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# DIRECT FOREIGN INVESTMENT IN THE UNITED STATES

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A REPORT

BY THE

SUBCOMMITTEE ON FOREIGN ECONOMIC POLICY

OF THE

COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES

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# FOREWORD

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
*Washington, D.C., July 7, 1974.*

This report has been submitted to the Committee on Foreign Affairs by the chairman of the Subcommittee on Foreign Economic Policy, which held hearings in January and February of 1974.

The findings of this report are those of the subcommittee and do not necessarily reflect the view of the membership of the full Committee on Foreign Affairs.

THOMAS E. MORGAN, *Chairman.*

# LETTER OF TRANSMITTAL

JUNE 28, 1974.

HON. THOMAS E. MORGAN,
*Chairman, Committee on Foreign Affairs,*
*Washington, D.C.*

DEAR MR. CHAIRMAN: I am submitting a report by the Subcommittee on Foreign Economic Policy reflecting its hearings on "Global Scarcities in an Interdependent World" held in January and February of this year.

The hearings were prompted by the dramatic increase in foreign investment in the United States during 1973 and the expressed citizen concern over the foreign take-over of specific American companies and acquisition of large real estate properties and agricultural facilities.

The main theme that ran through the hearings was the inadequacy of existing data on foreign investment and therefore the inability adequately to determine the appropriate national policy toward foreign investment.

In order to fill this information void, the members of the Subcommittee on Foreign Economic Policy introduced H.R. 15487, the "Foreign Investment Study Act of 1974". This bill directs the Executive to undertake a comprehensive survey and analysis of foreign investment in the United States and to report the findings and recommendations to the Congress. On June 20, 1974, the bill was unanimously reported to the Committee on Foreign Affairs.

The subcommittee expresses its appreciation to you for the responsibility you have entrusted to it, and to the many witnesses, in and out of the Government, who generously provided both time and careful preparation to the consideration and study of this issue. It is hoped that this report, together with the "Foreign Investment Study Act of 1974", will help shed light on this complex matter.

With best wishes, I am,

Sincerely yours

JOHN C. CULVER,
*Chairman, Subcommittee on*
*Foreign Economic Policy.*

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# DIRECT FOREIGN INVESTMENT IN THE UNITED STATES

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## A Report on Hearings by the Subcommittee on Foreign Economic Policy

### I. Reasons for the Subcommittee's Hearings

The Subcommittee on Foreign Economic Policy held hearings in January and February of 1974 on the subject of "Direct Foreign Investment in the United States." Testimony was received from representatives of business and farm organizations, State development agencies, financial institutions, the academic community, and the executive branch.

The hearings were prompted by the dramatic increase in foreign investment in the United States during 1973, the growing citizen concern over various, often undocumented, reports of foreign takeovers in process or in prospect, and the apparent absence of a coherent national policy. For example, there was expressed citizen concern over the Japanese investment of some $200 to $300 million over a period of 3 to 4 years in the Hawaiian tourist industry and over the reports of foreign purchase of large real estate tracts and agricultural land, especially in the Midwest. Several large acquisitions, such as the purchase of 30 percent of the shares of Texasgulf by the Canadian Development Corp. for $240 million, the takeover of Gimbel Brothers by the British American Tobacco Co. for $195 million, and the tender offer by Liquidin A.G. for 50 percent of Ronson Corp., were vigorously fought by management and provoked news articles about the prospects for extensive foreign takeover of U.S. corporations. Concern was expressed over Japanese ownership of U.S. timberland and over the potential for foreign interests to gain control over U.S. natural resources, particularly our vast deposits of coal.

As U.S. policy on foreign investment has heretofore centered almost wholly on outward investment by Americans, it was hoped that an information basis could be compiled for the determination of a national policy toward inward investment.

The subcommittee's goal of identifying an appropriate long-term national policy toward foreign investment was severely hampered by the insufficiency of existing data. The material that follows should be considered with the understanding that (1) the data base is wholly inadequate and can serve only to give a general indication of the extent and nature of direct foreign investment in the United States and to provide a comparison of the situation in the United States with that in other countries; and that (2) it will be several years before a more



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complete data base can be compiled to provide fully adequate underpinnings for national policy.

