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THE ROLE OF PRIVATE ENTERPRISE IN THE
MUTUAL SECURITY PROGRAM

A study prepared pursuant to
Section 413(c) of the Mutual
Security Act of 1954, as
amended, on the basis of data
available on December 31, 1959.

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The Role of Private Enterprise in the
Mutual Security Program

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I. Introduction

The financial and technical resources of American private enterprise should be drawn upon to the maximum extent practicable in order to sustain and accelerate the process of free world economic growth. Where private enterprise invests in the less developed countries, its investment serves as an integral, and frequently a major, component of economic development and should therefore receive every reasonable encouragement by the United States. In recognition of this principle, Section 413(c) of the Mutual Security Act as amended in 1959 directed the Executive Branch to conduct studies of "...the ways and means in which the role of the private sector of the national economy can be more effectively utilized and protected in carrying out the purposes of this Act...". Section 413(c) is quoted in its entirety in the appendix to this report.

A comprehensive report titled "Expanding Private Investment for Free World Economic Growth" was submitted in April 1959 by Ralph I. Straus, as Special Consultant to the Under Secretary of State for Economic Affairs. The present report concerns the current status of the Government's activities designed to implement the legislative objectives quoted in the preceding paragraph, and gives recent statistical material to bring up to date the tables published in the Straus report.

Experience has shown that a sizable amount of investment will flow to industrialized nations without special incentives. United States annual new direct investment abroad, including both capital outflow and re-invested earnings, averaged about \$2.5 billion over the period 1955 - 1958. ^{1/} The outflow of private capital declined in 1958 from the 1957 peak, as economic activity slowed down in many countries and excess capacity appeared, both for manufactures and raw materials. However, the 1958 rate of outflow continued to be much higher than that which had prevailed prior to the sudden upswing in 1956, and direct investment during the first three quarters of 1959 was about 40 percent higher than the 1958 figures for the corresponding months. Historically, United States investment abroad has been heavily concentrated in Latin America, Canada, and Western Europe, with only about \$100 million in direct investments flowing annually to the less developed countries of Asia, Africa, and the Middle East. A significant share of this figure has been in petroleum investment, with comparatively little investment in other fields. In the less developed countries, in whose development the United States has so compelling a policy interest, obstacles to private investment are formidable, and private investment cannot be expected to flow in sufficient volume without some Government assistance.

^{1/} Tables 1 - 5 in the appendix to this report give recent statistics on United States private investment abroad.

Questions inevitably will be raised as to the propriety of measures which might appear to employ Government funds for the benefit of private investors, and whether the success of such measures might not harm the export trade of the United States. However, history has shown that the state of development of a country is a measure of its capacity for international trade. Consequently, aid to less developed nations, far from damaging our exports, will in the long run expand our export markets. Moreover, it is essential to remember that our own national interest will be furthered by the economic advancement of the less developed countries. Thus the public interest is generally served by programs for encouraging the flow of private investment to these areas.

It is unreasonable to expect, however, that private enterprise alone can carry the responsibility, today or in the near future, for aiding the growth of the free world's less developed countries. Government assistance will continue to be needed, among other purposes, to finance "economic overhead" projects, such as roads, dams, and harbor development; to continue technical assistance in such fields as health, education, agriculture, public administration, and monetary policy; to facilitate the free flow of business and investment information; to help economies where the threat of Communist aggression or subversion may act as a special deterrent to private investment. It must be realized, moreover, that the results of a program of economic development will generally be slow and unspectacular. But we must not be discouraged by the difficult and unrewarding aspects of the task. The stakes are high, and a prolonged and unremitting effort is required.

