of consumer goods and, in a few countries, components of motor vehicles and electrical machinery and similar goods.16/ In some instances, the foreign enterprise has supplied a minor portion of the capital, together with essential assistance in the form of patents, information on complex processes and skilled personnel. Foreign capital has played a less extensive role in the post-war expansion of the better established fields of manufacturing in less developed countries, particularly textile production and food processing. It has been important, however, in the introduction - for example, in several Latin American countries - of new types of large-scale merchandising techniques, which in turn have stimulated local manufacturing activity.

After rapid post-war growth, the outstanding stock of foreign business investments in a number of countries has reached a level which accounts for an

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16/ An example of diversified industrial expansion is afforded by Brazil, in which manufacturing output increased by over two-thirds the end of the war and 1954. Both United States and European firms have participated in the expansion, but Brazilian capital and enterprise have predominated. A list of domestic and foreign investments in manufacturing recently undertaken or planned in Brazil may be found in United States Department of Commerce, Foreign Commerce Weekly (Washington, D.C.), 15 August 1955.

important share of total output, employment and gross capital formation.17/ Some indication of the importance of foreign investments in the economy of the host countries may be derived from information on taxes and royalties paid to these countries. In 1950, income taxes paid abroad by United States enterprises amounted to slightly more than $1 billion, exclusive of indirect taxes and royalty payments; at present the income tax payments may be close to $1.5 billion.18/ The operations of foreign petroleum companies provide a major source of revenue to several countries. For example, royalties and taxes received by governments from foreign oil companies in the Middle East, mainly Iraq, Kuwait and Saudi Arabia, amounted to about $730 million in 1954 and $880 million in 1955.19/ Receipts of the Government of Venezuela from the operations of the oil companies were in the neighbourhood of $475 million in 1953 and 1954, or close to 60 per cent of total government revenue.

In a number of countries, foreign investments now provide a substantial part of the foreign exchange earned through exports, or supply commodities which would otherwise have to be imported. An indication of the volume of exports generated by such investments is the fact that about one-fourth of United States imports in recent years have been supplied by United States enterprises abroad, which also send a substantial amount of exports, particularly of petroleum, to third countries.20/

17/ In 1955, the United States Department of Commerce announced that it had undertaken a survey of United States enterprises operating in Latin America to determine the contribution of such enterprises to domestic output and to foreign exchange resources in the country of operation. The survey is also expected to supply information on other aspects of the enterprises, including gross capital outlays, taxes and royalty payments to the host country, the employment of different categories of foreign personnel and the equity holdings of non-residents of the United States.

18/ The figure for 1950 is given in United States Department of Commerce, Foreign Investments of the United States (Washington, D.C., 1953), page 53. The figure of $1 billion is about a third of net profits before taxes. This may somewhat overstate the ratio of taxes to profits, since profits are estimated net of losses by other companies, whereas taxes are paid only by companies with net profits.

19/ United Nations, Economic Developments in the Middle East, 1954-1955 (sales number: 1956.II.C.2).

20/ United States Department of Commerce, Foreign Investments of the United States, 1953, page 2; and Survey of Current Business (Washington, D.C.), December 1953, page 14.

The quantitative importance of foreign investments in the economy of the capital importing country is naturally not a full indication of their economic influence. Foreign enterprises have contributed to increases in productivity through the transfer of modern technology, the training of local labour, the development of managerial techniques and the stimulation of local ancillary industries. They have also served to an increasing extent to mobilize domestic savings for joint investment with foreign capital in productive ventures.

Chapter 2

RECENT TRENDS IN CAPITAL EXPORTS

The statistical survey in this chapter is limited largely to information emanating from the principal capital-exporting countries. As already mentioned, in few cases is information on private-capital movements adequate for systematic comparative study; in particular, detailed and comparable information is lacking for many capital-importing countries.

United States

Information on the net outflow of United States private long-term capital is set out in table 1. This outflow is normally offset to some extent by the inflow of foreign private long-term capital, which in recent years appears to have amounted to between 15 and 25 per cent of the outflow (see table 2).[1]

One of the principal sources funds for financing the expansion of direct investments is the reinvestment of profits earned by United States subsidiaries abroad. Of about equal importance are other funds transferred for direct investment abroad.[2] The remaining items, referred to as portfolio investments, consist of new capital issues (minus inward payments on account of repayment of loans), transactions in outstanding securities and medium-term and long-term banking and commercial loans.

1/ The figures for capital inflow are somewhat uncertain since no distinction is made between private capital and capital of foreign official institutions, but most of the investment transactions of the latter are in United States Government securities, included in the last item in table 2.

2/ In the case of investments through foreign branches of United States corporations (which represent about 30 per cent of United States direct investments), an increase in investments is treated as an inflow of new capital, whether or not the amount represents retained earnings. If account is taken of this, the proportion of net direct investment financed from retained earnings is well above the figure indicated in table 1. It has been pointed out that the decision to retain earnings abroad for further investment does not differ essentially from a decision to invest new funds and that the distinction between branches and subsidiaries is largely a legal one. (See United States Department of Commerce, Foreign Investments of the United States, Washington, D.C., 1953, page 27.)

Table 1. United States: Outflow of Domestic Private Long-Term Capital

(Millions of dollars)

Item	1951	1952	1953	1954	1955
Net direct investments abroad, total	1,280	1,726	1,497	1,305	...
Capital flow	528	850	721	664	679
Undistributed profits of subsidiaries	752	876	776	641	...
New issues	491	286	270	309	125
Redemptions	-113	-66	-139	-124	-202
Other long-term capital (net)[a]	59	- 6	-316	135	359
Total	1,717	1,940	1,312	1,625	...

Source: United States Department of Commerce, Survey of Current Business (Washington, D.C.); data for 1954 and 1955 are revisions of previously published figures, supplied by the Department of Commerce. Minus sign indicates capital inflow.

a/ This item includes, besides transactions in outstanding foreign securities, medium-term and long-term banking and commercial loans; short-term loans are not included.

Table 2. United States: Inflow of Foreign Long-Term Capital

(Millions of dollars)

Item	1951	1952	1953	1954	1955
Direct investments and portfolio investments other than transactions in United States Government securities (net)	182	141	206	244	344
Undistributed profits of subsidiaries	126	82	121	130	...
Total	308	223	327	374	...
Transactions in United States Government securities (net)	-659	302	-82	8	529

Source: See table 1. Minus sign indicates capital outflow.

In recent years, new United States private portfolio investments have consisted largely of Canadian securities, and bonds of the International Bank for Reconstruction and Development - both regarded by investors as akin to holdings of domestic securities. Fluctuations in this type of capital outflow are markedly influenced by short-run changes in relative interest rates and anticipations of fluctuations in exchange rates, and have been much wider than fluctuations in direct investment. In 1953, there was actually a net return of United States portfolio capital, resulting from the liquidation of Canadian and European securities. In 1954, there was hardly any net flow of such capital to Canada, partly as a result of a decline in Canadian long-term interest rates relative to those in the United States. In the same year, western Europe made large repayments of commercial banking loans. However, there was a net purchase of some $100 million of equity securities in Europe; of this about $90 million represented stock of companies organized in the Netherlands which became attractive to investors following the

removal of certain restrictions on foreign transactions in Netherlands securities. During the period under review, several investment funds were established with United States capital in Canada and the United States. In 1954 and 1955, a considerable part of "other long-term capital" outflows shown in table 1 resulted from investment in such funds in Canada. Some of this capital was intended for investment, particularly in mining ventures, in countries other than Canada, and was channelled through Canada because of certain tax advantages available to the investor.

Before 1955 there had been a revival on a small scale of market flotations of dollar bonds of some countries outside the dollar area. Thus, in 1954 Australia and Belgium raised loans of $25 million and $30 million in the United States capital market; this was the first time since 1947 that foreign countries other than Canada and Israel had floated sizable loans in that market. In 1955 new bond issues for the account of foreign governments remained roughly the same as in 1954, the amounts issued being as follows: Cuba, $8 million; Israel, $32.7 million; Norway, $15 million; and Union of South Africa, $25 million. The increased interest of private investors in foreign dollar bonds was reflected in rising prices of such securities during 1954 and 1955.

Total new issues of securities declined considerably, however, in 1955. The International Bank for Reconstruction and Development did not float any securities in the United States during that year and there was a decline in Canadian security flotations, partly as a result of the increase of interest rates in the United States. On the other hand, there was a growing volume of medium-term lending abroad by commercial banks in the United States, although a part was secured by gold or United States Government securities. This, together with an increase in purchases of outstanding foreign securities, caused a shift from an inflow in 1953 to an outflow in 1954 of "other long-term capital" shown in table 1, and there was a substantial rise in lending by commercial banks in 1955. During 1954 and 1955, commercial banks also joined to an increasing extent with the International Bank for Reconstruction and Development and the Export-Import Bank of Washington in foreign loans, taking, at their own risk, the shorter maturities of such loans; these are included in "new issues" in table 1.

In 1954 and 1955, the expansion of direct investments was somewhat below that of the preceding two years. This appears to have been due to the completion of certain large investments in the extractive industries; other major projects in this sector were initiated but did not begin to absorb sizable funds. The financial stringency which tended to reduce the rate of investment in new foreign securities in 1955 did not cause any decline in the outflow of capital for direct investment. Moreover, the available data for 1955 do not include investments financed by the undistributed profits of subsidiaries. Since the income from United States direct investments abroad, excluding such profits, was $1,926 million in 1955 compared with $1,665 million in 1954, it may be assumed that the volume of undistributed earnings of subsidiaries increased in 1955.

Table 3 shows the importance of Canada as an outlet for United States direct investments.3/ In 1954 the share of Canada in the total additions to such investments abroad rose to about 50 per cent, as against an average of 35 per cent for the years 1950-1953. Substantial investments were also made in other industrial countries. Among the less-developed areas, Latin America was the chief recipient, though the amount it has absorbed recently is smaller than during the rapid growth in petroleum investments from 1947 to 1949. Furthermore, Latin America's share in new direct investments has tended to decline with the rapid expansion of investments in Canada and western Europe; in 1954 it was 14 per cent.

Petroleum and other extractive industries have continued - though not in each year - to absorb the bulk of capital for direct investment (see table 4). Since 1950, mining and smelting have assumed increased importance. A substantial amount of net investment in the extractive industries, particularly in petroleum, may not be reflected in the figures, being financed from funds set aside for accelerated depreciation and amortization or, in the case of exploration expenses, treated as current expenditure.

3/ The share of foreign capital in the capital expansion in Canadian manufacturing in 1948-1953 was over one-half, in the petroleum industry two-thirds and in mining and smelting over 70 per cent. The figures relate to retention of earnings as well as capital transferred. During the years 1948-1953 non-residents, mainly United States investors, accounted for a third of total new investment in industry (including public utilities and commerce) in Canada, as against just under half for the years 1927-1930. Canadian savings were large enough to finance all but 12 per cent of total gross capital formation, but part of the savings were invested abroad or used to retire the external debt. (Dominion Bureau of Statistics, Canada's International Investment Position, 1926-1954 (Ottawa, 1956), pages 32 and 47.)

Table 3. United States: Increase in Book Value of Direct Investments Abroad, by Area

(Millions of dollars)

Area	1950	1951	1952	1953	1954
Canada	433	393	621	649	697
Western Europe	270	259	166	224	236
Australia	40	55	54	16	61
Japan	7	26	24	23	14
Total, above areas	750	733	865	912	1,008
Latin America	145	441	582	276	222
Argentina	27	9	28	13	19
Brazil	56	159	210	4	33
Chile	22	43	40	34	-24
Colombia	-1	14	27	1	28
Mexico	40	57	19	24	9
Venezuela	-43	3	188	124	91
Union of South Africa	35	17	37	18	4
Western European dependencies	8	11	22	135	-3
Rest of world	150	100	223	170	188
Total, all areas	1,088	1,301	1,730	1,510	1,419

Source: United States Department of Commerce, Survey of Current Business, August 1955; data for 1954 are preliminary. Minus sign denotes decrease in value. The figures reflect the net outflow of capital, reinvested earnings of subsidiaries and revaluation of assets; during the period in question revaluation of assets was small.

Table 4. United States: Average Annual Increase in Book Value of Direct Investments Abroad, by Area and Industry, 1952-1954

(Millions of dollars)

Area	Mining and smelting	Petroleum a/	Manufacturing b/	Other industries	Total
World total . .	252	549	434	318	1,593
Canada	128	199	184	145	656
Western Europe	4	53	121	31	209
Latin America	89	93	85	92	359
Rest of world	31	204	44	50	329

Source: United States Department of Commerce, Survey of Current Business, November 1954 and August 1955. The figures are annual averages for the three-year period and reflect the net outflow of capital, reinvested earnings of subsidiaries and revaluation of assets; during the period in question revaluation of assets was small.

a/ Including refining, transportation and distribution of petroleum and petroleum products.

b/ Not including petroleum refining and metal smelting.

The table gives annual averages for a period of three years, since year-to-year changes in the industrial or regional distribution of direct investments are not very significant. Such changes are often influenced by the initiation or completion of major projects which tend to dominate the results in a particular year. Completion of such projects, moreover, often sets in motion a reverse flow of capital to repay advances received from the parent company. Other short-term factors are also of importance. Thus, in 1953 there was actually a return flow to the United States of capital on account of manufacturing (excluding the reinvested earnings of subsidiaries) amounting to $30 million, contrasting with a net outflow of $200 million in 1952. This reversal resulted largely from developments in Brazil

where, owing to a shortage of dollar exchange, large advances had been made in 1952 to finance imports of equipment and materials required for manufacturing; in 1953, as Brazil's exchange position eased, these advances were repaid.

Manufacturing (not including petroleum refining and metal smelting) has recently absorbed increasing amounts of capital. It accounts for over a fourth of the increase in direct investments the end of 1951 to the end of 1954. During this period the addition to investments in manufacturing amounted to about $1,300 million, divided mainly among Canada (42 per cent), western Europe (28 per cent) and Latin America (20 per cent), other areas accounting for under $200 million. Reinvestment of earnings by subsidiaries is a major source of capital for expansion of manufacturing. In 1954 such reinvestment financed four-fifths of the increase.

Foreign manufacturing enterprises, exclusive of petroleum refining, metal smelting and similar processing, usually produce mainly for the domestic market in the capital importing country.[4/] Investments in manufacturing accordingly depend to a large extent on the ability of the capital-importing country to absorb manufactured products and on the possibility of producing economically on a large scale. For both reasons investments in manufacturing tend to be made in countries which are economically advanced. In 1954, for instance, Canada, western Europe, Japan and Australia absorbed about three-fourths of a total direct investment of $428 million in manufacturing. Nevertheless, United States direct investments in manufacturing in some under-developed countries have recently been expanding rapidly, particularly in Latin America. Protectionist policies have played their part in attracting foreign investments in manufacturing but have naturally proved ineffective in the case of countries with too small a domestic market.

In Latin America, most foreign investment in manufacturing is found in a few relatively large countries, in particular Argentina, Brazil and Mexico. In the past several years considerable amounts have been added to the foreign manufacturing investments in these countries. There are indications, however, that as income has grown and the market has expanded in other countries, investments in manufacturing

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4/ A number of United States manufacturing concerns producing for export have, however, been established recently in the United Kingdom and several other European countries, partly in order to export to countries within the same currency area or in a protected trade region.

have followed. Colombia and Venezuela are cases in point; in the latter, market expansion may be attributed in large part to the development of mineral resources, which has been financed by foreign capital. It is thus seen that investments in extractive industries may prepare the way for investments in manufacturing.

Details of the distribution of outstanding United States direct investments, given in table 5, indicate that manufacturing is the most important of the industrial groups. Petroleum investments, which have been growing rapidly during the post-war period, are close in importance to manufacturing. Public utilities, once an important group, have fallen behind in recent years; in 1954 they represented only 9 per cent of the total compared with over 14 per cent in 1946. It should be borne in mind that the investments are recorded at their book value; at present it appears that this figure is in general substantially below market value or replacement cost because of the post-war rise of prices and also because of rapid amortization and other accounting practices which tend to understate the book value of assets.