The subcommittee hearings were concerned primarily with direct rather than portfolio foreign investment. The distinction between the two is that direct investment implies some degree of control—significant influence within the decisionmaking process—whereas portfolio investment reflects a passive role on the part of the owner. To apply such a distinction is, however, not easy.

Actual control varies with the form of the investment and the size of the company. The Department of Commerce has historically used 10 percent as the level at which to classify as "direct" foreign investment by a U.S. national, but 25 percent as the threshold for inward direct foreign investment. In part as a result of congressional inquiries, the Department has recently decided to use 10 percent as the level for both inward and outward direct investment. This would seem to provide a more reasonable basis for comparisons, but those instances where control may occur with less than 10 percent ownership—through debt financings, contractual relationships, or otherwise—ought not to be forgotten.

## II. Extent and Nature of Direct Foreign Investment

Historically, foreign investment was very important to the development of the United States. Foreign investment is estimated to have totaled some $60 million in the early 1800's, comprising about one-quarter of all business equity holdings. Foreign investment accounted for one-half of the Federal public debt and two-thirds of the shares in Hamilton's National Bank. Much of the country's infrastructure was funded by foreign capital, which by 1837 amounted to $200 million.

Most of this investment was in the form of debt, with the total foreign capital in the United States in 1914 of $7.2 billion being divided $1.3 billion in shareholdings and $5.9 billion as nonequity holdings. With the United States abruptly shifting to the position of a net capital exporter during World War I, foreign direct investment capital was reduced to a relatively minor role in the U.S. economy.

In modern times there has been a distinct predominance of portfolio over direct foreign investment, with direct investment in 1960 amounting to $6.7 billion out of a total foreign investment in the United States of $30.5 billion, and the respective figures being $14.4 billion and $88.9 billion in 1972. These figures are the estimates of the Department of Commerce and are based on the samples constructed from two benchmark surveys, one on portfolio investment conduced in 1949 and the other on direct investment in 1959. The reporting base for this data is inadequate despite efforts to update it. For example, Commerce statistics place total direct foreign investment in mining, manufacturing, and petroleum at the end of 1972 at $10.47 billion. In contrast, an academic survey [1] arrived at the estimate of $38 billion of direct foreign investment in those three areas. As another indication of the inadequacy of data, the same study compared

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[1] By Professors Jeffrey Arpan of Georgia State University and Dick Ricks of Ohio State University.

the Commerce Department list of over 800 manufacturing firms in the United States that were foreign owned in 1972 with a list compiled by Simon & Schuster of over 1,400 firms fitting that category and found less than 50 percent duplication.

Available data indicates that the growth of direct investment has been somewhat erratic. For the period 1961–66, the average annual increase was 4.3 percent. It jumped to 10 percent for 1967–70 and returned to 4 percent during 1971–72. The exact growth for 1973 is still a subject of dispute. The Department of Commerce has estimated it at around $2 billion. The conference board has identified specific new investments totaling $1.927 billion for manufacturing alone for March through November and places the total increase for 1973 at around $3 billion. Whatever the exact amount, the 1973 increase was definitely a dramatic jump over the reported increases of $385 million in 1971 and $708 million in 1972.

The principal sources of direct foreign investment have historically been the United Kingdom (32 percent) and Canada (25 percent), followed by the Netherlands (16 percent), Switzerland (11 percent), and other European nations (13.5 percent). Only some 2.5 percent of recorded direct foreign investment was non-European. These percentages are changing with the increase in investor activity from Germany and Japan, the latter reportedly accounting for some 35 percent of the increase in direct foreign investment in 1972 and 27 percent of the increase during the first half of 1973.

Commerce Department figures show the 1972 distribution of direct foreign investment as 50 percent in manufacturing, 22 percent in petroleum, 17 percent in insurance and finance, and 11 percent in other areas. These investments are dispersed over many industries, accounting for no more than 2 percent of any industry except for pharmaceuticals and petroleum. Foreign holdings in the latter area are primarily accounted for by Royal Dutch Shell and British Petroleum (BP). The recent acquisition of Signal Oil & Gas Co. by Burmah Oil will increase the portion accounted for by petroleum.