Summary of Actions Taken

Actions taken by the United States during the past year to maximize the contributions of the private sector of the United States economy to the economic development of less advanced countries include the following:

Assistance and Exploration - increased technical assistance to build up local private sectors as a base for and a complement to American and third-country investment; utilization of country surveys to identify and explore specific investment opportunities;

Finance - direct dollar lending for development of private enterprise abroad; lending of local currency proceeds from PL 480 sales; support to foreign development banks, by financial assistance, by guaranty of loans, and through technical assistance; expansion of Governmental guaranty and insurance programs; encouragement of private financing facilities; provision in Government lending programs for private financial participation; participation in international financing organizations;

Taxation

Taxation - negotiation of additional income tax treaties, including tax sparing provisions, with less developed countries; recommendations to the Congress on proposed legislation to change the method of taxing foreign earnings, notably to provide deferral of tax on income earned in less developed countries until the earnings are distributed in the United States;

Auxiliary measures - continued action to free foreign investment and trade from private restraints, while minimizing the deterrent effect of unwarranted fear of prosecution under United States antitrust legislation on American investment abroad; continued negotiation of commercial treaties; encouragement to private organizations in their efforts to strengthen foreign investment by American entrepreneurs; increased consultation with representatives of American industry on matters concerning investment; and a continued review of the services performed by the Government for the American business community, with the intent of improving these services wherever practicable.

II. Private Enterprise in Developing Countries

A fundamental contribution can be made to the rate and soundness of the economic growth of less developed countries by strengthening and accelerating the growth of the private sectors of their economies. A solid base of local private enterprise provides a firm foundation for foreign investment, including American, by enabling the host country to attract and service further investment, both local and from abroad.

During 1959, the Administration has given increased emphasis to promoting the expansion of local and foreign private investment in the less developed countries receiving aid under the Mutual Security Program. This involves the following: bringing to bear on the problems of utilizing private resources, skills and energy for economic growth the kind of organized and concentrated attention that has heretofore been accorded to programs in agriculture, health and public works; counselling countries, upon request, on the factors which go to make up a climate favorable to private investment and on methods of fostering such a climate; assisting countries to establish local institutions designed to encourage private investment; assisting in the identification and exploration of specific investment opportunities of interest to foreign investors; and bringing foreign investment opportunities to the attention of the American business community. As a part of this effort, the agencies concerned with administering the Mutual Security Program have made organizational changes, where appropriate, to devote specialized attention to increasing the emphasis on private enterprise in their programs. This will enable the United States Government to respond more effectively when developing countries demonstrate interest in getting the help they need to realize more fully the potentialities

of private

of private resources both from within their own countries and from foreign investors.

During this initial period, attention has been centered on the task of building a greater emphasis on the private sector into the process of formulating and implementing country programs. Particular efforts have been directed to exploring measures by which a greater amount of private investment could be encouraged, and arrangements have been made to bring specific investment possibilities to the attention of the American business community through the established facilities of the Department of Commerce and other agencies.

Special surveys by American businessmen and bankers have been initiated in response to demonstrated interest in such assistance from certain countries. For example, a team headed by an American businessman and composed of business and Government personnel has recently completed and submitted to the Government of Thailand a comprehensive set of recommendations for action by that Government directed at encouraging a significant increase in local and foreign private investment. These recommendations included specific measures whereby investment opportunities can be identified, investigated and developed to the point where foreign investors can make decisions. The United States will assist the Government of Thailand, as appropriate, in implementing these recommendations.

In Ecuador a program is being developed for creating a local investment development institution and for launching economic and engineering surveys of specific investment possibilities. In the Sudan, a team headed by an American banker is assisting the Government of the Sudan on the problem of providing an institutional basis for adequate credit facilities for local private investors. The team is also engaged in identifying specific fields which merit follow-up surveys for possible foreign investment. Similar activities of this character are being planned or are underway in certain other developing countries which have requested such assistance, including a program of technical assistance to industrial districts in Jordan and to an investment development program in Israel. In each case the particular activity is tailored to the needs and desires of the country concerned.

Our program for accelerating private sector development overseas has attracted considerable interest and expressions of support from members of the American business community and from our Missions abroad. There is reason to believe, on the basis of our experience to date, that many of the developing countries are prepared to move more rapidly than heretofore with programs to encourage private enterprise.