Tabl . 5. United States: Outstanding Direct Investments Abroad, by Area and by Major Industries, 1954

(Millions of dollars)

Industry	Canada	Latin America	Western Europe	Western European dependencies	Other areas	World total
Mining, smelting ..	783	1,003	35	105	145	2,071
Petroleum[a/]	1,160	1,688	671	412	1,422	5,353
Manufacturing[b/]	2,553	1,248	1,432	14	408	5,655
Public utilities ..	301	1,120	29	20	75	1,545
Trade	358	402	235	31	122	1,148
Other industries ..	784	795	203	18	176	1,976
Total	5,939	6,256	2,605	600	2,348	17,748

Source: United States Department of Commerce, Survey of Current Business, August 1955; end-of-year data.

a/ Including refining, transportation and distribution of petroleum and petroleum products.

b/ Not including petroleum refining and metal smelting.

As shown in table 6, direct investments at the end of 1954 were almost two and a half times their size at the end of the war. On the other hand, portfolio investments - which are recorded at market value - were less than a third larger in 1954 than in 1946, and this increase is almost wholly accounted for by investments in Canada and securities of the International Bank for Reconstruction and Development. In 1954, Canada accounted for over three fifths of investments in foreign dollar bonds and foreign securities.

Table 6. United States: Outstanding Private Long-Term Investments Abroad

(Billions of dollars)

Item	1930	1946	1953	1954[a]
Direct investments	8.0	7.2	16.3	17.7
Portfolio investments	7.2	5.1	6.0	6.7
Total	15.2	12.3	22.3	24.4

Source: United States Department of Commerce, Survey of Current Business, August 1955; end-of-year data.

a/ Preliminary.

United Kingdom

According to newly published estimates, the outward private long-term capital movement from the United Kingdom, in round figures, has been as follows:[5]

5/ United Kingdom, Balance of Payments, 1946 to 1955 (No. 2), Cmd 9731 (London, 1956), page 43. The information, less precise than that for the United Staes, represents "long-term investment by the United Kingdom in the rest of the world (excluding inter-governmental lending, but including United Kingdom Government loans for commercial projects and borrowing by oversea governments in the London market), less net long-term investment by the rest of the world in the United Kingdom".

	Millions of pounds sterling
1952	150
1953	175
1954	200
1955	125

Most of the outflow represents estimated net investment in the rest of the sterling area - a little over £125 million in 1952, somewhat over £150 million in 1953, rather under £175 million in 1954 and about £100 million in 1955. On the basis of these figures, the net investment in other areas has been about £25 million annually. New oversea investment in the United Kingdom, it is estimated, was approximately balanced by sales and redemptions by oversea holders of their United Kingdom investments during this period of four years, so that the annual average of £150 million to £175 million approximately represents new oversea investment, less sales and redemptions, by the United Kingdom in the rest of the world.

It is pointed out that the estimates are subject to a considerable margin of error, largely because so much of the new investment overseas is private investment in the sterling area for which "it is particularly difficult to obtain accurate figures",[6] one reason being that permission by the exchange control authorities is not required for investment within that area. Further, while the reinvestment of undistributed profits is included to the extent known, it appears that all such reinvestment could not be taken into account. The actual additions to outstanding investments thus were probably higher than the figures show.

The great bulk of post-war private investment - according to the above figures about 85 per cent - has been in the sterling area. Such investment "is a matter of particular importance to the colonies, who look to the United Kingdom

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6/ The figures quoted differ from those of the series which in the past has been taken to correspond most closely to the net private capital movement, in that they do not include short-term capital nor the balancing item representing errors and omissions in the whole account.

for a large part of the finance and associated technical assistance needed to carry out their development programmes".[7] The colonies rely to a great extent on London to meet their needs for long-term capital and for investment of any surplus funds they may accumulate; "these processes may occur at one and the same time, and the flow of long-term investment represents a substantial offset against the rise in colonial sterling balances".[8] The flow of private capital into British colonial areas for investment purposes - of which presumably the largest amount came from the United Kingdom - has been estimated at £70 million in 1953 and £65 million in 1954, including reinvested earnings;[9] to these figures should be added £20.5 million and £16 million, respectively, on account of loans raised by colonial governments in the London capital market. Heavy expenditures for the construction of an oil refinery at Aden contributed to the investment in both these years.

In 1954, when the export of private capital reached a high level, restrictions on direct investments in non-sterling countries were eased. Proposals for such investment were generally approved by the exchange control authorities whenever the investor intended to play an active role in the management of a foreign enterprise. Canada was the main recipient of United Kingdom capital outside the sterling area - investments authorized in that country rose from £37 million in 1953 to about £49 million in 1954. The following figures, giving approved applications for direct investment in

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7/ Economic Survey, 1955, Cmd 9412 (London, 1955), paragraph 32.

8/ United Kingdom sterling liabilities to the colonies rose from £930 million at the end of 1951 and to £1,281 million at the end of 1955.

9/ Colonial Office, The Colonial Territories, 1953-54 and 1954-55, Cmd 9169 and 9489 (London, 1954 and 1955). The decline in 1954, however, is accounted for by the exclusion from the estimate of Northern Rhodesia and Nyasaland, which in September 1953 became the Federation of Rhodesia and Nyasaland.

non-sterling areas by United Kingdom residents (in millions of pounds sterling), show that there was also a considerable increase in the amounts authorized for direct investments in the United States:[a]

	1953	1954
Canada	36.6	48.8
United States	2.7	29.7
Europe	10.7	15.7
Other non-sterling areas	4.4	6.7
Total	54.3	101.0

a/ Information supplied by the Government of the United Kingdom in response to the United Nations questionnaire of 5 January 1955 on governmental measures affecting the international flow of private capital. (See footnote 1 in chapter 3.)

The figures do not measure the amount of direct investment actually undertaken in the years in question and are substantially larger than British capital exports to the non-sterling area indicated in the United Kingdom balance of payments. The increase from 1953 to 1954 accordingly does not imply a corresponding rise in the flow of capital for such investment outside the sterling area.

Although exchange control permission is not needed for direct investments within the sterling area, official approval is required for raising new capital issues in the London market. Authorization was given during 1954 for issues totalling £90 million for investment in Commonwealth countries in the sterling area, though the money was not all raised during that year. This total included £16 million in loans for colonial governments and £25 million for independent Commonwealth governments, mainly in support of their public development programmes; it also included £48 million for private enterprises, much of which was for mineral and metal production, oil refining, transport and communications.[10] The figures for actual flotations during the years

10/ Economic Survey, 1955, Cmd 9412, paragraph 31.

1951-1955 are shown in table 7. New issues for areas outside the Commonwealth have been very small.

Table 7. United Kingdom: Capital Issues for Oversea Account

(Millions of pounds sterling)

Year	Commonwealth countries			Other countries			
	Total	Governments and local authorities	Industrial issues	Total	Governments and local authorities	Industrial issues	Total, all countries
1951	38.9	27.7	11.2	6.4	5.4	1.0	50.2[a]
1952	50.2	33.1	17.1	2.2	--	2.2	52.4
1953	57.4	30.8	26.6	--	--	--	57.4
1954	72.6	34.1	38.5	1.7	--	1.7	79.2[a]
1955	55.8	17.5	38.2	7.8	--	7.8	63.6

Source: Central Statistical Office, Monthly Digest of Statistics (London), January 1956. The figures are estimates, based on price of issue and comprising issues of capital in the United Kingdom for cash or for replacement of existing securities by governments other than the United Kingdom Government, by local authorities, public corporations and public companies. Loans redeemable in twelve months or under, mortgages, bank advances, etc., are excluded, and issues for repaying them are classed as new issues. Loans to local authorities and public corporations from government funds, including issues of stock to the national debt commissioners, are not covered.

a/ Including an amount unallocated between Commonwealth countries and other countries.

Private investment capital absorbed by countries in the Commonwealth is shared between colonial areas and independent countries. A substantial proportion goes to relatively developed countries, Australia being a case in

point. United Kingdom direct investments in that country increased considerably at least until 1952 (see table 8).[11] Simultaneously, the amount of Australian Government bonds held in the United Kingdom declined through redemptions. The Union of South Africa obtained substantial amounts of private capital from the United Kingdom during the early post-war years but has subsequently received smaller amounts of such funds. As indicated in chapter 1, certain countries, including Ceylon and India, report an outflow of investment capital to the United Kingdom, but such movements are sometimes counterbalanced by unrecorded additions to existing investments, largely through ploughing back profits.

Table 8. Australia: Outstanding United Kingdom Private Direct Investments

(Millions of Australian pounds)

Type	1950	1951	1952	1953
Branches	128	138	146	143
Subsidiaries	125	146	172	177
Total	253	284	318	320
Increase during year[a]	49	31	34	2

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 6; data for 30 June of year stated.

a/ Excluding reinvestment of undistributed profits of subsidiaries. During the four years shown the total of such reinvestment by all foreign subsidiaries in Australia was £63 million; the United Kingdom accounted for about 70 per cent of investments by such subsidiaries.

11/ Australia also absorbed direct investments from other countries, chiefly the United States. The total capital inflow on this account from the United Kingdom and other countries (including reinvestment by subsidiaries) is recorded at £A 70 million in 1950, £A 60 million in 1951, £A 76 million in 1952 and £A 13 million in 1953. The expanding Australian market and the relatively high Australian import tariff on manufactured goods appear to have induced foreign manufacturers to establish branches or subsidiaries in Australia.

A previous study by the United Nations contained an analysis of outstanding United Kingdom oversea investments to the end of 1951, as reported by the Bank of England.[12] Since the figures show the nominal value of the investments, they differ considerably from both market and book value estimates. The nominal value of the investments is reported as follows (in millions of pounds sterling, at the end of the year):[13]

	1951	1952	1953
Government and municipal loans	773	790	798
Business investments	1,214	1,192	1,215
Total	1,987	1,982	2,013

The figures for government and municipal loans, by area, are shown in table 9.

12/ The International Flow of Private Capital, 1946-1952 (sales number: 1954.II.D.1).

13/ Bank of England, United Kingdom Overseas Investments, 1953 (London, 1955). No later figures are available than those relating to 1953. The data do not include a number of companies whose activities are divided between the United Kingdom and overseas, among others, insurance and shipping companies.

Table 9. United Kingdom: Oversea Government and Municipal Loans

(Nominal value, in millions of pounds sterling)

Area	Outstanding, end of year		Change in 1953 (decrease -)
	1952	1953	
Commonwealth countries:			
Australia	290.5	284.0	- 6.5
New Zealand	50.4	58.0	7.6
Canada	12.6	12.2	- 0.4
Union of South Africa	30.8	30.4	- 0.4
British Central Africa	65.1	73.1	8.0
Other areas	56.3	62.2	5.9
Total	505.7	519.9	14.2
Other areas:			
Europe (including Ireland)	135.0	128.2	- 6.8
Latin America	37.9	32.5	- 5.4
China	33.2	33.2	--
Japan	38.0	35.6	- 2.4
United States	35.7	44.7	9.0
Other countries	4.5	3.6	- 0.9
Total	284.3	277.8	- 6.5
All areas	790.0	797.7	7.7

Source: Bank of England, United Kingdom Overseas Investments, 1953 (London, 1955).

Other Capital Exporting Countries

The capital exporting countries have always been a small minority. Traditionally, a number of countries in continental Europe have had a surplus of capital. During the war and early post-war years, this could not be maintained and capital overseas was liquidated; but of late, surpluses have

again appeared as production has grown and the external payments position has been strengthened. The pattern is not very well established in some of the countries concerned, which are at once capital importers and capital exporters, maintaining a flow of funds to their oversea territories at the same time as they liquidate their assets elsewhere, or promoting capital exports favouring their commercial interests while foreign capital is being invested within their borders.

Switzerland

Switzerland represents the chief deviation from the situation mentioned above, in that it is a capital exporter but hardly a capital importer on long term. It is also a country with a fully convertible currency; the direction of its capital exports is influenced not by the need to conserve scarce foreign exchange but only to avoid accumulating balances in countries with which Switzerland has payments agreements. Moreover, it has no dependent oversea territory to supply with capital. Its position is thus in some respects unique.

The high rate of domestic savings, limited domestic investment opportunities and the resulting reduction of the yield on domestic securities have made Swiss investors seek foreign investments. New bond issues for foreign account have been increasing rapidly in recent years, reaching 428 million francs ($100 million) in 1955. The chief borrowers in that year were the Governments of Australia and Italy and private enterprises in France and Italy. The geographical distribution of borrowers has recently become wider. In the five years 1951-1955 new issues were distributed as follows (in millions of Swiss francs):

	1951	1952	1953	1954	1955
Australia	--	--	59	--	60
Belgian Congo	--	59	60	40	--
Belgium	--	50	--	--	--
Canada	--	--	--	--	11
France	--	--	--	37	50
Italy	--	--	--	--	160
Norway	--	--	--	--	25
Peru	--	2	6	--	7
Sweden	--	--	--	110	--
Union of South Africa	--	85	--	85	35
United States of America	--	--	--	75	30
International Bank for Reconstruction and Development	50	50	100	50	50
Total	50	246	225	397	428

Source: International Monetary Fund, Balance of Payments Yearbook, vol. 6 (1951-1954); figures for 1955 supplied by the International Bank for Reconstruction and Development. The largest part of the amounts floated are in government bonds, but the issues for the account of business enterprises rose in 1954 and 1955.

Besides increased purchases of foreign issues floated on the Swiss capital market, Swiss investors appear to have been buying securities abroad in increasing amounts. Net purchases of securities in the United States averaged 237 million francs per annum in the years 1949-1952; in 1953 and 1954 they rose to 406 million and 460 million francs, respectively. Swiss investors were also active as buyers in some European securities markets, for example, in the purchase of shares on the London stock exchange in mining enterprises in the Union of South Africa.

Another important element in Swiss foreign investment consists of long-term credits granted by Swiss banks, mainly to countries within the European Payments Union, apparently in order to finance Swiss exports or to relieve Switzerland's creditor position in the Union.

Although figures are not available on the outflow of Swiss funds for direct investment abroad, Swiss enterprises are known to have branches or subsidiaries in numerous countries, particularly in the field of manufacturing, including the production of textiles, watches, machines, foodstuffs and chemicals. One interesting development during 1954 was the issue of securities by a Swiss concern to provide funds for residential construction in Canada.

Belgium-Luxembourg

Belgian capital exports increased rapidly during the years 1952-1954. Table 10 shows the net outflow from Belgium-Luxembourg of domestic as well as foreign capital. The figures disclose a rapid increase in the outflow of Belgian private capital, which in 1954 equalled $95 million. The additions to foreign investments are undoubtedly larger than the figures suggest, since it appears that the reinvestment of undistributed earnings is not included. The high figure for capital outflow involving the expenditure of Belgian francs on account of the Belgian Congo in 1954 is due to the flotation in the Belgian capital market of a loan of 2,220 million Belgian francs by the Congolese Central Government. Apart from this loan, there was in 1954 (as in 1953) a net return flow of private capital in the form of Belgian francs from the Belgian Congo to Belgium. The outflow from Belgium of private capital involving payments in other currencies increased rapidly during 1953 and 1954; information on the

division of the capital flow between the Belgian Congo and other areas is not available. A principal source of new investments abroad appears to be the income of Belgian residents from earlier investments, since such income can, under the exchange regulations, be used for investment abroad, provided that certain formalities are complied with.

Table 10. Belgium-Luxembourg: Net Outflow of Private Capital

(Millions of Belgian francs)

Item	1951	1952	1953	1954
Net outflow of Belgian capital	...	1,131	2,504	4,776
Net outflow of foreign capital	...	1,029	258	-964
Total net outflow	1,438	2,160	2,762	3,812
Distribution of net outflow by currency:				
Belgian francs (to Belgian Congo)	566	788	-66	1,839
Canadian and United States dollars a/	603	100	1,852	568
Currencies of European Payments Union	299	1,333	1,123	1,366
Other currencies and unallocated items b/	-30	-61	-147	39

Source: National Bank of Belgium, Bulletin d'Information et de Documentation (Brussels). The figures include some short-term capital movements, but are believed to refer mainly to long-term capital transactions. Minus sign indicates capital inflow. The exchange value of the Belgian franc is $0.02.

a/ Including free Swiss francs in 1953 and 1954.

b/ Including transactions with the Bank for International Settlements and the European Coal and Steel Community.

France

The official balance of payments account of France refers to the entire franc area and thus does not show transactions between metropolitan France and its oversea territories. It is known, however, that there has recently been a partial liquidation of the assets held in Cambodia, Laos and Viet-Nam (as a group) by the rest of the franc zone, mainly metropolitan France. The inflow of capital to France from this area is estimated at $62.5 million in the three years 1952, 1953 and 1954. New investments in all oversea territories are reported to have declined from $351 million in 1952 to $251 million in 1953 and $234 million in 1954,[14] but these figures include investments financed from local and foreign sources as well as from metropolitan France. It is not known what proportion of these sums represent investment by French enterprises.