Foreign direct investment in manufacturing and petroleum has been located principally on the east and west coasts, with the leading States being New York (over 200 subsidiaries and affiliates), New Jersey (over 100), Pennsylvania and South Carolina (around 50) and California (44). Several of the Southern States, Virginia, North Carolina, South Carolina, and Georgia have been among the major magnets of foreign capital in recent years. Illinois, with just under 50 foreign subsidiaries and affiliates, has been the only State in the interior of the country to attract significant numbers of foreign investors. On the whole, these have been the States that have been most active in trying to attract foreign investment, through special trade and investment missions and the establishment of representative offices in Europe and Japan.

## III. Explanations for Direct Foreign Investment

Numerous hypotheses have been advanced to explain the interest of foreign companies in investing in the U.S. economy. Two reasons are stressed for the recent surge. One is the two devaluations of the dollar, which made exports to the United States less competitive and invest-

ment in the United States cheaper. It is calculated that the yen gained a 20 percent investment advantage through the devaluation. The second reason is that the depressed stock market made the acquisition of U.S. companies relatively inexpensive. There is no doubt that these factors gave an added incentive to investment in the United States, but to fully grasp the trend it is necessary to look at less short-term phenomena.

One explanation is that inflation has been greater in Europe and Japan than in the United States, so that the cost of production has increased less in the United States. This is particularly true with labor, which has been in a tight supply situation in Europe and Japan. Similarly, the climbing expense of costs in money and time incurred through exportation—freight, warehouse, customs clearance charges, documentation—makes production in the United States more attractive in order to supply the U.S. market.

The size and homogeneity of the U.S. market serves as an attraction to foreign investment. The European Economic Community provided the arena for the establishment of large European corporations, and European and Japanese multinationals have in recent years gained the experience necessary to enter the rather large and competitive U.S. market.

Through the acquisition of U.S. companies foreign business interests can gain access to the technologies of large-scale production and the techniques of mass marketing, with which knowledge they can increase their competitiveness at home. Acquisition can also provide a foreign company with an established sales outlet. The relative availability of land and a highly skilled labor force may also attract foreign investment to the United States.

Large foreign dollar holdings provide other nations with the liquidity with which to invest in the United States. The Eurodollar markets, estimated at some $70 billion, has the added benefit of allowing firms to evade their nation's controls on the exportation of capital. In 1971 the Japanese Government loosened its exchange controls on outward investment. The fear that the United States might raise its restrictions—uncertainty over U.S. foreign trade policy and concern over the possibility of rising economic nationalism and protectionism—may have induced exporters to the United States to shift their production facilities inside any potential tariff and quota restrictions.

## IV. Future Prospects of Direct Foreign Investment

The future prospect of new direct foreign investment in the United States is unclear. Many of the secular factors—size of the U.S. market, desire to secure U.S. know-how and resources, evolution of European multinationals, reduction in the gap for labor costs between the United States and other industrialized nations—should continue to sustain foreign interest in the U.S. economy. On the other hand, the dramatic growth during 1973 may not be repeated because the devaluation of the dollar has been partially reversed and because the stock market may not remain depressed over the long run. Furthermore, the effect of soaring petroleum prices may drastically reduce the foreign exchange available for foreign investment, as evidenced by

the Japanese tightening of controls on capital exports. Softening this effect may be the attractiveness of establishing facilities within the United States given its relatively greater self-sufficiency in energy and other natural resources compared to the rest of the industrialized world.

The real question mark for future of foreign-investment trends in the United States is the petrodollar. Will world petroleum prices continue to be buoyed so that the oil-producing Arab States receive revenues of around $100 billion rather than the $22 billion they received in 1973? If so, they will have excess funds in the range of $50 billion annually which they will be unable to utilize domestically and for which they will be looking for productive uses. In the past, much of the Arab financial reserves have been placed in liquid short-term deposits rather than long-term investments. There have been numerous reports of Arab money flowing into the United States, and the extent to which this occurs will largely determine any change in past patterns of direct foreign investment in the United States. The bulk of this capital is Government controlled and so creates a new dimension to foreign investment in the United States.

## V. Effects of Direct Foreign Investment

### (A) BENEFITS

A number of benefits from direct foreign investment have been cited. The one that has been emphasized the most is increased competition, which brings lower prices and better products and services for the U.S. consumer and forces increased efficiency on U.S. competitors. Direct foreign investment in the United States can bring technological transfers, and it is argued that the competitiveness and sophistication of the U.S. market places the U.S. economy in a good position to capture a portion of the economic rents and enhance the rapid diffusion of the technology.