III. Financing

III. Financing and Contracting for Private Enterprise Overseas

Direct Dollar Loans

Both the Export-Import Bank and the Development Loan Fund have continued direct lending programs for private enterprise development abroad.^{1/} Also, of great importance to private sector growth in the less developed areas of the Free World, these lending agencies have continued through appropriate loans to facilitate the expansion of the public facilities such as highways, ports, and electric power installations, which are so essential a basis for the expansion of private investment and their business activities. As a further stimulus to export sales of capital equipment of United States origin, the Export-Import Bank announced in September, 1959, a liberalized financing policy whereby the minimum vendor participation in its supplier credits is reduced to 12 percent of the contract price (formerly 20 percent). The buyer is still required to make a 20 percent cash payment, with the Bank now financing 68 percent of the contract in lieu of the former 60 percent figure.

PL 480 Loans

The Agricultural Trade Development and Assistance Act of 1954 (PL 480 of the 83rd Congress), as amended, authorizes the use of foreign currencies realized from the sale of surplus United States agricultural commodities for a number of purposes, several of which are closely related to economic development. Pertinent excerpts from the law are quoted in the appendix of this report.^{2/}

Executive Order 10560 provides for participation by the Development Loan Fund (DLF) in the administration of loans made under Section 104(g) of PL 480. The Administration is proposing amendments in PL 480 which will make local currency receipts available to the International Development Association (IDA) for relending for development purposes. In anticipation of the time when repayments of PL 480 loans are received in quantity, the possible uses of returned funds are being considered.

Under the Cooley Amendment to PL 480, up to 25 percent of the local currency received under each sales agreement is available for loans by the Export-Import Bank to United States firms or to affiliates of United States firms in foreign countries for purposes of business development and trade expansion in the host country. Foreign firms having no such affiliation are eligible for loans for facilities which will expand markets abroad for United States agricultural products. In

administering

^{1/} Tables 6 & 7 in the appendix to this report give recent statistics on lending by the Development Loan Fund; Table 8, the Export-Import Bank.
^{2/} Table 12 in the appendix to this report gives recent statistics on the planned uses of foreign currencies derived from PL 480 sales.

administering these loans, the Export-Import Bank has adopted as flexible criteria for determining eligibility as the wording and intent of the law permit. By September 30, 1959, eighty-one loans had been authorized under the Cooley Amendment in 14 countries, of which 12 are less developed.

As a general rule, PL 480 sales agreements provide that Cooley Amendment funds, if not used within three years, may revert to United States uses. The Cooley program was slow in gathering momentum because sales agreements had to be negotiated, shipment of commodities made, and payment received and reported before funds became available to the Bank for lending. Between August, 1957, when the Amendment was enacted, and December, 1958, loans had been authorized in three countries - Mexico, Israel, and France. Where funds allocated to the Export-Import Bank appear to be in excess of current requests and foreseeable requirements of American business, it was suggested that the length of time that funds were reserved for Cooley loans be generally shortened, to reduce the possibility that the money would lie idle for prolonged periods. However, interest in Cooley Amendment loans in many currencies has increased at an accelerated rate during 1959, and the problem of unused funds is now correspondingly less. A significant objection to a general reduction of the three-year period is that it often takes a potential investor a major part of this time to organize a project to the point where borrowed funds can be usefully employed. To help insure maximum use of Cooley Amendment funds, a system of periodic review is being considered.

Support to Foreign Development Banks

The United States Government has a long and substantial record of extending financial support to foreign development financing institutions. The Export-Import Bank, for instance, has made loans to a number of development funds and banks in Latin America and other countries. Through the Mutual Security Program, the United States has authorized the use of counterpart funds in the establishment of private development banks in several countries, and has extended assistance for establishing industrial loan funds in countries where a development bank did not exist. The Development Loan Fund (DLF) has made loans to development banks in Turkey, Pakistan, Iran, Somalia, Korea, and Lebanon. It has applications for loans or inquiries from development banking institutions in Taiwan, the United Arab Republic, Greece, and Ethiopia. It has recently entered into an agreement with the Bank of Monrovia, Liberia, whereby the DLF will partially guaranty collection of loans made by the Bank for the development of local private enterprises. The types of loans covered by the agreement are those not normally financed by commercial banks. The IBRD, with United States concurrence, also provides financial support for development

banks.

banks.