Metropolitan France has been a net importer of private long-term capital from outside the franc area. There have been substantial acquisitions of foreign private investments in France, while French investments abroad have been liquidated. During the eight and a half years recorded, total net acquisitions by foreign sources (table 11, first column) amounted to $171 million, and net liquidations of French assets abroad, to $393 million. There has been a similar inward private long-term capital movement to the French oversea territories; thus, in 1952, 1953 and 1954 net acquisition of investments in these areas by foreign interests amounted to $7 million, $7.5 million and $13.4 million, respectively, while the net sale of investments abroad owned by residents of French oversea territories to such interests amounted to $34.7 million, $35.2 million and $44.1 million.

The franc area as a whole has thus been a net importer of private investment capital. The great bulk of the capital has been supplied by the United States and by western continental Europe.

14/ Septième Rapport de la Commission des Investissements (Paris, 1954).

Table 11. France: Private Long-term Capital Inflow

(Millions of dollars)

Period	Change in liabilities (net)	Change in assets (net)
1947	4.8	-14.2
1948	9.0	57.0
1949	4.0	80.5
1950	36.9	125.1
1951	-10.1	80.7
1952	- 5.9	40.6
1953	64.9	19.7
1954	21.7	33.2
1955, first half	46.1	-30.0

Source: International Monetary Fund, Balance of Payments Yearbook, vols. 5 and 6. A minus figure denotes capital outflow.

Western Germany

Western Germany has recently resumed its position as an exporter of private capital. The increase in private long-term assets abroad were equivalent to $20 million in 1953, $47 million in 1954 and $26 million during the first half of 1955.[15] The figure for 1954 was offset, however, to the extent of $26 million by an increase in long-term liabilities, and during the first half of 1955, according to preliminary information, the capital inflow on this account more than offset the increase in assets abroad. It should not be concluded that the potential supply of funds for investment abroad is small, for there has been for some years a heavy outflow of capital from the banking sector, reflected in

15/ Data from annual reports of the central bank of the Federal Republic of Germany (Bank deutscher Länder).

particular in the acquisition of gold and foreign exchange and in the accumulation of claims on account of export credits. The strong payments position of western Germany is indicated in the rapid increase in permits to make direct investments abroad. The total amount of such investments authorized from the beginning of 1952 to the early part of 1956 totalled approximately one billion marks ($240 million), of which about 450 million marks was authorized in 1955. Actual investments made between 1952 and 1955 amounted to about 640 million marks.

The Netherlands

The improved payments position of the Netherlands and the policies of the country in the economic and financial field have attracted foreign investors, particularly from the United States, who have recently made heavy purchases of Netherlands corporate securities. While the inflow of foreign capital has thus risen, however, the counterflow of funds for investment abroad has likewise increased (table 12), in spite of the considerable liquidation in recent years of foreign government bonds held in the Netherlands.

The heavy outflow in 1954 resulted principally from the flotation in the Netherlands capital market of a Belgian Government loan of the value of 100 million guilders. This was the first foreign loan to be issued on the Netherlands market since the war; it was followed later in 1954 by smaller issues on behalf of two Belgian municipal authorities and a Belgian petroleum company. These transactions reflected the removal during the summer of 1954 of almost all restrictions on capital transfers within the Benelux union. Towards the end of 1954, the Netherlands Government also relaxed restrictions on investment by its residents in other countries of the European Payments Union; some increase in Netherlands purchases of foreign securities, particularly German bonds, was reported to have followed this action.

While Netherlands investments abroad appear to have grown simultaneously with foreign investments in the Netherlands, a change has been taking place in the geographical distribution of existing investments. In 1954 the United States supplied the major portion of the inflow of foreign-owned private long-term capital (329 million guilders of a total of 498 million). At the same time, however, there were also Netherlands capital withdrawals from the United States ($160 million),

Table 12. Netherlands: Private Long-term Capital Movements

(Millions of guilders)

Item	1951	1952	1953	1954
Netherlands investment abroad (net) . . .	-118[a]	25	100	222
Foreign investment in the Netherlands (net)	45	101	131	498
Net inflow	163	76	31	276

Source: International Monetary Fund, Balance of Payments Yearbook, vols. 5 and 6. The par value of the Netherlands guilder is approximately $0.26.

a/ Inflow.

seemingly employed to finance capital exports to other countries, particularly in western Europe. In 1953 too, there was an inflow of investment funds from the United States, though on a smaller scale.

Public Capital

Though the present study is concerned with private capital movements, a brief note may be added about the movement of government funds.[16] Throughout the post-war period there have been substantial international transfers of such funds. Most of the sums involved have been supplied, directly or indirectly, by the governments of countries which are also the main sources of private capital, and the objective has been to supplement, not to compete with, private capital movements. Much of the public capital in question has been intended to foster the economic development of the receiving countries.

16/ Private lending to governments or other public borrowers, as well as repayment by such borrowers to private investors, is not here regarded as a public capital movement.

The United States has supplied by far the largest amount of public funds. During the early post-war years, its public grants and credits contributed significantly to the reconstruction of western Europe, which in turn was enabled to resume the export of its own public and private funds. Since the Korean conflict, military supplies and services have constituted a greatly increased share of United States foreign aid. Grants and credits for relief, development, technical assistance and cash transfer to governments have nevertheless continued on a large scale. Between mid-1945 and the end of 1955, military grants totalled $15.8 billion (net), other grants $27.5 billion and credits $10.9 billion. Table 13 gives details for the period 1951-1955. It shows the rapid increase during the Korean conflict in military aid, partly at the expense of economic assistance, and the reversal of this trend since 1953.[17/]

"Military" assistance, as defined in this table, consists of articles and services used by the military forces of the receiving country. Other assistance ("economic and relief") includes, besides sums for relief, development and technical assistance, various economic assistance rendered to sustain the defence burden of the recipient country. To this category of grants belong cash payments to foreign governments to strengthen their military budgets. Such payments aggregated $575 million in 1955, $200 million more than in 1954.

Several European recipients of these grants and credits have recently been repaying more on their post-war credits than they have received in new grants and credits. In 1955 this was true of Belgium, Denmark, Finland, the Netherlands and Norway. France was a major recipient in 1954 and 1955 under arrangements by which considerable sums were transferred for the maintenance of military forces in

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17/ Another source of dollar currency accruing to certain countries is United States military expenditure overseas, which in 1953 to 1955 averaged about $2.5 billion annually.

Substantial sales of government-owned agricultural surpluses have taken place since late in 1953 against payment in foreign currency. So far these sales have resulted largely in an increase in United States holdings of foreign currency ($203 million in 1954 and $341 million in 1955); to that extent they have not been included in table 13. Ultimately a large proportion of the proceeds may be used to provide additional credits to foreign countries.

Table 13. United States: Government Grants and Credits, by Area

(Millions of dollars)

Area and type of assistance	1951	1952	1953	1954	195
All areas:					
Military	1,132	1,789	4,317	3,521	2,54
Economic aid and relief	3,276	2,821	2,041	1,711	1,92
Western Europe:[a]					
Military	912	1,349	3,490	2,744	1,85
Economic aid and relief	2,425	1,965	1,229	711	88
Other European areas:					
Economic aid and relief	-2	-15	-4	10	[illegible]
Asia:					
Military	189	282	770	714	62
Economic aid and relief	674	756	518	642	75
Latin America:					
Military	--	115	21	45	4
Economic aid and relief	94	28	196	246	10
Africa:					
Economic aid and relief	4	18	44	55	77
Oceania:					
Economic aid and relief	--	-1	1	--	4
International organizations and unspecified areas:					
Military	31	42	35	20	20
Economic aid and relief	82	71	57	45	90

Source: National Advisory Council on International Monetary and Financial Problems, Semiannual Report to the President and to the Congress, January-June 1955 (Washington, D.C., 1956), pp. 45 and 46. Data are for years ending 30 June. Negative sign indicates excess of grant returns over new grants utilized, or excess of principal repayments over new credits utilized. "Economic aid and relief" includes technical Assistance.

a/ Dependencies are included in the group "western Europe". The figures shown for other groups, particularly Asia and Africa, are correspondingly understated.

Indo-China. Its net receipt of grants and credits in 1955 of $307 million accounts for over 60 per cent of the total for western Europe. Large sums have also been paid to Cambodia, Laos, and Viet-Nam for defence and for recovery after the cease-fire agreement, and to Korea for rehabilitation purposes. Of the amount spent in Asia in 1955, Indo-China and Korea account for about two-thirds.

Though the governmental funds supplied by other capital exporting countries are far smaller than those of the United States, they are not negligible. The United Kingdom, Belgium, France and other European countries have made substantial official funds available, mainly to their oversea territories. An important instrument by which grants and loans of public funds have been made available by France to public authorities and to private enterprises in French oversea territories, other than north Africa, is the Fonds d'investissement pour le dévelloppement économique et social (FIDES), established in 1946. Expenditure by this agency in French territories in Africa south of the Sahara during 1954 was about 31.5 billion francs ($90 million), of which about half was spent in French West Africa.[18/] In the United Kingdom, grants to colonies, aid to other countries and various official contributions for relief and rehabilitation averaged between £44 million and £50 million annually during the period 1952-1955.[19/] The public funds supplied for development purposes have passed through several channels. Grants for basic development projects in the colonies are being made at an increased rate through appropriations under the Colonial Development and Welfare Acts. Another channel is the Colonial Development Corporation which provides funds, particularly risk capital, for the development of commercial enterprise in the colonies.

The United Kingdom is one of the principal supporters of the Colombo Plan, a consultative committee established in 1951 to promote economic development of southeastern Asia under co-ordinated national plans. On this committee are represented thirteen countries of the region as well as six contributing countries outside the region (Australia, Canada, Japan, New Zealand, the United Kingdom and the United States), from which official funds and assistance are channelled.

18/ United Nations, Economic Developments in Africa, 1954-1955 (sales No.: 1956.II.C.3).

19/ International Monetary Fund, Balance of Payments Yearbook, vol. 6.

Under the plan, the United Kingdom had, by October 1955, made available about £80 million (included in the amount mentioned above); in addition, drawings on outstanding sterling balances have represented one of the chief contributions of "external finance" to the plan.[20/] Among the other donors, Australia has supplied £A 29 million since 1951 and Canada, $133 million.

Relatively little information is available on the total value and nature of public capital exported from the Union of Soviet Socialist Republics. According to an official statement early in 1956, post-war aid in the form of long-term credits extended to other centrally planned economies amounted to 21 billion roubles.[21/] Presumably included in this total is a credit of 5.6 billion roubles made available to mainland China for that country's current five-year plan (1953-1957) and other credits, equivalent to about 7 billion roubles, extended to various countries in the group between 1947 and 1954.[22/] Information is lacking on the extent to which these credits have already been utilized. In addition, the Soviet Union has recently made offers of economic aid to a large number of countries outside mainland China and eastern Europe. Some loans and credits, combined with technical aid, have already been made or arranged - for instance, to Afghanistan, India and Yugoslavia.

The role of international institutions in supplying capital to receiving countries is increasing in importance. The International Bank for Reconstruction and Development, by 31 March 1956, had granted loans totalling $2,432 million (table 14), of which $1,895 million was disbursed. Loans granted during the twelve months ending 31 January 1956 totalled $398 million, of which $107 million was extended to borrowers in Africa, $77 million to Asia, $55 million to Australia, $70 million to Europe and $89 million to the Western Hemisphere. While at the outset, the Bank devoted a large share of its loans to the reconstruction of war-devastated countries in Europe, it now lends principally for development projects in under-developed countries. For the financing of its operations, the

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20/ The Colombo Plan, Cmd 9622 (London, November 1955).

21/ The official rate of exchange is four roubles to the dollar.

22/ For details of these loans, see United Nations, World Economic Survey, 1955 (sales No.: 1956.II.C.1), chapter 3.

Bank relies less on government subscriptions to its capital and more on the proceeds of bonds floated in the private capital market. By the end of 1955, close to $1 billion of the Bank's bonds had been floated in the United States ($855 million), Switzerland ($67 million), Canada ($50 million) and the Netherlands ($11 million).

Table 14. Loans Granted by International Bank for Reconstruction and Development, by Purpose and Area, to 31 March 1956

(Millions of United States dollars)

Purpose	Asia	Africa	Australia	Europe	Western Hemisphere	World total
Total	345	268	259	929	631	2,432
Development loans	345	268	259	432	631	1,935
Electric power	138	98	33	90	312	671
Transport	108	126	103	59	223	619
Communications	--	2	--	--	24	26
Agriculture and forestry	40	--	91	46	49	226
Industry	59	2	32	137	23	253
General development	--	40	--	100	--	140
Reconstruction loans	--	--	--	497	--	497

Source: International Bank for Reconstruction and Development. The figures are net of cancellations and refunding.

Chapter 3

GOVERNMENTAL MEASURES AFFECTING CAPITAL FLOWS[1]

The past several years have seen a substantial increase in governmental action concerned with the international flow of private capital. Most of the measures taken have been designed to reduce specific obstacles to the inflow or outflow of capital resulting from previous governmental action or to provide special incentives to private investors. The nature of such obstacles and of the various measures taken to eliminate them or lessen their effect has been discussed in earlier reports.[2] In general, the measures taken are intended to reduce various types of non-business risks anticipated by investors or to increase the prospective yield on investments through tax concessions or similar action. In a number of countries the scope for new investment, particularly in the production of petroleum and other minerals, has been widened. On the other hand, a few countries have expanded the area reserved for public investment and accordingly reduced the potential scope of private foreign enterprise.

1/ This section and the appendix are a revision of document E/2766, 2 June 1955. In preparing that report, the Secretary-General, on 5 January 1955, in pursuance of General Assembly resolution 824 (IX), communicated with all Members of the United Nations and with non-member governments participating in the work of the regional economic commissions as well as with the specialized agencies in the economic field, inviting them to supply information concerning governmental measures affecting the international flow of private capital. Replies were received from Argentina, Australia, Belgium, Brazil, Cambodia, Canada, Ceylon, China:Taiwan, Colombia, Costa Rica, Cuba, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Guatemala, Haiti, India, Iraq, Japan, Luxembourg, New Zealand, Nicaragua, Sweden, Switzerland, Thailand, Union of South Africa, United Kingdom and United States. Information concerning such measures was also supplied by governments in reply to the Secretary-General's annual questionnaire on full employment and the balance of payments, the replies to which, for the years 1954 and 1955, are contained in documents E/2726 and E/2871 (and addenda). The information on which the following section is based is, however, derived mainly from published sources and has not been submitted to the governments concerned for review.

2/ United Nations, The International Flow of Private Capital, 1946-1952 (sales number: 1954.II.D.1), pages 38 to 61, and Foreign Capital in Latin America (sales number: 1954.II.G.4), chapter 2.

The governmental measures discussed below are concerned with only some of the factors affecting international capital movement. Action of the type discussed may carry less weight in attracting investment than avoidance of deterrent action in capital importing countries - in such matters as expropriation, exchange control and similar restrictions - and establishment of a generally favourable framework of political, social and economic institutions. It should be borne in mind also that a number of the impediments directly affecting foreign investments are symptoms of underlying economic conditions rather than the expression of policy towards foreign capital as such. This is particularly true of certain fiscal measures and of measures affecting international transactions, particularly exchange restriction. Although removal of obstacles of this type may stimulate the inflow of capital, this may be the by-product of action taken for other reasons and in some cases resulting from developments outside the country's control. Furthermore, even the removal of specific deterrents by capital importing countries or action by capital exporting countries to mitigate the effect of such deterrents or other risks, although necessary, may not be sufficient to stimulate a substantial expansion in the international flow of private capital. Over the long run, measures to promote economic development and thus increase the scope and potential yield of investments in under-developed countries may have an important influence on the volume of funds that private investors are willing to place abroad. Of similar importance are governmental measures to reduce international disequilibrium and to maintain national and international economic stability.

Regulation of Capital Imports

In resolution 824 (IX) the General Assembly recommended that countries seeking to attract private foreign capital should "re-examine, wherever necessary, domestic policies, legislation and administrative practices with a view to improving the investment climate; avoid unduly burdensome taxation; avoid discrimination against foreign investments; facilitate the import by investors of capital goods, machinery and component materials needed for new investment; [and] make adequate provision for the remittance of earnings and repatriation of capital".