Direct foreign investment increases domestic production and thereby benefits the country through adding to tax revenues. Similarly, labor benefits through increased employment. The Department of Commerce has estimated that direct foreign investment employs one-half of 1 percent of the U.S. labor force, and the academic study cited previously places the figure above 1 percent. The conference board compilation that placed new direct foreign investment in manufacturing for March through November of 1973 at over $1.9 billion set the accompanying gain of employment at over 13,000. Whereas the impact from direct foreign investment on the overall U.S. employment situation may be relatively small, the effect on those regions that attract the foreign investment can be significant.

Direct foreign investment can have a mixed impact on the balance of payments. The investment will benefit the short-run balance of payments if the capital is imported, but not if the investment is financed from within the United States. The balance of payments will be benefited to the extent that investment displaces imports and/or results in new exports.

Direct foreign investment can be advantageous if it has a ripple effect by creating more business for local subcontractors, suppliers, and shippers. Foreign investment can have an important impact in particular regions or communities, where its benefits for employment, production, and tax revenues may be concentrated.[1]

### (B) DISADVANTAGES

As is the case with arguments over the benefits of direct foreign investment, discussion of the adverse effects is generally based on speculation of potential effects and theorization rather than on a close assessment of the actual situation. There is a fear that control from outside the United States of production facilities and resources within the United States can result in decisions being made that are not in the national interest. There is concern that foreign control of U.S. corporations may interfer with national economic goals and policy. The one industry in which existing U.S. law actually makes such a development possible is banking, as foreign banks are not required to be members of the Federal Reserve System.

Fear is expressed that direct foreign investment can disrupt domestic markets and cause adjustment problems for domestic firms and workforce. There is concern that foreign management will not adapt to U.S. labor practices and needs and might be more likely to close shop if business becomes bad. Foreign ownership of agricultural facilities and national resources may exacerbate domestic commodity scarcities. Such ownership may direct scarce resources to foreign markets and impair the Nation's access to the products of its own farmlands, timberlands, and mineral deposits.

### (C) PROCESS OF INVESTMENT

The form in which an investment is made—establishment of a new operation or acquisition of an established one—can influence both its economic and popular impact. There has been very little adverse reaction to the establishment of de novo production facilities in the United States. Such investment increases competition, employment, and U.S. productive capacity.

Concern has been expressed over the acquisition of existing companies, particularly large, well-known companies. In general, such takeovers add little to the U.S. economy. However, there can be economic benefit in instances where the foreign investor acquires a financially faltering company and/or introduces new management, capital, and technology that heighten a firm's competitiveness.

The general impression has been that most foreign firms enter the United States through acquisitions. However, 90 percent of the sample in the previously cited academic survey established new operations, and the conference board reported that two-thirds of the $1.9 billion of new investment in manufacturing during the period March–November 1973, went toward construction of new facilities. Of the more than 3,000 corporate takeovers in the United States in

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[1] For example, since 1960 Spartanburg, S.C., a city of 45,000 people, has attracted 24 foreign firms that now employ 4,000 local workers.

1973, there were 12 major public tender offers by foreign investors totaling over $850 million and 9 major private acquisitions totaling nearly $750 million.

## VI. Direct Foreign Investment in Other Countries

To better assess the implications of direct foreign investment for the U.S. economy and the treatment of that investment, it is necessary to compare the situation in the United States with that in other countries. In general, the net world trend is toward more restrictions on inward investment, and the United States has fewer restrictions and controls than most countries.

Most of the new restrictions have been established by developing nations. The most publicized effort has been the Andean Code, entered into by Peru, Bolivia, Chile, Ecuador, Columbia, and Venezuela. It applies numerous restrictions to foreign investment, including outright prohibition of new foreign investment in public utilities, transportation, communications, finance, insurance, advertising, marketing, and publishing, and a requirement of phased divestiture. In practice, all of the member countries have made use of the provisions for exceptions to the Code's strict treatment of foreign investment, and it is as yet too early to predict what its long-term impact will be. In general, the trend toward increased restriction of foreign investment by developing nations has resulted from a concern over the possible loss of national sovereignty and control over their own destiny and from a desire to strengthen indigenous business.