The principal measures adopted along these lines recently relate to (a) regulation of the entry of foreign capital and the operations of foreign owned enterprises; (b) easing of restrictions on transfer of income and repatriation of capital. In both respects there has been a trend towards a more liberal policy in capital importing countries. A number of countries have also established procedures to attract private foreign capital for specific projects or to publicize investment opportunities. In a few countries new financial institutions have also been established or proposed, usually on government initiative, to obtain private capital for investment both from domestic investors and from abroad. Since 1953 a number of under-developed countries have adopted or broadened tax measures designed to stimulate private investment. A preponderant number of countries in Latin America and south-eastern Asia, and many in the Middle East and Africa now employ such measures, often without distinguishing between foreign and domestic investments. Other measures taken include the widening of the network of bilateral treaties relating to private investment between the United States and various capital importing countries. Some of the specific measures taken are indicated in the following discussion; further details are given in the appendix.

Regulation of entry and operation

The regulation of capital imports varies widely among countries in scope and in the flexibility with which it is administered. It is often difficult to draw the line between controls exercised over foreign investments as such and various types of government regulation of private business operations. Nevertheless, three broad types of control over new investments from abroad may be distinguished:

(a) Specific authorization of each new investment, which is frequently related to the administration of exchange control;

(b) Limitation of the extent of foreign financial participation or managerial control;

(c) Restriction on foreign participation in specific branches of economic activity, such as mining and public utilities.

These types of control are not exclusive, and, in some countries, are applied simultaneously.

Authorization procedures

Prior authorization of incoming investments continues to be required in a fairly large number of countries. Broadly speaking, such control is maintained as an adjunct to exchange restrictions or as part of a policy of ensuring conformity of foreign investment with a country's general economic policies.[3] Whether or not administered as part of the exchange control system, such regulation of investments - sometimes referred to as "screening" - is frequently motivated by the anticipated effect of the investment on the country's balance of payments, but other criteria of economic usefulness are sometimes applied. Screening may be employed also to ensure compliance with certain conditions stipulated by the capital importing country regarding local financial participation, management, and the training of local labour. At the same time, the authorities may extend tax concessions or other privileges to approved investments. As regards controls of this nature adopted prior to 1953, there have been some simplification of procedures and relaxation of the criteria for admission of capital for new investments, particularly in Europe.

Owing to the range of administrative devices that may be used to regulate entry of foreign capital, particularly for direct investment in a business enterprise, it is difficult to summarize the prevalent situation or appraise trends in policy. A number of countries, particularly in Asia and the Far East, require official approval for establishment of new private enterprises controlled abroad; this regulation may be administered under the authority of exchange control legislation or through other enabling legislation which may require government sanction for certain categories of new investment, whether domestic or foreign-controlled. To some extent, also, screening of investments is implied in legislation stipulating that only approved foreign investments may qualify for special facilities to remit income or capital. The granting or withholding of such facilities may act, in effect, as a system of licensing incoming investments,

3/ The strictness of the control sometimes varies, depending on whether a direct or portfolio investment is concerned. In general, portfolio investments are less strictly controlled.

since uncertainty concerning the ability to effect remittances may be a deterrent to the investor. In certain cases it appears that the process of screening new investments and providing certain assurances regarding remittances and other privileges are combined, in that investments not qualifying for the latter privileges are not permitted.

During the period under review (from early 1953 to the beginning of 1956) many capital importing countries have modified principles and procedures applying to new investments from abroad. A major object of such modification has been to provide assurances to investors regarding rights to remit income and repatriate capital. The measures adopted are discussed below in connexion with exchange control.

General limitation of foreign participation

Relatively few countries have legislation of general application that limits foreign participation in capital or management of local enterprises. In western Europe, except for minor restrictions in certain countries, no distinction is made between domestic and foreign enterprises, and the participation of foreigners in firms established under the law of the capital importing country is not formally restricted.[4/] General restrictions of this nature are also infrequent in Latin America.[5/] In Asia and the Far East, several countries have issued official statements of policy, indicating that, in their procedures for authorizing new investments, special emphasis will be given to securing substantial domestic participation in any enterprises financed in part by foreign capital.[6/]

4/ Organisation for European Economic Co-operation, Private United States Investment in Europe and the Overseas Territories (Paris, 1954), page 44.

5/ United Nations, Foreign Capital in Latin America, chapter 2.

6/ Only a few countries in the region have adopted legislation limiting foreign participation. In Burma, the constitution provides that enterprises engaged in various branches of the extractive industry, as well as those designated as public utilities, shall have a maximum of 40 per cent of foreign share capital. A similar regulation applies in the Philippines with regard to the development of natural resources, banking, air transport and coastal shipping.

Since early 1953 there appears to have been little change in legislation or administrative practice relating to this aspect of regulation. One such action, however, was the amendment by Egypt of its law in order to permit foreign investors to own part or all of the share capital in approved projects. A similar relaxation was introduced in Pakistan by administrative action which authorizes incoming investments on an individual basis. Several countries, of which India is an important example, have announced that when authorizing particular investments from abroad they will apply flexibly a policy which seeks to ensure a substantial amount of local participation in the capital and management of business enterprises.

Entry into specific sectors

During the period under review there were two noteworthy tendencies relating to regulation of entry of foreign capital into specific sectors of the economy. The first was a tendency, confined mainly to certain countries in Asia and the Far East, to specify with greater precision the branches of economic activity reserved for development by government enterprises. Such action was taken, for example, in Burma, Ceylon, India, Indonesia and Pakistan. In several instances this action was accompanied by assurances that enterprises outside these sectors would be guaranteed against nationalization for a certain number of years.

Regulation of foreign investment in the extractive industries is the second broad field in which significant changes have occurred. Since development of mineral production in under-developed countries has usually depended heavily on financing from abroad, the policies adopted by these countries have an important bearing on the international flow of private capital. During the past several years a number have adopted new legislation relating to development of mineral resources, particularly petroleum. In most instances the laws are designed to establish a framework within which private enterprises of either domestic or foreign origin may operate. New laws relating to development of petroleum resources have been adopted in several countries, including Bolivia, Egypt, Guatemala, Libya and Turkey. On the other hand, a few countries, such as Argentina and Brazil, have taken action tending to exclude private enterprise, domestic or foreign, from sharing in the development of their petroleum resources.

The content of the laws varies, but in general they provide for an equal division of profits between the concessionaire and the government, in some cases after a minimum period has elapsed. Provision is usually made for deduction of substantial depletion allowances and for treatment of exploration costs as current expenses in the calculation of taxable profits. The laws also contain provisions regarding the duration of concessions and the conversion of an exploration concession to one authorizing actual production. Pursuant to these laws, or by separate action, a substantial number of concessions for mineral development were granted to foreign enterprises during the period under review. In view of the widespread changes, it appears useful to present a brief summary of trends in the extractive industries below.

In Latin America several countries have enacted legislation modifying their regulations affecting exploration concessions and participation of foreign capital in development of mineral resources.[7/] At the end of 1953, the Government of Argentina, announcing a revision of its policy regarding the role of foreign private enterprise in the petroleum industry, indicated that it was desired to encourage the investment of foreign private capital in this sector. Subsequently, a concession contract was negotiated with a subsidiary of a foreign-owned company, but action to ratify the contract was not taken by the Government. It was announced in 1956 that the National Advisory Board had approved a decision by the Government not to grant concessions for production, refining and marketing of petroleum nor to form companies for this purpose with private capital, whether domestic or foreign. The development of petroleum resources was to remain the responsibility of a governmental monopoly.[8/]

In 1955, Bolivia adopted a new law, designed to attract private capital, both domestic and foreign, into petroleum development. The law stipulates an equal division of profits between the concessionaire and the Government and

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7/ For further information on the framework of legislation affecting foreign investment in the extractive industries of this region, see Foreign Capital in Latin America.

8/ Bank of London and South America, Fortnightly Review (London), 7 April 1956.

provides a depletion allowance of 27.5 per cent of gross earnings, subject to a maximum limit of 50 per cent of net profits.

In October 1953, Brazil adopted a law establishing a government monopoly over all phases of the petroleum industry through a government-controlled corporation (Petrobras). Non-voting preferred shares in the corporation may be held by private participants, but only by Brazilian citizens (excluding, however, citizens naturalized for less than five years and those married to foreigners) or Brazilian-owned corporations. The monopoly does not include privately owned refineries, pipelines and tankers in operation on 30 June 1953. While eliminating the possibility of granting petroleum concessions to foreign-owned enterprises, the law does not exclude certain contractual arrangements between foreign enterprises and Petrobras for exploration and extraction.

In Chile, a government agency (Empresa Nacional de Petroleo), which has a monopoly on exploring, producing and refining petroleum and which meets only a small part of the country's requirements, was authorized by a decree issued in October 1954 to enter into agreements with private companies to explore and exploit new oil fields. A revision of the Mining Code, submitted by the Government to Congress during 1954 in the form of a bill establishing conditions under which private capital might be invested in the development of petroleum, was later withdrawn. The Government has in recent years modified its policies governing participation of foreign capital in other extractive industries. In an agreement concluded at the end of 1954 with two foreign-owned nitrate companies, it authorized more favourable depreciation rates for income tax purposes and granted more liberal exchange rates for the sale of export proceeds. In a protocol to the agreement, the nitrate companies undertook to make new investments in production facilities amounting to about $43 million over a period of five years. Furthermore, foreign-owned copper companies in May 1955 were permitted to buy pesos for operating expenditure in Chile at a more favourable rate than that previously applicable. At the same time the companies became subject to a new tax at a basic rate of 50 per cent of net profits. The rate of exchange applied to the copper companies was subsequently adjusted in conformity with rates applicable to other transfers.

Colombia took further steps to encourage the expansion of oil refineries by foreign-owned enterprises under the Petroleum Code enacted in 1953. During 1955

new legislation was adopted, limiting the percentage of Government taxation of the industry and instituting a depletion allowance. In addition, a new form of association between public and private enterprise was developed. A contract between the Government and a foreign-owned company signed in December 1955 provides for joint management and exploration of a petroleum concession. The company will receive 75 per cent of the output - after payment of royalty - in return for the same percentage of expenditure.

In Cuba renewed exploration for petroleum on an extensive scale has been encouraged by the Government. Qualified enterprises may obtain financial assistance from the Government in the form of loans which are cancelled in the event that the borrowing enterprise loses its own investment in the exploration. If drilling operations are successful, the enterprise, in repaying the loan, will pay a bonus and a surcharge on royalty payments. Concessions are obtained from the Government for a three-year exploration period after which fees for exploration concessions are substantially reduced. If oil is obtained, the concession may be converted into a production concession of thirty years' duration.

With the passage of a new petroleum law in 1955 similar to that of Bolivia, Guatemala opened the field for development by private foreign-owned enterprises. A number of companies have filed applications for concessions.

In Honduras a petroleum law was adopted in 1954 setting forth conditions for the granting of exploration rights and concessions to private investors, regardless of nationality.

Foreign investment in extractive industries in Mexico has not expanded much in recent years. However, a new branch of mining was started with the granting of concessions for extraction and refining of sulphur. Concessions have also been granted to several foreign-owned steel companies for mining non-ferrous metals.

A United States company signed an agreement with the Nicaraguan Government in 1954, receiving exclusive rights for a period of three years to explore for oil and natural gas.

In Peru a number of concession contracts have been concluded between the Government and foreign enterprises under the petroleum law of 1952. There has been, in addition, an important expansion of foreign investment in mining under the provisions of the Peruvian Mining Code of 1950.

In Venezuela, where no new exploration or production concessions have been granted since 1945, the Government announced in 1955 that it will accept applications for petroleum concessions.

In several countries of Central America, including Costa Rica, Guatemala, Honduras and Panama, substantial changes occurred during the period under review in concessions governing the operations of the United Fruit Company, a major enterprise in the area. In Costa Rica, pursuant to the revised contract of December 1954, the company agreed to pay income tax at a rate of 30 per cent instead of 15 per cent, to sell foreign exchange for its local currency requirements at the same rate as other exporters, to accept a smaller list of commodities which it may import duty-free and to transfer to the Government, free of charge, the medical and educational facilities it has established and operated for its employees, whenever the Government decides to undertake such services.

An agreement between the Government of Guatemala and the United Fruit Company, supplementary to existing contracts, was enacted into law in December 1954. This agreement settled outstanding differences and provided for return to the company of lands expropriated by the previous government under the agrarian reform law of 1952. At the same time, the company ceded to the State without compensation a large area of its reserve holdings. It also relinquished its exemption from income taxes, becoming subject to the existing tax on business profits, to a maximum of 30 per cent of its net profits.

In the Middle East and Africa a number of changes have occurred, particularly in regard to petroleum concessions. For example, following passage of Law No. 66 of 19 February 1953, replacing the law of 1948, Egypt concluded agreements with several foreign-owned companies for oil exploration.

Under an agreement ratified by the Iranian Parliament in October 1954, effective control over the main oilfields and the Abadan refinery was assumed, on behalf of the Government-owned National Iranian Oil Company, by a consortium of eight foreign oil companies in which the former British concessionary company (Anglo-Iranian Oil Company) has a 40 per cent interest, five United States companies have 40 per cent, and Dutch and French companies hold 14 per cent and 6 per cent, respectively. The agreement covers a period of twenty-five years, with provision for three five-year extensions. The consortium is obligated to

produce a minimum quantity of crude oil for each of the first three years following conclusion of the agreement; thereafter, the quantities produced shall be such "as would reasonably reflect the trend of supply and demand for Middle East crude oil". Profits earned in Iran by each of the consortium companies are subject to Iranian income tax at the rate of 50 per cent. Against this tax liability, credit is allowed for royalties and other payments of similar nature made to the Government, the National Iranian Oil Company or any other agency of the Government. In a separate agreement, Iran agreed to pay the Anglo-Iranian Oil Company £25 million over a period of ten years starting 1 January 1957 in settlement of all the company's claims against Iran. In addition, the company will be compensated by the other members of the consortium in return for their participation in the Iranian operation.

In Jordan the Government during 1955 signed a contract with a United States company for an exploration concession covering a period of fifty-five years. The concession permits the company to carry out explorations in the whole area of Jordan for an eight-month period and to select one-third of the country for actual drilling if tests are favourable. The Government of Jordan reserves the right to cancel the agreement if no oil is discovered during the eight-month period, and a ten-year limit is placed on exploration if no oil is found. Provision is made for equal sharing of profits by the Government and the company after the latter has recovered outlays incurred in exploration.

During 1955 a number of applications by foreign enterprises for petroleum concessions in Turkey were approved under a new petroleum law. The new legislation superseded the law of 1926, which limited petroleum operations to a government-owned enterprise. In addition, a new mining law enacted in 1954 gives priority of exploitation to the discoverer rather than, as formerly, to the Government.

In other Middle Eastern countries certain changes in policies affecting foreign investment have been introduced since 1953. New mining laws were adopted in Libya and Syria. During 1955 the Libyan Government enacted a law regulating petroleum exploration and exploitation, effective in July 1955, and a number of concessions were granted. In Yemen a petroleum exploration concession was granted in November 1955 to a United States company. This concession is for

thirty years and covers 40,000 square miles; the contract will become void if no discovery of oil or minerals is made within six years. In Israel the discovery of oil in September 1955 and the effect of the provisions of a petroleum law adopted in 1952 led to an expansion of foreign activity in this sector.

In Africa there have been few changes in legislation relating to development of mineral resources during the past few years. However, new concessions have been granted and exploration continued under earlier concessions in many areas, including Algeria, Angola, British Somaliland, Ethiopia, French Equatorial Africa, the Gold Coast, Somaliland under Italian administration, Madagascar, Morocco, Mozambique, Nigeria and Tunisia.

There have been few recent developments of importance relating to private foreign investment in extractive industries in Asia and the Far East.

In June 1955 the Government of Burma announced, in connexion with a statement of policy on foreign investment, that enterprises engaged in extraction of natural resources may be established by private investors in partnership, or under contract, with the Government. Foreign participation in such undertakings is limited to 40 per cent, but an exception to this limitation was made in a new enterprise established for development.

In India there has been no change in the official position regarding the extractive industries. According to the industrial policy statement of 1948, the petroleum industry is one in which the State will, in principle, be exclusively responsible for the establishment of new undertakings, except where it is considered necessary in the national interest to secure the co-operation of private enterprise. Under the petroleum concession rules of 1949 concessions may be granted to foreign enterprises, but exploration by such enterprises during the past several years has been on a limited scale. During 1955 governmental participation in oil exploration was increased, and a new corporation to explore for oil was formed representing joint government-private participation with a subsidiary of a foreign company.