Many of the controls in the developed countries stem from balance of payments and antitrust considerations. The United Kingdom has formal controls on inward investment through foreign-exchange regulations. In Australia every investment proposal is reviewed, and in France the Minister of Economy and Finance can request that a proposed investment be postponed for a period of 2 months. Canada has recently enacted the Foreign Investment Review Act, which requires government review of foreign takeovers of Canadian firms with assets over $250,000 or annual sales over $3 million and of offers to acquire 5 percent or more of a publicly held company. Germany is one of the more open countries, with its main requirement for foreign investors being a registration requirement.

Japan, which has historically maintained rather rigid restraints on inward investment, has more recently been leading something of a countertrend by opening selected sectors of its economy to foreign investment. France and Spain have also softened their restrictions, and Yugoslavia and Rumania now permit joint ventures with foreign firms.

For the most part, the United States lacks the screening process and foreign-exchange controls that are prevalent in many countries. It does impose limitations and prohibitions in certain strategic sectors that are similar to restrictions in many other developed countries but they are less extensive than is the practice in the developing world. As to why other developed nations have imposed stiffer controls than the United States, one indication is the relatively greater magnitude of direct foreign investment in their respective economies.

Commerce Department statistics place the book value of all direct foreign investment in the United States at one-quarter of 1 percent of all U.S. corporate assets. In contrast, U.S. direct foreign investment alone accounts for 5 percent of corporate assets in Europe. Even if the Commerce Department data makes large underestimates, as is likely, the figure for direct foreign investment in the United States would still be under 1 percent of U.S. corporate assets of some $2.4 trillion. In 1970 foreign investors held 14.6 percent of the capital of German stock corporations and 26.2 percent of German closed corporations. The reason for the recent Canadian requirements on the review of new foreign investment is indicated by the following chart detailing the position of foreign capital in Canadian industry:

FOREIGN CONTROL OF KEY CANADIAN INDUSTRIES

| Industry | Percent U.S. control | Percent total foreign control |
|---|---|---|
| Food and beverages | 26 | 35 |
| Textiles, clothing, etc | 31 | 38 |
| Paper, allied fields | 31 | 42 |
| Primary metals | 35 | 43 |
| Metal fabricating | 40 | 47 |
| Metal mining | 58 | 62 |
| Electrical products | 57 | 65 |
| Machinery | 67 | 75 |
| Mineral fuels | 65 | 83 |
| Transport equipment | 75 | 85 |
| Chemicals, rubber, petroleum, and coal | 70 | 93 |
| Total manufacturing | 45 | 59 |
| Total mining | 58 | 68 |

## VII. Administration Policy

On February 5, 1974, Peter Flanigan, Director of the Council on International Economic Policy and spokesman for the White House on the subject of foreign investment in the United States, appeared before the Subcommittee on Foreign Economic Policy to present the administration's position.

This position can be summarized as follows:

(*a*) Further restrictions on foreign investment in the United States are not desirable at this time;

(*b*) There is a need for more comprehensive, up-to-date information in certain areas so that we can follow more closely the current volumes and patterns of foreign investment in the United States; and

(*c*) The United States should continue to grant foreign investors "national treatment"—that is, we should continue to freely admit foreign investors and to treat them on a basis of equality with domestic investors once operating within the United States.

The basic reasons given by the administration for this policy can be summarized as follows:

1. A policy which welcomes foreign investment in the United States is consistent with our overall efforts to promote an open, nondiscriminatory and fair international economy. Any new restrictions would not only be contrary to our overall policy of liberalizing international investment but would represent the very type of nationalistic policy which we are trying to dissuade other nations from adopting.

2. Foreign investment in the United States is not a significant factor when compared with the vast size of our economy. It has no significant effect on aggregate demand, aggregate employment, and the implementation of our macroeconomic policy.

3. We already have substantial power under existing laws to take necessary action should foreign investment threaten our national security.

4. There is a real danger that a more restrictive U.S. policy would have a major effect on the investment climate in nations where our companies have substantial interests. Any restrictions by the United States could result in a serious deterioration in the way our companies are treated abroad.

5. The consuming nations of the world must provide investment opportunities for the growing foreign currency holdings of the oil rich nations. Any move now by the United States which restricted the opportunity for foreign investment in the United States would make it more difficult for the oil producing nations to find profitable and sound long-term investment outlets for their excess revenues.