In 1954 and 1955 the Government of Pakistan signed concession agreements with foreign firms to explore for oil. The Government's finance bill for 1956 contains new provisions for taxation of petroleum enterprises, including an equal division of profits and a special depletion allowance.

Public utilities

In an earlier report, attention was drawn to governmental policies concerning rates charged by public utilities and to other factors that have greatly reduced new investment of private foreign capital in this sector.[9] Little change has occurred since 1952 in governmental policies affecting private foreign investment in public utilities, but several countries, most of which are in Latin America, have undertaken a review of utility rates, and some have authorized substantial rate increases in order to compensate for rising costs.

In Chile, a foreign-owned electric power company was granted a rate increase of about 75 per cent in August 1955 and a further provisional increase of 45 per cent early in 1956. Rates were also substantially raised in Mexico, and in Brazil, where foreign-owned companies operate. While earnings, expressed in local currency, increased as a result of these adjustments, the dollar equivalent did not fully reflect this in all cases, and even declined in one instance, owing to a decline in rates of exchange. In March 1956 the Brazilian Government authorized a surcharge on electric rates to compensate foreign-owned companies for depreciation of the cruzeiro.

In Peru a new law, adopted in 1955, specifies the conditions for granting or renewing concessions in the electric power industry, making no distinction as to the nationality of the concessionaire. Rates authorized by the Government are to be reviewed at least every three years and adjusted whenever profits exceed or fall short of certain specified limits. Exchange losses on payments in foreign currency are to be considered in the establishment of rates, and the Government undertakes to provide exchange at the official rate to meet the foreign exchange requirements of the enterprise.

Thus far, plans for expansion of foreign privately owned utilities in Latin America continue to rely heavily on loans from the United States Export-Import Bank and the International Bank for Reconstruction and Development; other financing is drawn mainly from funds earned by the subsidiaries in the countries of operation and by sale of securities to the public in these countries. It may

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9/ See The International Flow of Private Capital, 1946-1952, pages 28 to 33 and 42 to 44.

be added that during the period under review public utility enterprises were acquired by the government in several countries: railways in Cuba, electric power plants in the Dominican Republic and telecommunications in Venezuela, for example.

Bilateral treaties

In resolution 824 (IX) the General Assembly recommended that capital exporting and capital importing countries continue efforts, where appropriate, to negotiate treaties, agreements, or other arrangements to stimulate the flow of capital to under-developed countries. Bilateral treaties of this nature deal primarily with the conditions to which foreign capital shall be subject in the capital importing country.

The main development of bilateral treaties relating to foreign investment in recent years and, indeed since the end of the war, has resulted from the initiative of the United States Government. The treaties signed represent a modern version of a programme carried on over many years to provide a basis for the development of business, trade, and other commercial relationships. In its reply to the Secretary-General's note,[10/] the Government of the United States pointed out that special attention has been given to creating, to the extent that this can be done by treaty, an environment in foreign countries that will be conducive to the investment of United States private capital abroad. Accordingly, in addition to clauses on commercial relations, the treaties contain provisions directed towards reduction of such special hazards as "rigid exchange controls, inequitable tax statutes, drastic expropriation laws, and any other laws or juridical conditions that do not afford investors a proper measure of security against risks over and above those to which venture capital is normally subject".

Some variation exists among the treaties, but their content, as regards foreign capital, may be summarized as follows.

General principles. The treaties, based on the principle of mutuality, define the status of the foreign investments and business enterprises owned by nationals of each contracting party in the territory of the other. The capital

10/ See footnote 1 in this chapter.

importing country undertakes to "take no unreasonable or discriminatory measures that would impair the legally acquired rights or interest" of the nationals of th capital exporting country and not to deny opportunities and facilities for investment "without appropriate reason".

Entry and operation of foreign enterprises. Investors of the capital exporting country are accorded "national treatment" in respect of entry into commerce, manufacturing, processing and finance (other than deposit banking, construction and publishing).[11] In the exploitation of mineral deposits and in other activities not included in the above list, most-favoured-nation treatment i accorded if national treatment is not granted. Foreign enterprises are accorded the right to employ technical experts, executive personnel and other specialized employees regardless of nationality. In several instances - for example, the treaty between the United States and Ethiopia - the commitment regarding entry of foreign enterprises is limited to a provision that "reasonable opportunities" will be afforded. Thus, the parties retain the right to limit the entry of foreign capital according to the circumstances in each case. As regards authorized investments, however, the principle of national treatment applies.

Exchange control. Remittances of income and capital of foreign investments (including compensation in the event of expropriation) are, in principle, to be free from restriction except to the extent necessary to assure the availability of exchange for imports "essential to the health and welfare" of the population or, in the case of a member of the International Monetary Fund, restrictions specifically approved by the Fund. In the event of "exchange stringency" the treaties provide that the capital importing country shall make "reasonable" provision for transfers arising from foreign investment and shall apply certain principles of non-discrimination in the administration of any exchange restrictions.

11/ The treaties contain the following definition of national treatment: "The term 'national treatment' means treatment accorded within the territories of a High Contracting Party upon terms no less favourable than the treatment accorded therein, in like situations, to nationals, companies, products, vessels or other objects, as the case may be, of such Party."

Nationalization and expropriation. In the event of nationalization of an industry, or other form of expropriation, foreign investors are to be accorded no less than national treatment and "any expropriation shall be made in accordance with the applicable laws, which shall at least assure the payment of just compensation in a prompt, adequate and effective manner". These principles apply not only to enterprises in which there is a majority foreign interest but to all property of nationals and companies of the foreign country affected.

As of 15 May 1956, bilateral treaties concluded since 1946 had entered into force between the United States and the following countries: China:Taiwan, Ethiopia, Finland,[12/] Greece, Ireland, Israel, Italy and Japan. Treaties had also been negotiated with the following countries but had not yet entered into force: Colombia (signed in 1951), Denmark (signed in 1951), Haiti (signed in 1955), Iran (signed in 1955), Italy (supplementary treaty, signed in 1951),[13/] Netherlands (signed in 1956), Nicaragua (signed in 1956) and Uruguay (signed in 1949).

Exchange restrictions

The stringency of exchange restrictions varies considerably from country to country and, even within a given country, their effect may differ among particular fields of investment, between old and new investments and between officially approved and other investments.[14/] Since such restrictions are usually imposed in order to deal with pressure on the balance of payments, a question arises not only concerning the nature of the controls but also as to whether conditions are likely to lead to a tightening or a relaxation of the controls or to a variation in the rate of exchange. The present discussion, however, is concerned only with recent

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12/ This treaty is a minor modification of a treaty concluded in 1934.

13/ This treaty contains provisions designed to bring the previous treaty, signed in 1948, into general conformity with more recent treaties, particularly with regard to provisions concerning private foreign investments.

14/ The effect of exchange restrictions on international investments is discussed in The International Flow of Private Capital, 1946-1952, pages 53 to 55, and in Foreign Capital in Latin America, pages 21 to 24.

tendencies in exchange restrictions, not with underlying trends in the payments position of the countries concerned.

Many countries maintaining exchange restrictions have taken steps in recent years to facilitate foreign investment within their territory, either through administrative action or special legislation relating to the remittance of income and the repatriation of capital of investments owned by non-residents. As the restrictions existing previously were largely aimed at conserving dollar exchange, the measures introduced are intended primarily to encourage investments from the United States. Nonetheless, the measures in question are normally applicable to foreign investments in general.

During the period under review there has been a substantial increase in the number of countries authorizing the transfer of income accruing to new foreign investments without any limit or within fairly broad limits. Regulations relatin to the repatriation of capital of non-resident investments remain more stringent, but some have been liberalized. As the application of exchange restrictions frequently depends on administrative decisions, it is difficult to summarize the prevailing situation. Some significant features of recent action are indicated below, however, and further details on particular countries are given in the appendix. A country-by-country summary of the present framework of exchange control applicable to foreign capital may be found in the Seventh Annual Report on Exchange Restrictions of the International Monetary Fund (1956).

A significant development during the past several years has been the adoption by a number of countries of special legislation or other action providing a measur of assurance of remittance facilities for foreign investments or the liberalizatio of earlier legislation concerning them. Among the countries in which legislation of this type has been adopted or similar administrative action taken are the following:

Afghanistan (1954)
Argentina (1953)
Brazil (1954)
Burma (1955)
Ceylon (1955)
Chile (1953)
China: Taiwan (1954)
Colombia (1952)
Egypt (1953, 1954)
Greece (1953)
Iran (1953, 1955)
Israel (1950, 1954)
Italy (1948, 1955)
Japan (1950)
Jordan (1955)
Nicaragua (1955)
Pakistan (1954)
Paraguay (1955)
Thailand (1954)
Turkey (1954)

While the main object of such measures is to reduce the investor's transfer risk, the laws - sometimes referred to as "investment laws" - sometimes authorize other inducements to foreign capital, such as tax concessions, exemption of capital imports in kind from import duty, and, in a few instances, assurance against expropriation.

The degree of assurance against transfer difficulties provided by such measures varies considerably from country to country. Certain countries not providing assurance by law regarding transferability, administer their exchange restrictions in a more liberal manner than some which have special investment laws. Thus, there are no special investment laws in most western European countries and their dependent territories or in the sterling area generally, but very few restrictions remain on transfer of income accruing from either old or new direct or portfolio investments.15/ Permission to repatriate capital of new direct investments (including appreciation of capital) is freely granted by most of these countries; earlier investments may be subject to stricter licensing requirements. In the course of the past few years a number of countries in western Europe, including Western Germany, Belgium-Luxembourg and the Netherlands, have also greatly relaxed restrictions on the sale of portfolio investments by non-residents, including transactions involving dollar payments.

In the less developed areas the tendency has been to modify exchange restrictions relating to foreign capital through special legislation or formal statements of policy by the authorities. An important feature of most new investment laws or similar administrative action granting remittance facilities is that the privileges are extended only to new investments meeting with official approval. While some investment laws specify certain criteria to be applied in admitting new investments, wide latitude is left for administrative discretion.

15/ A recent survey of restrictions in western Europe shows that in most countries transfers of investment income are completely free to all areas. As regards transfers to the dollar area, authorizations are granted on the merits of each case in Iceland, Italy, Norway and Turkey and only in exceptional cases in Austria. See Organisation for European Economic Co-operation, Liberalisation of Europe's Dollar Trade (Paris, 1956), page 129.

As noted earlier, some countries require official approval of incoming investments quite independent of foreign exchange considerations.

A specific limit on the amount of investment income that may be transferred at the official rate of exchange in any one year is imposed in laws adopted by certain countries, including Argentina, Brazil, China: Taiwan, Greece, Israel, Italy and Paraguay.[16] Formal limits on remittance of income are usually accompanied by similar limits on the repatriation of capital. Establishment of such limits is usually coupled with a more or less definite undertaking to authorize remittances up to the limit established. In a few countries this commitment is made explicit in a law stipulating that the amounts required shall be set aside in an annual foreign exchange budget.

In most countries that limit transfers at the official rate of exchange and that have a free exchange market it is possible to make additional transfers through the free market at a rate less favourable to the investor. It is along these lines that during the past several years the importance of the transfer rights accorded by special investment laws have been reduced in several countries through the establishment of a broad free market for foreign exchange through which inward and outward payments arising from non-resident capital can be made freely. This is the case, for example, in Argentina, Brazil and Chile. The exchange rate applied to outgoing payments is often less favourable to the investor than that applied to a major share of trade transactions, but remittances may be effected without limit. The situation with respect to new investment is, therefore, one of practically complete freedom, subject, of course, to fluctuations in the exchange rate. In most cases the same applies to earlier investments.

Certain types of foreign investment, particularly in manufacturing, are affected not only by restrictions on remittances of income and capital but by difficulty in obtaining necessary imports of equipment and raw materials. In a

16/ Other countries maintaining such limits prior to 1953 included Bolivia, Costa Rica, Ecuador, Egypt and Nicaragua. The limit on transfer of income from approved new investments was abolished by Egypt in 1954 and by Nicaragua in 1955.

number of countries import restrictions and the application of unfavourable multiple exchange rates continue to affect such enterprises, even though they may get preferential treatment.

In summary, the great majority of countries maintaining exchange control have established a liberal policy with respect to the transfer of income from approved new investments, and a substantial number have given assurances regarding the repatriation of capital of such investments. Investments made prior to the adoption of these policies generally receive less favourable treatment, although some countries have eliminated or reduced discrimination between old and new investments, at least as regards transfers of income. The existence of legislative or administrative assurances regarding remittance facilities should tend to reduce the uncertainty that appears to have been an important factor deterring foreign investment in a number of countries. In the long run, however, the fulfilment of such commitments will depend to a great extent on a country's ability to prevent a deterioration in its external payments position.

Measures affecting capital exports

During the period under review, action was taken in several countries to facilitate or encourage the export of private capital by residents. It may be recalled in this connexion that in resolution 824 (IX) the General Assembly recommended that countries able to export capital should "re-examine, wherever necessary, domestic policies, legislation and administrative practices with a view to encouraging the flow of private capital to capital importing countries...".

Some measure of restriction on capital exports by residents is maintained to protect the balance of payments in most countries outside the dollar area. The purpose of such control may be either to conserve exchange for other purposes or to prevent a flight of capital. Countries also may regulate capital exports for reasons unrelated to their balance of payments - for example, in connexion with the control of new security issues or the supervision of investment institutions. On the other hand, since the war several countries, notably the United States, have adopted measures to encourage the export of private capital. Also, when restrictions have been maintained for balance of payments reasons, they have been applied by some countries in a discriminatory fashion to permit or encourage the export of capital to specific areas, to promote trade or to further other objectives.

Capital exports by residents of western European countries remain generally subject to official approval, except when made within the same currency area, for example within the sterling area. This control is exercised by the exchange control authorities or, in some instances, by the authority regulating the flotation of security issues. As their payments position has improved during the past several years, some countries in western Europe have allowed investment abroad more readily than before.

In its reply[17/] to the Secretary-General the Government of the United Kingdom pointed out that its general economic condition sets strict limits to the amount of capital which can be exported. "In present circumstances it is clear on the one hand that all the potential demands cannot be met and on the other that the less developed countries of the sterling area must, by reason of their special relationship to the United Kingdom, be regarded as having a prior claim on the resources of the London market."

In general, the export of private capital from the United Kingdom is subject to exchange regulations only if the transfer is to a country outside the sterling area. Some control over capital transfers to countries within the area is, however, exercised under the Borrowing (Control and Guarantees) Act of 1946. This empowers the Government to restrict the flotation of loans, whether by local residents or by Commonwealth countries, on the London capital market. It does not affect the freedom of United Kingdom companies or individuals to transfer capital directly to other sterling area countries.

At the British Commonwealth Economic Conference of December 1952, the United Kingdom Government announced that it would make a special endeavour to expand the flow of capital for Commonwealth development and, to this end, it offered other Commonwealth countries in the sterling area freer access to the borrowing facilities of the London capital market. Such access was, however, made subject to the conditions that the proposed loans should be to finance only specific projects, that the projects should be such as to strengthen the sterling area's balance of payments and that the recipient country must itself by pursuing an investment policy calculated to strengthen the balance of payments and be

17/ See footnote 1 in this chapter.

willing to make a sufficient contribution towards any proposed project. At a later conference, in January 1954, a modification of these conditions was announced, and Commonwealth Governments may now approach the London market, after consultation with the United Kingdom Government, not only in relation to particular projects but also in support of general programmes of development.

While the transfer of private capital from the United Kingdom to countries outside the sterling area remains subject to exchange control, direct investments have been permitted on an increasing scale, particularly investments in Canada and the United States. Such investments are authorized when it is considered that they will assist the United Kingdom's exports or develop raw material supplies or lead to employment of skills or techniques within the sterling area. Portfolio investment by United Kingdom residents in countries outside the sterling area is not, at present, permitted, but residents have a large measure of freedom as regards the sale of particular foreign securities against the purchase of others. In September 1955, a change in the United Kingdom regulations enabled residents of "transferable-account" countries to transfer sterling securities, or the proceeds of their sale, to residents of the dollar area.