Given the existing data base and in the context of the implications for the overall U.S. economy, the administration's policy is probably appropriate, as there is no existing information indicating serious adverse effects. However, this is basing policy on wholly inadequate data, and that policy must be kept flexible until accurate data is available. It also ignores the parts in favor of the whole, but again the implications for particular industries and sections of the country cannot be fully determined until better statistics are in hand.

Most of the discussion over the effects of direct foreign investment on the U.S. economy is based on theoretical assumptions rather than on investigations that have measured the actual effects. Free market system theory says that direct foreign investment is an instrument for the international transfer of resources, technology, and products, the free movement of which increases economic efficiency and benefits the world economy. However, such theorization does not indicate the impact of this international transfer on particular regions and specific economic sectors, nor how the various national barriers and incentives to foreign investment alter this transfer, nor how the possible national and international oligopolistic domination of particular industrial activities by a few large firms may alter the efficient allocation of resources.

## VIII. Unanswered Questions

It is the hard questions, the ones expressed by various segments of the population, that the administration's policy fails to answer—either to allay fears or to take action in response to legitimate concerns. For example, what about direct foreign investment in this country's natural resources? There was no response to the fears in the Midwest that were fueled by rumors of foreign purchase of large agricultural tracts and transportation facilities. Were these rumors based on fact or fancy? Is there legitimate basis for concern that foreign purchase of agricultural lands and productive facilities might

unduly disrupt local farming communuities? How much of the timberland on the west coast is owned by foreign interests, and at what level of foreign ownership should we become concerned? Is there a danger that foreign interests will gain control over our vital natural resources and export them to our disadvantage, or does U.S. sovereignty over foreign investment in this country adequately protect the national interest?

On the other hand, are the predictions accurate that the materials shortages of today will be replaced in several years by capital shortages? Should, in fact, we be promoting inward investment in order to add to our capital stock, and would it be appropriate to give preferential treatment to direct foreign investments that are financed from abroad over those that are financed from U.S. sources? Are de novo investments to be preferred to acquisitions, and if so by what mechanisms? As to national policy, what, if anything, needs to be done to bring coherence to existing regulations and to make them current with today's needs. It is answers to such questions as these which must be found if the government—both the legislative and the executive branches—is to accept its responsibility of meeting the concerns of the public and if steps are to be taken to blunt the potential assertion of narrowly motivated economic nationalism. The price of securing informed electoral support for national policy in this field is sustained economic vigilance.

## IX. "Foreign Investment Study Act of 1974"

It is in light of the foregoing—the inadequacy of existing data and therefore the inability to answer critical questions or to set a long-term national policy—that the subcommittee is proposing the "Foreign Investment Study Act of 1974." The bill proposes a 2½-year benchmark survey of both direct and portfolio foreign investment. The last benchmark survey of direct foreign investment was in 1959 and of portfolio investment was in 1949.

The study is to include a collection of data and analysis of: The extent and nature of foreign investment; the motivations for and the processes of foreign investment in the United States; the impact on specific geographic areas and economic sectors and on employment and personnel practices; and existing State and Federal regulations affecting foreign investment. Although it is not intended that the U.S. Government be a primary source for data on foreign investment in other countries, it is intended that these aspects of foreign investment in the United States be compared, to the extent feasible, with foreign investment practices elsewhere in the world. The study would entail an evaluation of the alternate policies available to the United States regarding inward investment and an assessment of the international implications of these alternatives. Finally, the bill directs that, based on the experiences of other nations and the information needs of the United States, a report be made to Congress on the adequacy of U.S. disclosure and reporting requirements affecting foreign investment. This study will make it possible to assess the need for and implications of reporting and/or disclosure requirements.

The collection of statistics on direct foreign investment is to be handled by the Department of Commerce, and the collection of statistics on portfolio investment by the Department of the Treasury. Other executive agencies and departments should be asked to provide input into the drafting of the survey questionnaires and the analysis of the data. For example, it is intended that the Department of Agriculture be given a primary role in these processes. Previous surveys have concentrated on manufacturing, but foreign investment in agriculture and real estate should be accorded an equally important role in this study. Similarly, the Department of the Interior should be consulted on matters regarding other natural resources. The Department of State should participate in the analysis of conditions in other countries and of international implications. An interim report is to be made to Congress 18 months after the enactment of this legislation and a full report within 2½ years.