In 1954 western Germany relaxed its control of capital exports by domestic business enterprises.18/ In May 1956 the Government announced a far-reaching liberalization of existing controls, rendering it possible for German residents to make portfolio investments abroad. In Belgium-Luxembourg, since July 1955, capital transactions have been entirely free, both for residents and non-residents, at the free market rate of exchange, which has closely approximated the official rate. Each year since 1954 the Netherlands has relaxed control on capital transactions by Dutch residents, who are now authorized to purchase foreign securities - including dollar securities - for guilders and also to purchase Netherlands securities held abroad. In the course of 1953 and 1954 Denmark also liberalized its regulations governing export of capital. In several other European countries applications by residents for permission to make direct investments abroad appear to be granted usually, if such investments are considered likely to effect a net increase in foreign exchange earnings or otherwise promote domestic economic activity.

18/ Data on authorization of such exports is given in chapter 2.

In view of its strong payments position Switzerland has encouraged the export of capital. Such transfers are controlled, however, with respect to countries with which Switzerland has special payments agreements - that is, most non-dollar countries.

A system of guarantees to private investors was established by the United States Government in 1948 and extended in scope by subsequent legislation. Insurance is now available for a fee against (a) inability to convert foreign currencies into dollars and (b) loss of capital through expropriation. The insurance is offered on new investments approved by the administering agency and by the Government of the country in which the investment is made. Guarantees are available for various types of investments, including equity capital, loans and licensing arrangements supplying patents, processes and techniques in exchange for royalty payments. The investor must be a United States citizen or a corporation organized under United States law and controlled by United States citizens.[19]

Since 1953 the United States has introduced several changes in its regulations governing investment guarantees, and the geographic scope of the programme has been enlarged. The maximum amount of a guarantee against inconvertibility was increased from 175 per cent to 200 per cent of the value of an equity investment. The charge for a guarantee against expropriation was reduced from one per cent per annum to one-half of one per cent of the insured amount, which is the same as the rate for convertibility insurance.

Insurance is now available for investments in any country which has concluded an agreement with the United States regarding the status of foreign currency, property or claims which, under the regulations, are acquired by the United States Government in the event that an insurance contract is invoked. Previously, insurance was limited to countries eligible to participate in programmes under the Mutual Security Act. The agreements authorize either guarantees against inconvertibility and expropriation or against inconvertibility only. In the former case, the agreements with most countries provide for compulsory arbitration of claims which may arise in the event a guaranteed investment is expropriated, if the two Governments are unable to agree through

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19/ Details of the guarantee system are contained in Foreign Operations Administration, Investment Insurance Manual (Washington, D.C., 1954).

normal diplomatic negotiations on a settlement of the claim. The scope of investment eligible for insurance was also somewhat broadened in 1954 to include United States corporations in which United States citizens own more than 50 per cent of the total share capital whereas, previously, a minimum of 85 per cent was required. In 1956 two changes were proposed in the legislation governing the insurance programme. One would extend the authority to issue guarantees to 1962 instead of 1957. The other would increase from $200 million to $350 million the amount of guarantees which may be issued.

Agreements authorizing guarantees were concluded with ten countries during 1955, bringing the number of countries eligible to thirty,[20] as of 1 May 1956. As of that date, insurance totalling $107 million had been issued, and applications for new guarantees of about $300 million were under consideration.

Increased efforts were made by the United States Government to inform prospective investors of investment conditions and opportunities abroad. A Contact Clearing House, designed to establish direct communication between United States enterprises and foreign concerns seeking investment partners now operates in over thirty countries. Special governmental missions were sent to several countries to assist them in establishing offices to attract foreign investment and also to provide assistance to local enterprises seeking to attract foreign capital. The system of reporting on conditions affecting foreign investment in various countries was also expanded.[21]

Mention may also be made of the Inter-American Investment Conference held in the United States at New Orleans in February 1955 for the purpose of exchanging

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20/ The countries are as follows (an asterisk indicates agreement covering convertibility insurance only): Austria, Belgium, Bolivia, China: Taiwan, Colombia,* Costa Rica, Denmark, Ecuador, France, western Germany, Greece, Guatemala, Haiti, Honduras, Ireland, Israel, Italy, Japan, Netherlands, Norway, Pakistan, Paraguay, Peru,* Philippines, Portugal, Spain, Thailand, Turkey,* United Kingdom* and Yugoslavia. Most of the dependent territories of the countries listed are also included in the programme.

21/ Special handbooks on the subject have been issued covering the following countries: Colombia, Federation of Rhodesia and Nyasaland, India, Japan, Mexico, Pakistan, Paraguay, Philippines, Union of South Africa and Venezuela. Handbooks on other countries are in preparation.

information concerning investment opportunities in Latin America. The conference was sponsored by an agency of the United States Government but held under private auspices. It was attended by private business men from the United States and most countries of Latin America. The participants decided to establish facilities for exchange of information concerning investment opportunities in Latin America and availability of capital for export from the United States to Latin America.

In connexion with the problem of reviving foreign portfolio investment, attention has been given in recent years to the governmental regulations limiting the power of certain types of investment institutions, notably insurance companies and savings banks, to purchase foreign securities. In the United States, for example, only commercial banks have authority to make substantial investments abroad; the obligations of the International Bank for Reconstruction and Development, however, have been made eligible for purchase by most institutional investors. Foreign security holdings of insurance companies, the most important investment intermediary, continue to be restricted by law to limited amounts of Canadian securities and to other foreign securities in proportion to the amounts of policies outstanding in the countries in question. In New York State, however, a recent amendment to the law authorizes domestic insurance companies to invest up to 1 per cent of assets in foreign securities of the same classes as are eligible for domestic investment.

Governmental views on investment policies

In the Secretary-General's note[22/] to Governments of 5 January 1955, reference was made to the Economic and Social Council's desire to receive suggestions for promoting the international flow of private capital. Only a limited number of Governments replying dealt with this aspect of the question, most countries supplying mainly a description of their existing policies toward foreign investment.

The reply of Belgium stressed the importance of assurances by capital importing countries concerning transferability of income from foreign investments. In particular, it emphasized the desirability of avoiding discrimination between

22/ See footnote 1 in this chapter.

old and new investments in respect of exchange restrictions. Several capital importing countries also referred to the significance of exchange rate stability and freedom from exchange restrictions as a condition for attracting investments.

The reply of Egypt stated that investment of capital in under-developed countries should be made "without any political attachments or economic measures that may impair the economic integrity of the country in which the capital is invested". Measures should also be taken to encourage reinvestment of income from foreign capital within the capital importing country.

In its reply the United States Government referred to measures it had taken to encourage private capital exports and added that such measures "are designed to complement rather than replace measures needed in other countries to establish and maintain the conditions in which private enterprise can function effectively".

The Government of India referred to the need to establish international institutions to channel private capital to under-developed countries and endorsed the proposals for an international finance corporation and a special United Nations fund for economic development as contributing directly or indirectly to this end. Replies by several other countries expressed support for the establishment of the international finance corporation as contributing to an expanded flow of private capital.

The Union of South Africa Government suggested relaxation of legal prohibitions on investment abroad by savings institutions in capital exporting countries. The Japanese reply referred to the desirability of bilateral negotiations between capital exporting and capital importing countries to establish conditions for attracting suitable foreign investments. Several countries referred to the desirability of action to reduce or eliminate international double taxation or to stimulate investment through tax incentives in both capital exporting and capital importing countries.

During the period under review recommendations on policies affecting private foreign capital have been made at several inter-governmental meetings, and it has been thought useful to mention the nature of certain actions taken at these.

At the Tenth Inter-American Conference of the Organization of American States, held in Caracas in March 1954, two resolutions were adopted (resolutions LXX and LXXI) containing recommendations relative to private foreign

investments. It was recommended that Member States create a favourable climate for the international flow of private capital and that they adopt certain economic measures to stimulate such a flow, including the establishment of agencies to furnish information on specific opportunities suitable for profitable investment from abroad. With respect to the taxation of foreign investments, the conference recommended both unilateral action in capital importing and capital exporting countries, to avoid or eliminate discriminatory or unduly burdensome taxation, and bilateral treaties designed to eliminate or reduce double taxation. The recommendation was also made that new foreign investments should not be permitted to impair the normal development of established enterprises that are in the national interest of the host country.

Most of these recommendations were also contained in resolutions adopted at the meeting of ministers of finance or economy of the American Republics, held as the Fourth Extraordinary Meeting of the Inter-American Economic and Social Council of the Organization of American States in Rio de Janeiro in November 1954.[23/] A resolution adopted at that meeting also included the recommendation that bilateral tax treaties should contain provision for recognition by capital exporting countries of tax concessions granted by capital importing countries.

At the ninth session of the Contracting Parties of the General Agreement on Tariffs and Trade, in March 1955, a resolution was adopted concerning international investment for economic development. It expressed the recognition that an increased international flow of capital would facilitate the objectives of the General Agreement. The Contracting Parties recommended that countries give particular attention to the provision of security for existing and future private investment, the avoidance of double taxation, and the provision of facilities for transfer of earnings from foreign investments. The participating Governments were urged, upon the request of any contracting party to negotiate for the conclusion of bilateral and multilateral agreements relating to private investments.

In 1954 a special Working Party of governmental representatives, meeting under the auspices of the Organisation for European Economic Co-operation, issued a report on the subject of private international investment containing several

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23/ Resolutions 61, 64, 68 and 69.

recommendations.[24/] Countries requiring authorization of incoming investments were urged to simplify and improve their procedures. It was noted that some European countries have abandoned the procedure of "screening" incoming capital in connexion with the administration of exchange control. Other member countries were urged to "re-examine their policies in the matter and consider how far the advantages expected from this screening outweigh the risk of frightening good investment projects away". This question, it was stated, should be judged within the context of the country's general policy toward foreign capital. With respect to exchange control, the Working Party expressed the view that existing limits on transfers of investment income in OEEC countries are "perhaps less harmful than the fear that stricter ones might be reimposed". It was suggested that "there is something to be said for making more formal and binding the assurances of lasting transferability which most member countries already give to foreign investors". Legal limits maintained by certain countries on the amount of transferable earnings were held to be unnecessary. Other recommendations were made with respect to providing assurance to investors concerning the risk of expropriation, extending tax incentives, and stimulating joint participation in enterprises by investors from several countries, particularly in the extractive industries.

Concluding remarks

Most of the governmental measures reviewed in this chapter are concerned with direct investments, that is with capital invested in business enterprises controlled by residents of the capital exporting country. As noted, there has been, with certain exceptions, a general trend during the past several years towards measures aimed at encouraging such investments, particularly in many less developed areas. New policy developments in the major capital exporting countries have been less striking; some further steps have been taken, however, particularly to offer tax inducements and, in several European countries, rising levels of savings and the improved payments position of certain countries have led to relaxation of restriction on capital exports.

24/ Organisation for European Economic Co-operation, Private United States Investment in Europe and the Overseas Territories, pages 53 to 56.

It is not to be expected, however, that the action taken will exert a strong influence on the total volume of direct investment in the short run. Many of the measures and policies adopted in capital importing countries leave considerable room for administrative flexibility. Investment decisions usually depend on long-range calculations, and continuity of governmental policies affecting such investments is accordingly important; the full impact of changed policies is not likely to be felt for some time. It has also been pointed out above that specific governmental policies applied to foreign investment are but one element affecting private investment decisions and that the underlying economic situation in both capital importing and capital exporting countries must be taken into account in appraising their effect.

In considering the potential impact on direct investments of the type of measures reviewed in this chapter it is also important to distinguish the conditions affecting foreign investment in any branch of economic activity, in particular the extractive industries, public utilities and manufacturing.

During the period under review legislation and administrative action have considerably broadened the scope for foreign private investment in the extractive industries, particularly in the less developed areas. The volume of capital flowing into this sector - which has absorbed the major part of private foreign investment during the post-war period - is closely geared to the world demand for raw materials. In this regard, the high and rising levels of economic activity during the post-war period have been favourable to an expansion of foreign investment, which may be expected to continue.

Before the war, the public utilities sector, including power, transport and communications, was the dominant outlet for private direct investment.[25/] In the under-developed countries, particularly, the post-war expansion of investment in this field has been undertaken largely by public agencies, and the foreign capital flowing into this sector has likewise been supplied by Government institutions employing public funds or funds borrowed from private investors, as in the case of the International Bank for Reconstruction and Development. During the past several

25/ The financing of such enterprises, it will be recalled, usually depended on flotation of both shares and debentures in the capital market of the creditor country.

years, a number of countries in which private foreign-owned enterprises are important producers of electric power have taken steps to adjust rates to compensate for internal and external depreciation of the currency and have adopted other measures, particularly the relaxation of exchange restrictions, which have tended to reduce the operating difficulties of these enterprises. However, the ability of such enterprises to raise new funds in the capital markets of the major capital exporting countries has not yet been tested.

Many of the measures taken in less developed countries have been designed largely to attract foreign capital into the manufacturing sector. Except where there has been an expansion of public enterprises in this field, less developed countries do not in general restrict the entry of foreign capital for investment in manufacturing, nor have foreign enterprises in this sector generally been subject to difficulties arising from expropriation or similar action. On the other hand, the framework of business regulation prevalent in many countries, particularly in the field of exchange and import restrictions, has often posed serious problems for such enterprises, even when such regulation has had the incidental effect of providing a sheltered market. As noted in chapter 1, a number of less developed countries, especially in Latin America, have attracted an increasing volume of foreign private investment into manufacturing. This trend has no doubt been influenced by specific measures of the type reviewed or by the absence of restrictive policies; probably even more important, however, has been the rapid economic expansion occurring in several of the capital importing countries, to which, in turn, the new investments have contributed.

As noted in chapter 1, there has recently been a limited increase in private portfolio investments abroad, which has taken a variety of forms. Thus far, however, the less developed countries have received only a small portion of this outflow. In particular, the flotation of Government bonds in the major capital markets by less developed countries has failed thus far to resume its former place in the field of international finance. Instead, this type of capital has been supplied largely through governmental agencies, which in turn have derived some of their resources from the private capital market or have guaranteed loans made by private lenders.

It appears that the scope for specific governmental measures to stimulate private foreign portfolio investment, especially in Government bonds, is fairly limited. In the capital exporting countries the attitude of potential investors towards such securities is conditioned by recollection of past difficulties and by the availability of attractive alternative outlets for savings. The channelling of private savings into various types of investment institutions also plays a part, since the investment policies of such institutions and the legal restraints to which they are subject limit their role in foreign investment. As regards the capital importing countries, their ability to borrow abroad will depend not only on internal developments influencing their economic growth and payments position but on international economic and political trends generally.

APPENDIX

SURVEY OF MEASURES AFFECTING CAPITAL IMPORTS IN INDIVIDUAL COUNTRIES

This summary relates to governmental measures having fairly general application to private capital imports. It is mainly concerned with legislative action, but also includes references to administrative measures and official declarations which reflect significant changes of policy. References to specific changes in exchange restrictions are generally excluded, as are measures relating to particular branches of activity, such as mineral production or public utilities, and to treaties and bilateral agreements, which are discussed in chapter 3.

The information included in this appendix is believed to cover most of the measures of a general nature that have been introduced since the beginning of 1953. Comprehensive information concerning the framework of laws and regulations applied to foreign investment in the countries concerned, or in others in which no significant change has occurred during the period under review, may be found in several reports by the United Nations and other official agencies,[1] and a systematic description is therefore not included here.

Latin America

Argentina

The status of private foreign investments in Argentina was modified by a law adopted in August 1953. Under this legislation more favourable remittance facilities for income and capital than under the then prevailing exchange

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1/ These include the following: United Nations, Foreign Investment Laws and Regulations of Asia and the Far East (sales number: 1951.II.F.1); a revision bringing this study up to date is in preparation; United Nations, Foreign Capital in Latin America (sales number: 1954.II.G.4); Organisation for European Economic Co-operation, Private United States Investment in Europe and the Overseas Territories (Paris, 1954); International Monetary Fund, Seventh Annual Report on Exchange Restrictions (Washington, D.C., 1956); Pan-American Union, Series of country surveys under the title, Statement of Laws of ... Affecting Business (Washington, D.C.); United States Department of Commerce, World Trade Information Service, Economic Reports, and series of country surveys entitled Investments in ... (Washington, D.C.).

restrictions were afforded to officially approved new investments. A substantial revision of the exchange control system in October 1955, however, considerably altered the significance of the regulations.[2]

The law of 1953, which applies only to approved new foreign investments in mining and manufacturing, provides that two years after the registration of the investment, profits up to 8 per cent of the registered capital may be transferred each year. For purposes of computing the transferable profit, the law permits the capital amount to be expressed in the currency in which the investment was made; the profit in such currency is thus not affected by variation in the exchange value of the Argentine peso. The actual transfer of earnings, however, is to be effected at the rate of exchange prevailing in the free market at the time of transfer. The law also stipulates that the capital of registered investments may be repatriated ten years after registration in annual amounts, varying from 10 to 20 per cent of the principal, the specific percentage being settled at the time the investment is approved. Approved investments may also be granted certain other privileges, including reductions of duty on their imports and subsidies of the enterprise.[3]

In January 1955, new policies were established, applicable to investments made before August 1953.[4] Previously, foreign capital that entered Argentina before the adoption of the law of August 1953 could be remitted only to the extent of 5 per cent per year, and the transfer of earnings was limited to 5 per cent per year of the value of registered capital. According to the new regulations, investments of this category in manufacturing and mining became eligible for the

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2/ The regulations in question adopted prior to October 1955 consist of the following: Law No. 14,222 of 26 August 1953 governing foreign capital investment; Decree No. 19,111 of 14 October 1953 regulating the application of Law No. 14,222; Decree No. 25,113 of 24 December 1953 on intangible property (patent rights, etc.); Central Bank circular 1,852 of 16 November 1953 on the census of foreign capital invested in Argentina prior to 26 August 1953; Central bank circular 1,890 of 8 January 1954 on the eligibility of transferable profits for reinvestment in Argentina; and Executive Order No. 637 of 17 January 1955 on the status of investments made prior to 26 August 1953.

3/ Pursuant to Decree No. 14,630 of 5 June 1954, which applies equally to domestic and foreign-owned enterprises.

4/ Executive Order No. 637.

same transfer privileges as under the law of August 1953. However, the regulations provided that in determining the base on which the 8 per cent maximum transfer of profits is to be computed, all previous transfers of profits exceeding 5 per cent per annum are to be deducted.

Under a new exchange control system in October 1955, a free fluctuating exchange market was introduced for invisible transactions, capital transfers and certain trade transactions.[5] New incoming capital may be transferred through the free market, and such capital and the earnings thereon may be repatriated without limit through the free market. Likewise, earnings accruing since 30 June 1955 on all foreign investments may be freely transferred at the free rate. Repartiation of foreign capital existing in Argentina before 30 June 1955 and the transfer of earnings accrued prior to that date continue to be subject to exchange control. Under the new regulations, special facilities are given to foreign investors for importing new machinery, spare parts and other materials provided that such imports are financed by non-Argentine sources of foreign exchange.

Brazil

In February 1953 a comprehensive revision of exchange control regulations was introduced, including new rules applicable to foreign investments.[6] Prior to that date, remittances at the official rate of exchange were limited to a fixed percentage of capital registered with the authorities. These regulations, which were introduced in 1946, were subsequently modified several times; in particular, a decree in 1952 provided that profits transferred since 1946 in excess of 8 per cent of the original investment were considered withdrawal of capital. Transfers relating to investments not receiving approval were not authorized, but were frequently made through an unofficial curb market.

5/ The official rate of exchange is 18 pesos per dollar; in mid-April 1956, the free market rate was approximately 37 pesos per dollar.

6/ Law No. 1,807 of 7 January 1953, establishing a free exchange market, and Decree No. 32,285 of 19 February, regulating its execution. Subsequent rulings are contained in Law No. 2,145 of 29 December 1953, on imports and exchange control, and Decree No. 34,893 of 5 January 1954, regulating its execution; also in Instruction No. 113 of the Superintendency of Currency and Credit issued 17 January 1955, on imports without exchange cover.

The regulations of February 1953 introduced a fluctuating free exchange market for "invisible" transactions, including most capital transactions. Through this market, foreign capital may enter or leave freely, and no limit is imposed on the amount of profits that may be remitted. The supply of foreign exchange in this market has been small, however, and the "free" rate of exchange has undergone a substantial depreciation. Transfers of capital or earnings are not subject, however, to a 10 per cent remittance tax applicable to other transactions.

The privilege of making transfers at a rate of exchange more favourable to the investor than the free market rate may be provided, however, to certain approved investments. Such investments must be registered with the authorities; this also applies in principle to existing investments. Loans, credits and financing of "unquestionable interest" to the economy may be transacted at the official exchange rate. The repayment of such loans and the transfer of interest up to 8 per cent per annum is effected at a rate referred to as the cost of official exchange, which equals the official rate plus a surcharge.[7] The capital of a second category of investments of "special interest" to the country is transferable (inward and outward) through the free market. As much as 10 per cent of the income from such investments, however, may be transferred at the cost of official exchange; transfer of other income may be effected at the free market rate. Foreign investors are also authorized to import capital in kind, in the form of machinery and equipment, provided the authorities are satisfied that no payment will be transferred abroad. The same privilege is afforded to Brazilian enterprises receiving bona-fide loans from abroad. All other imports of equipment are subject to usual import licensing and exchange restrictions.

Chile

In November 1953, Chile adopted legislation (Decree Law No. 427) relating to foreign private capital and designed to attract such capital into approved

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7/ The "cost of official exchange" is equal to the official buying rate of 18.36 cruzeiros per dollar, plus the weighted average of premiums paid to exporters upon the surrender of their foreign exchange earnings; in May 1956 it amounted to about 44 cruzeiros per dollar. At that time the fluctuating free market rate was approximately 67 cruzeiros per dollar. Rates applicable to various categories of imports ranged from about 44 to over 300 cruzeiros per dollar.

investments under specified conditions.[8] For a period of ten years, and in some cases for as much as twenty years, the income from approved investments may be transferred abroad without limit. The original capital, whether in the form of foreign exchange or of imported goods, as well as reinvested earnings, may be repatriated after a period of five years in equal yearly quotas. In addition, for a period of ten years, and in some cases for as much as twenty years, approved enterprises are exempt from any new taxes and their products are free from price control unless such control applies to domestic enterprises producing similar products at the time of approval of the investment.

Remittances deriving from investments not subject to the above legislation remained subject to less favourable conditions, as regards transfer of both income and capital. The significance of the legislation, as it relates to exchange restrictions, appears to have been substantially altered by a revision of the exchange control system introduced in April 1956, simplifying the previous structure of multiple exchange rates. Transfers relating to capital may now be effected freely through a free market, in which the rate of exchange has not diverged much from the rate for most trade transactions.[9]

For some years the large mining companies operating in Chile have been subject to special rules as regards exchange restrictions. They have been authorized to remit freely income and capital up to the amount of their exchange receipts not required to be surrendered or used to pay local taxes. At the same time, the companies were required to convert foreign exchange for local expenditure at rate of exchange less favourable to them than the rate applied to most foreign commercial transactions. In 1955 this system was basically revised, and the exchange rate applicable to foreign exchange surrendered by the companies was made more favourable to them; at the same time the rate of income tax applied to them was increased.

8/ Decree Law No. 427 of 10 November 1953, as amended by a decree law of 2 February 1954. Procedures for the administration of this legislation are specified in Regulation No. 427 of 3 May 1954.

9/ At the end of April 1956, the free rate applicable to capital transfers and other invisible transactions was 498 pesos per dollar, and the rate applicable to trade transactions was 493 pesos per dollar.

Nicaragua

Decree No. 10 of 26 February 1955, offers privileges to approved new investments from abroad. Such investments may be made in any field of economic activity that is open to private enterprise and which does not require special approval as, for instance, public service enterprises. Approved investments, including reinvested earnings, are registered in the currency of the country of origin. Earnings and capital may be transferred abroad without limit at the rate of exchange used for "essential" imports. In all other respects, foreign investments are to enjoy the same position as domestically owned investments, and their holders can obtain the fiscal and other privileges that are available for the promotion of certain activities. Foreign investments registered under previous legislation,[10] and those made in accordance with concession contracts, are to maintain their earlier status.

Paraguay

In February 1955, Paraguay adopted Law No. 246 designed to attract foreign private capital into the country by offering various privileges for approved foreign investments. The application of the law is not limited to any specific industry or branch of economic activity, but it is stipulated that special legislation will be introduced regulating investment in certain fields, including public utilities, petroleum extraction, banking and insurance. The new legislation does not establish mandatory restrictions on incoming capital, but accords privileges to approved investments. Its provisions appear to apply only to investments made subsequent to the enactment of the law.

The registration of approved investments, which may include reinvested earnings, authorizes the investor to transfer earnings and capital up to 20 per cent per annum of the registered amount. All transfers are to be made at the free rate (an official rate), and provision is made for yearly revaluation of the registered amount at the exchange rate for the currency in which the transfer is to be carried out. Should the authorities not allocate exchange, however,

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10/ Earnings and capital of such investments may be transferred up to an amount not exceeding 10 per cent of registered capital per annum.

because of "foreign exchange shortage", the investor may be authorized to retain up to 25 per cent of his foreign exchange earnings in order to make the privileged transfers mentioned above; in special cases the limit is 50 per cent. Other privileges available to enterprises with registered capital include exemption during a specified period from import duties on investment goods and from new export duties, and a rebate of up to 25 per cent on income tax liabilities.

The import and export duty exemptions just mentioned were previously available under Decree-Law No. 31 of March 1952, to new manufacturing enterprises or to enterprises modernizing their installations, provided they utilize domestic raw materials. This decree-law made no distinction as to nationality of ownership. The right to retain a percentage of the foreign exchange proceeds from exports had been incorporated in several previous decree-laws defining privileges available to foreign investors in particular fields of activity.

The Middle East and Africa

Egypt

A law adopted in April 1953 provided for the extension of special facilities for remittances in respect of approved new investments.[11/] The law established a special Foreign Investment Committee which, in addition to determining investments eligible for approval, was also made responsible for supplying prospective investors with information on legislation and economic conditions in Egypt.

Investments over a wide range of economic activity, including manufacturing, agriculture, mining, power, transportation and the tourist trade, are eligible for approval. Subject to the approval of the Foreign Investment Committee, additions to an investment financed from reinvested profits may also be accorded the same privileges as are available to the capital originally introduced.

Earnings of approved investments may be transferred abroad in the currency of the original investment without limitation, at the exchange rate prevailing at the time of transfer.[12/] Capital may be repatriated after five years from the date

11/ Law No. 156 of April 1953, as amended by Law No. 475 of September 1954.

12/ Law No. 156 of 1953 imposed a limit of 10 per cent of registered capital on such transfers, but this was removed by Law No. 475 of 1954.

of entry, at an annual rate not exceeding one-fifth of its registered value. In the event that practical difficulties prevent the investment of capital transferred to Egypt pursuant to the provisions of the law, the funds may be repatriated one year after their transfer to Egypt.

The scope for foreign investment in Egypt was also increased by the adoption of a new company law, effective 16 February 1954, amending an earlier law of 1947. The amended law provides that foreign capital approved under the general investment law (No. 156 of 1953) is exempt from the application of certain provisions of the new company law that limit the extent of foreign ownership. The provisions in question require that, for a period of one month, 49 per cent of the shares must be offered to Egyptian nationals and that 40 per cent of the members of the board of directors must be Egyptian nationals.[13]

Iran

A decree designed to encourage private foreign investment was adopted in 1953 and enacted into law in a slightly modified form in 1955. The law affords the same rights, exemptions and facilities to foreign investors as are accorded to domestic investors. In the event of expropriation of capital, the foreign investor is assured equitable compensation. The net profit of foreign investments may be transferred abroad each year in the currency of the original capital, up to a limit to be specified in regulations implementing the law. Repatriation of the original capital and accrued profits is also permitted, subject to notice of three months after all tax obligations are fulfilled, and with the proviso that 10 per cent of the original capital is to be retained in Iran for a period of six months.

Israel

An amendment to a law of 1950, which extends certain privileges to approved foreign investments, was adopted in June 1955. In the case of approved investments, the law of 1950 allows the transfer of earnings and amortization up to

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13/ A law of 1947 imposed more stringent limits on foreign ownership. Such ownership was limited to a minority interest, namely 49 per cent. This provision was amended by Decree-Law No. 120, effective 4 August 1952, authorizing 51 per cent foreign ownership.

10 per cent per annum of registered capital, and it also extends certain tax benefits to such investments. The recent amendment increases the types of investments which may be granted privileges under the 1950 law; in particular, investment through long-term loans are included. The law also increases the tax benefits which may be accorded to investors, and it liberalizes the regulations concerning the repatriation of invested capital.

Jordan

In April 1955, the Government of Jordan enacted two laws designed to encourage investment of private foreign capital in industrial enterprises in that country. A "Law for the Encouragement of Foreign Capital Investment" provides that income of approved new investments from abroad may be transferred without limit into the currency in which the original investment was made. Repatriation of invested capital is permitted after one year, in four equal annual instalments. A special committee is established to administer the law. The committee is to determine at the time of approval of the investment what percentage of local capital, if any, is to participate.

A related law, entitled a "Law for the Encouragement and Guidance of Industry" affords incentives, such as tax relief and relief from import duty, to industries classified as essential to the country's economic development.

Turkey

The "Law for the Encouragement of Private Capital", adopted in 1951, was replaced in 1954.[14/] Under the new law, retroactively applicable to investments made since 1 August 1951, foreign capital may enter practically all fields of activity open to Turkish private enterprise, provided that it is invested in projects useful for the economic development of the country and does not entail any monopoly or any special concession, and subject to approval on a case-by-case basis. A special committee is established with the responsibility of considering investment proposals, appraising the value of capital imported in forms other than foreign exchange and administering other provisions of the law. For the

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14/ Law No. 6,224 of 18 January 1954.

purpose of the law, foreign capital is defined to include the following: foreign exchange; machinery, equipment, tools, accessories and necessary materials to be approved by the special committee; services and intangible rights, such as patents, licences and trademarks; and profits accruing from approved capital and reinvested, with the approval of the committee, in the original enterprise or in any other project meeting the requirements of the law. Any amount of the profits of the enterprise may be reinvested and included in the investment, subject to official approval.

The new law places no restriction on the remittance of profits accruing to approved foreign investments and allows the repatriation of invested capital without limit. Under the law of 1951, remittances of income of approved investments were limited to 10 per cent of registered capital, and the repatriation of capital was authorized only after a minimum period of time. The new law guarantees to foreign capital and to foreign enterprises all rights, exemptions and privileges granted to national capital and national enterprises in the same field of activity.

The Government of Turkey has also sought to stimulate private investment by establishing an industrial assistance commission to help investors evaluate investment opportunities and provide information and advice to private enterprises.

Other developments

Collective efforts have been made by certain countries in the Middle East to encourage the transfer of private investment funds among them and to establish arrangements to promote the utilization of part of the financial resources individually available to them in the economic development of the group as a whole. A multilateral agreement on current payments and capital transfers was signed at Cairo in September 1953 by representatives of the members of the Arab League. Under the agreement, the contracting parties pledged to authorize the transfer of capital by their nationals and residents to enable them to participate in economic development projects in member countries; capital transferred from one party to another in accordance with the terms of the agreement would not be subject to any levy or tax that might hinder its transfer and would be guaranteed repatriation to the country of origin. By January 1955, the agreement had been ratified by Egypt, Iraq, Jordan, Lebanon, Saudi Arabia and Syria.

According to available information, the framework of general legislation and regulation applicable to private foreign investments in Africa has not been substantially altered during the period under review (1 January 1953 to end of 1955). There have, however, been numerous changes in specific aspects of regulation, particularly in the form of tax incentives and tariff measures designed to stimulate private enterprise, and of legislation and administrative arrangements governing the development of minerals. As regards exchange restrictions, the policies of the dependent territories of the region in general follow those of the metropolitan area with which they are connected.

Asia and the Far East

Afghanistan

In April 1954, Afghanistan adopted a law according certain privileges to foreign investments in approved enterprises. The scope of activities open to approved investments is not limited by the law, but it provides that preference be given to investments in the fields of industry, mining, public works, agriculture and transportation. The law stipulates that no legal distinction is to be made between foreign and national capital. Further, income of approved foreign investments may be transferred without limit at the official rate of exchange. The repatriation of capital, including reinvested earnings, is likewise authorized without restriction. A governmental committee on foreign investment is to review investment proposals; final approval rests with the Cabinet.