The subcommittee hopes that this legislation will be a step in the direction of giving the American people an accurate picture of the extent and implications of foreign investment in the United States and toward providing the Congress and the Executive the information necessary for determining a national policy and for dealing realistically with this complex matter.

# APPENDIX

## Treatment of Direct Foreign Investment

### (A) Restrictions

U.S. restrictions on foreign investment are the result of a hodgepodge of State and Federal regulations that have developed on a random basis over the history of this Nation. There is no coherence nor consistency to them. They affect certain categories of enterprises which are considered sensitive either: (1) because of a close relationship with national defense, (2) because they involve the exploitation of certain natural resources, wherein there has historically been some degree of restriction against alien ownership; or (3) because they occupy a peculiarly fiduciary role.

Sources of existing restrictions include: (1) historical precedent—English laws restricting alien ownership of land; (2) periodic revulsions against foreign influence—1832 fear of foreign control of banking and 1880's concern with absentee landlords; (3) 1916–30, fear of German investment; (4) desires to enhance U.S. bargaining power in international economic relations, such as through requirements of reciprocity.

PARTICULAR RESTRAINTS

*(1) Communications*

Foreign ownership of more than 25 percent of a domestic communications company (telephone, telegraph, radio, television) is prohibited.

*(2) Transportation*

(*a*) *Aviation.*—Domestic air transportation is restricted to U.S. airlines, and registration of aircraft is limited to individual American citizens or U.S. corporations in which at least two-thirds of the directors are American citizens and at least 75 percent of the stock is owned by American citizens. Certain rights are granted to foreign airlines through bilateral negotiations, but they cannot pick up persons, property, or mail within the United States to be transported to a destination within the United States.

(*b*) *Coastal and freshwater shipping.*—Reserved to U.S. corporations. Aliens may own controlling interest in fishing or international shipping firms, but are not entitled to construction or operating differential subsidies unless a majority of the stock is owned by U.S. citizens.

*(3) Natural Resources*

(*a*) *Land.*—Various States have laws restricting the amount of land that aliens (frequently defined as nonresidents of that State rather than just non-U.S. citizens) can own for mining or agricultural activity. (Corporate or nominee ownership may frequently evade this restriction.)

(*b*) *Mining.*—Aliens may not acquire or exploit mineral lands owned by the Federal Government; except that, where Federal lands are subject to exploitation by citizens, aliens may obtain interests in leases of mineral lands through control of domestic corporations entitled to hold such leases, if their country allows reciprocal rights to U.S. citizens.

(*c*) *Hydroelectric power.*—Hydroelectric power sites on navigable streams may be developed only by U.S. citizens, associations of U.S. citizens, or domestically organized corporations, but foreign control of such corporations is not prohibited.

(*d*) *Atomic energy.*—Aliens may not obtain licenses to operate facilities for the utilization or production of atomic energy.

(4) *Finance*

(a) *Banking.*—No Federal impediments, but only New York, California, Illinois (these three are the most important), Alaska, Massachusetts, Oregon, and the Virgin Islands permit much foreign banking activity aside from representative offices (which perform no banking functions). Foreign banks can have branches in more than one State, a privilege not allowed U.S. banks.

(b) *Stock market.*—Foreign membership on the New York and American stock exchanges is prohibited, but this is now a subject of active debate.

(5) *Government Contracting*

The Buy American Act does not discriminate between companies located in the United States that are owned by U.S. citizens and those that are alien-owned. However, certain contracts involving access to or development of classified information require security clearance. For corporations, clearances must be obtained for all principal officers and chairmen of the board plus others who may have access to classified information, and most foreign nationals are ineligible for clearance.

(B) INCENTIVES

There are no Federal incentives to direct foreign investment. The Department of Commerce does run an "Invest in the U.S.A." program, in cooperation with the National Association of State Development Agencies. The program runs seminars abroad to provide foreign businessmen with information on investing in the United States and assists potential investors.

Various States offer incentives to businessmen (both United States and foreign): (a) financial assistance, (b) tax incentives, (c) general data basic to plant location, and (d) special services (free land, assistance in R. & D., feasibility studies, job training).

Twelve States have representatives in Japan and Europe for the purpose of attracting foreign investment to their States. (Alabama, Alaska, Georgia, Illinois, Maine, Maryland, Michigan, New York, North Carolina, Texas, Virginia, Wisconsin, and Puerto Rico.)

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