Burma

In June 1955, the Burmese Government issued a statement setting forth in detail provisions regulating new foreign private investment in Burma. According to the statement, private investors are to be excluded from two branches of activity, namely, public utilities and the manufacture of munitions. At the same time, the Government issued a list of industries in which private investment, domestic or foreign, is especially desired. It was indicated that foreign investment in such ventures should preferably be made jointly with domestic capital. The extraction of natural resources may be undertaken by private

investors in partnership with the Government or under contract with the Government; the maximum foreign participation in such undertakings, however, is limited to 40 per cent. An exception to this limitation is made, however, in petroleum development.

The Government stated in this announcement that it would guarantee new enterprises against nationalization for an agreed period, normally of not less than ten years, and that it would pay equitable compensation in the event of nationalization, the basis of compensation to be discussed with prospective investors. Foreign investors would be permitted to transfer current earnings and the repatriation of investments over a "reasonable period" would be allowed.

Cambodia

A bill concerning investment of foreign capital was approved in March 1956 by the Cambodian Council of the Realm and submitted to the National Assembly. The bill provides that incoming investments are to be subject to prior authorization by the Government. Provision is made for a government guarantee against nationalization or expropriation within ten to twenty years of the establishment of an enterprise. Transfers of profits are to be limited to 8 per cent of the invested capital, and capital repatriation upon liquidation limited to annual instalments of 20 per cent. It is indicated that the Cambodian Government or Cambodian nationals are, in general, to participate in approved investments to the extent of 50 per cent or more of the share capital; likewise, at least half of the employees are to be Cambodian citizens.

Ceylon

New policies with respect to foreign investment were set forth by the Government in a White Paper in July 1955. Foreign investors intending to undertake investments in the country are to inform the Government through application to the Prime Minister, who is to be assisted by an advisory board in considering projects. Flexible criteria are to be applied in screening applications. Foreign investment is to be encouraged where a "genuine programme of production" exists, where there is inadequate domestic capital or technical know-how and where the country's balance of payments can be strengthened. In general, foreign investments

concerned mainly with finance, commercial trade or agency management are not to be encouraged unless technical assistance can be demonstrated to be an important contribution of such activity. Although no specific rules exist, great importance is attached to the training and employment of Ceylonese nationals and to local financial participation.

As regards exchange restrictions, the White Paper states that in the event of the continuation of exchange control, the Government would freely permit the remittance of income from foreign investments and the withdrawal of foreign capital. Under present regulations, proceeds from the sale or liquidation of assets owned by permanent residents of the sterling area are freely transferable to the country of residence; in the case of residents of non-sterling areas, the proceeds of approved investments made after 1 January 1950 are transferable up to the amount of the original investment. The proceeds of investments owned by residents of non-sterling areas can be credited to a blocked account, if the original investment was not approved by the Government or was made prior to 1 January 1950.

China: Taiwan

A law relating to private foreign investment was adopted in July 1954. New investments in the country are subject to approval by the authorities, according to procedure specified in the law. The profits of approved investments are guaranteed transfer into the original currency of the investment at a rate not exceeding 15 per cent of the value of the investments. Transfers in excess of 15 per cent may, however, be approved on an individual basis. After the second year of the investment, repatriation of capital, including reinvested earnings, is permitted in yearly quotas not exceeding 15 per cent. The statute accords foreign-owned enterprises equality of treatment with domestic enterprises and provides that if foreign capital constitutes 50 per cent or more of the total investment, the enterprise is to be immune from expropriation for a period of ten years after its establishment. The privileges accorded by the statute are also available to foreign investments existing at the time of its enactment, provided application for approval was made on behalf of such investments within two months of the promulgation of the law.

During 1954, the Government also amended certain measures designed to encourage Chinese residents overseas to engage in productive enterprises in Taiwan, which had been issued in October 1952. The amendments were incorporated in a statute enacted in November 1955, which provides that Chinese residents abroad who invest in the production of essential consumption goods or exportable goods are to be entitled to the same privileges as foreign nationals who invest in Chinese enterprises.

India

During the past several years, a number of official statements have been issued concerning India's interest in attracting foreign private capital for purposes of economic development and reiterating the rights and assurances granted to foreign investors under existing laws and policies.[15] Specific measures have also been adopted with the purpose of attracting foreign capital into approved investments.

Thus, "in order to stimulate investment of foreign capital in desirable channels", the Government in March 1953 announced the relaxation of exchange regulations governing the repatriation of non-sterling capital invested in approved

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15/ A recent summary of the Government's policy is contained in the following statement by the Minister of Finance of India:

"Foreign capital is welcome on terms mutually advantageous to the investor and the country. As far as possible, the majority interests in ownership and effective control should be in Indian hands. This is, however, not a hard and fast rule, and exceptions are made where necessary in the national interest.

"Then, there should be adequate provision for the training of Indian personnel for taking over technical and administrative posts in the enterprise.

"Foreign enterprises will, after admission, have equality of treatment with Indian enterprises. Fair and equitable compensation will be paid if the Government acquires any foreign enterprises. Foreign enterprises are assured of reasonable facilities for remitting profits and repatriation of capital and also for any compensation paid on acquisition."

International Bank for Reconstruction and Development, Summary Proceedings, Ninth Annual Meeting of the Board of Governors (Washington, D.C., 1954), page 45.

projects after 1 January 1950. Previously, the repatriation of such capital was limited to the amount of the original investment. Under the new arrangement, approved investments made after 1 January 1950 by residents of countries other than those in the sterling area, and Denmark, Norway and Sweden, may be repatriated at any time; this arrangement includes capital appreciation in the value of investment. These facilities do not apply, however, to shares purchased on the stock exchange unless such purchases were an integral part of an investment project approved by the Government of India after 1 January 1950.

The broad outlines of India's policy towards private foreign investments were laid down in the Government's industrial policy resolution of April 1948 and the Prime Minister's statement in the Indian Parliament in April 1949. In April 1956, the Prime Minister made a further statement on industrial policy in the Indian Parliament, modifying earlier policies establishing certain categories of industry reserved for development by the State or by private enterprise. A number of industries were added to the list previously reserved for exclusive future development by government enterprise. These cover air transport and several branches of heavy industry, including iron and steel, heavy machinery, certain branches of mining, and the generation and distribution of electricity. The new policy does not appear, however, to apply to existing enterprises in these sectors.

During the period under review, several new financial institutions were established in India to stimulate investment in manufacturing and other activities. Of particular importance for the stimulation of foreign investment was the establishment early in 1955 of the Industrial Credit and Investment Corporation of India. The new corporation is a privately owned enterprise deriving its capital from private and public sources within India and abroad. It has an authorized capital of 250 million rupees ($52.5 million) and an initial capital of 50 million rupees ($10.5 million). The purpose of the new corporation is to promote the development of privately owned industrial enterprises in India. This task is to be undertaken both by the provision of financial facilities and by assistance to industry in securing managerial and technical advice.

Indonesia

In December 1955, the Government of Indonesia issued a statement concerning its policy toward private foreign investments. In certain sectors of special public interest, including railways, telecommunications, inter-insular navigation, electricity, and irrigation and water supply, all enterprises are to be government-owned. The announcement stated, however, that existing foreign-owned enterprises in such fields would not be nationalized except on agreement with the owners. In other industries regarded as "basic", foreign capital is not to represent more than 49 per cent of the total share capital. Regulations regarding foreign investments, and special transitory regulations for existing foreign enterprises, are to be drawn up; they are to include limitations on use of land for industrial purposes for a maximum period of forty years.16/

According to the announcement, transfer abroad of all profits accruing to foreign investments would be freely permitted, as would repatriation of foreign capital after a certain period of operation. Transfers of profits due non-residents are subject, under an emergency act of 1954, to a 66-2/3 per cent exchange transfer tax, with the exception of profits of foreign enteprises established after 1953. In explaining the imposition of the surcharge, the Government indicated that an increase in the profits of existing foreign investments as a result of internal inflation had not been accompanied by a corresponding change in the official rate of exchange of the rupiah.

Southern Korea

A draft law, prepared in 1955 and presently under consideration, contains rules and regulations governing investment of foreign capital. The draft establishes procedures for authorizing new investments and prohibits expropriation, except for public purposes, for a period of fifteen years after an investment is made. While all payments in respect of invisible transactions and capital remittances at present require official approval, the proposed law provides that the capital of authorized investments may be withdrawn after two years and that the authorities may impose certain limits on transfers of income and capital.

16/ Regulations implementing the policies expressed in the announcement have not yet been issued.

Pakistan

In November 1954, the Government of Pakistan announced the liberalization of certain policies adopted in 1948 concerning private foreign investment. The policy adopted in 1948 required that Pakistan capital be given an option to subscribe at least 51 per cent of all share capital and debentures in thirteen specified industries. In addition, foreign investors were required to provide facilities for the training of Pakistan nationals and to afford opportunity for their participation in newly established enterprises. The Government undertook to allow transfer of "a reasonable proportion" of profits from foreign investments. It was stated that no restrictions would be placed on such remittances "other than those of general application arising from foreign exchange limitations and policy ...". No specific commitment was made regarding the repatriation of capital of foreign investments. The entry of capital for new business investments was subject to approval on a case-by-case basis. Certain tax concessions were offered to stimulate foreign and domestic investments.

According to the announcement of 1954, the Government will guarantee the repatriation of foreign capital invested after 1 September 1954 in approved industrial projects, together with profits reinvested with the consent of the Government in approved enterprises.[17/] The new repatriation facilities do not apply, however, to the purchase of shares on the stock exchange unless they are an integral part of an approved investment project. Remittance of profits continues to be governed by the policy adopted in 1948.

Under the amended rules, foreign investors will be permitted to own up to 60 per cent of share capital in thirteen specified industries and up to 70 per cent in other industries, with the exception of public utility enterprises, in which the percentage of foreign capital will be determined on a case-by-case basis.[18/] The new announcement further states that, in the event of expropriation,

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17/ A list of twenty-seven industries in which the investment of foreign capital is to be allowed repatriation facilities was announced in January 1955. The same privilege may be extended, however, to investments outside the specified list with the approval of the Government.

18/ In actual practice, the restriction on the maximum percentage of foreign investment has been applied rather flexibly.

just and equitable compensation will be paid and will be made freely transferable. A government bureau has been established to provide information and assist prospective foreign investors.

The Philippines

In January 1954 the President of the Philippines stated that it was desirable to take steps to attract private foreign investment. Subsequently, a mission appointed by the President to study the question of stimulating foreign investment in the Philippines recommended the adoption of a general law regulating private foreign investments.

At present, all new investments entailing remittances abroad or transfers of capital require prior approval of the Government. The right to engage in a number of fields of economic activity is reserved to Philippine nationals, and in a number of industries - including banking, development of natural resources and land transport - foreign participation is limited to a minority interest. The position of United States investors is governed by a trade agreement between the Philippines and the United States, which was revised in 1955 and which entered into force in 1956. This provides, among other things, for non-discriminatory treatment of citizens and business enterprises in both countries with respect to the development of natural resources and public utilities.

Thailand

The Government of Thailand adopted an industrial promotion act in October 1954. The legislation does not establish general regulations for private foreign investment, but provides for a commission to advise on the promotion of investments with reference to such matters as types of industry to be promoted, exemption from taxes and duties to be granted to approved industries, and conditions for remitting income and capital of certain foreign investments. The Government is authorized under the act to provide a guarantee for transfer abroad of current earnings. In general, the Government has followed the policy of making exchange available for remittance of earnings on existing foreign investments. A governmental committee has been established to examine and revise legislation and practices which are likely to impede foreign investments.

According to an official statement in October 1955 foreign capital may be invested without restriction in industries, whether foreign-owned or owned jointly with nationals of the country. Among the activities reserved to the Government are railways, domestic civil aviation and port facilities. Prior approval by the Government is required for investment in public utilities, development of natural resources, banking and insurance. A law of 1954 specifies the maximum area of land - depending on purpose - that an alien may acquire.

Western Europe

Almost all countries in Western Europe[19/] and their dependent territories regulate private foreign investments within their area in some degree. The regulation is, however, largely confined to exchange control and is imposed mainly with the balance of payments considerations in mind. In addition, some countries have limited foreign investment in specific sectors for reasons unrelated to the balance of payments; this applies particularly to investments in dependent territories and to investments involving mineral exploitation. With regard to investments once admitted, the rights and obligations of foreigners in the conduct of business within these countries and their dependencies are generally identical with those of nationals. In a few countries, however, a minimum amount of local financial or managerial participation may be required as a condition of approval of a new investment, but statutory exclusion of foreign capital is rarely found.

It is therefore evident that regulation of foreign investment in most European countries consists largely of administrative rulings, mainly in the field of exchange control. During the past several years there has been a tendency in certain countries to liberalize restrictions relating to capital movements.

The entry of foreign capital for investment in particular projects remains subject to authorization by exchange control authorities in most countries of

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19/ The countries to which this section refers are Austria, Belgium, Luxembourg, Denmark, France, Western Germany, Greece, Iceland, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom. The information is based partly on a report of the Organisation for European Economic Co-operation, Private United States Investment in Europe and the Overseas Territories (Paris, 1954).

Europe. No authorization is required, however, in Italy and Switzerland; and in Belgium, Luxembourg and Portugal, the regulation of entry is designed only to obtain information in order to prevent subsequent evasion of exchange restrictions. Elsewhere, control is exercised mainly with reference to the potential impact of the investment on the economy of the host country and, in the case of United States investment, with particular reference to the anticipated effect on the country's balance of payments with the dollar area.

With the general easing of exchange restrictions and reduction of discrimination in trade and payments that has occurred during the past several years in Europe however, it appears that these criteria are applied with considerable flexibility. Furthermore, several countries, in their desire to attract foreign capital, have simplified the procedure for authorizing capital imports for direct investment. Thus, the Netherlands has created a single agency which handles all administrative procedures for foreign investment and maintains an office in the United States to attract investments in the Netherlands, particularly by manufacturing concerns. A similar centralization of procedures has occurred in Belgium, Italy and the United Kingdom.

In most countries of the area, the transfer abroad of income from new investments (both direct and portfolio) is now freely permitted, regardless of the currency involved. Very few limitations exist on the transfer of income from earlier investments, that is, those in existence before a date specified by the exchange control authorities.

As regards repatriation of capital, there is some variation among different forms of investment. Repayment of loans in accordance with the terms of the loan contract is always permitted. Permission to repatriate freely the original capital of new direct investments is almost automatic in most countries. In 1953 the United Kingdom further liberalized its regulations to permit free repatriation of capital derived from reinvested earnings or capital gains resulting from the sale of assets of approved new investments. During the past several years, as noted in chapter 3, restrictions have been considerably eased on transfers arising from the sale of securities by non-residents, particularly in Belgium-Luxembourg, Western Germany, the Netherlands, and the United Kingdom.

In two countries of the region, Greece and Italy, special legislation relating to foreign investments has been adopted during the period under review. In 1953 Greece enacted a law designed to provide certain assurances to private foreign investors and to regulate the status of private foreign investment in that country.[20] Approval of each foreign investment is to be granted by a special governmental agency and it must take the form of a royal decree, in which all the conditions pertinent to the establishment or operation of the foreign investment are defined. The decree defines the form in which the capital is to be imported and the investor's rights to transfer profits and repatriate capital. The decree cannot be altered except with the consent of the foreign investor. The law limits transfer of earnings to 12 per cent per annum of the amount of equity capital (including capital financed from reinvested earnings) and 10 per cent per annum on loan capital; the repatriation of either class of capital is limited to 10 per cent per annum. If existing foreign exchange restrictions are removed, the limits on remittances shall then cease to apply. Certain tax exemptions may be granted under the law to enterprises established with foreign capital, and foreign enterprises are exempted from compulsory expropriation. All approved investments are assured of treatment as favourable as that extended to similar enterprises in the country.

In Italy a law was adopted in 1948 (Decree-Law No. 211) to facilitate remittances arising from investments made through the transfer of Swiss francs or Canadian or United States dollars. Earnings on such investments were made freely transferable abroad, up to an annual amount not exceeding a percentage of the original investment, equal to the legal rate of interest plus one per cent. Amounts in excess of the limit were to be paid into a special account. Transfers from such accounts were to be allowed, however, in payment for certain invisible items. Transfer of the capital of the investment was to be allowed in instalments after a minimum period. These provisions were liberalized by Law No. 43 of February 1956, creating two categories of foreign investments. Enterprises designated as "productive" may freely remit income and capital, including reinvested earnings. The transfer of income from other investments is limited to 8 per cent of the investment, and the capital may not be repatriated until two years after the investment is made.

20/ A legislative decree of 22 October 1953 concerning the "Investment and Protection of Foreign Capital".