Opportunities to provide financial support to soundly organized foreign development banks will continue to occur in the future. These may involve the extension of direct loans in foreign exchange (as from the Export-Import Bank or the DLF) and the use of counterpart funds or PL 480 currency proceeds on a loan or grant basis as part of the resources of such institutions. In addition, opportunities may arise to utilize other local currencies, including DLF local currency repayments, for loans to such institutions. The use of DLF guaranty authority may also be a means of infusing more private loan capital into development banks. It is noted that financial assistance is granted to banks only in cases where substantial local financing is assured.

Technical assistance is often an important corollary of financial support for development banks. Such assistance, particularly for sound management and development of technical competence in such banks, can improve the climate for extending financial support which might otherwise not be feasible. The United States has already provided technical assistance for development banks in many less developed areas. Such technical assistance, to supplement and strengthen financial support, can be supplied increasingly through the International Cooperation Administration (ICA).

Guaranties and Insurance

The ICA's Investment Guaranty Program, which makes available protection against the risks of inconvertibility of currency, expropriation, and losses due to war, has been pursued actively during this period. In the calendar year of 1959, the volume of guaranties issued increased by about 25 percent to a total of more than \$497 million. ^{1/} Some 37 percent of this total figure represented guaranties to investments in less developed countries. Investment guaranty agreements were signed in 1959 with: Argentina, ^{2/} Finland, Malaya, Nicaragua, Sudan, and Tunisia, and the existing agreement with India was extended to cover the risk of expropriation. Guaranty agreements are now in effect with 44 countries, of which at least 28 may be considered to be less developed ^{3/}, and discussions are being held

with several

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- ^{1/} Tables 9 and 10 in the appendix to this report give recent statistics on guaranties issued and applications pending.
- ^{2/} The agreement with Argentina has been signed by the Executive Branch, but will not become effective until ratified by the National Congress of Argentina.
- ^{3/} Table 11 in the appendix to this report lists the countries with which investment guaranty agreements were in force on December 31, 1959.

with several other less developed countries with a view to concluding new agreements or extending existing agreements to cover additional categories of risk. At the year end, applications for guaranties of all three types totaled \$1,072 million, including those for projects in Argentina. There is also a sizable backlog of applications for guaranties on investments made or contemplated in countries with which we have not yet been able to conclude agreements.

The Mutual Security Act as amended in 1959 restricted the issuance of new guaranties to investments furthering the development of the economic resources and productive capacities of less developed areas, except in the case of guaranties issued prior to January 1, 1960 on the basis of applications submitted prior to July 1, 1959. This of course, excludes most of the European countries. The Act also increased ICA's issuing authority under the Program from \$500 million to \$1 billion. However, the Administration's request that coverage under the Program be broadened to include the risk of loss due to revolution and civil strife was not approved by the Congress.

The DLF has the authority to guarantee the repayment, in whole or in part, of private loans for economic development projects or programs consistent with the purposes of the DLF. The use of this authority was facilitated by the provision of the Mutual Security Act of 1959 that the reserve maintained by the DLF for any guaranty shall not be less than 50% of the contractual liability of the Fund under the guaranty. However, there has been little demand by private lenders for repayment guaranties, and the DLF has used this authority in only two cases to date. In one case the DLF guaranteed the repayment of loans extended by two private American banks to a ship building enterprise in Taiwan. The other case involved the guaranty by the DLF of loans by the Bank of Monrovia to local enterprises in Liberia, mentioned earlier in this report.

The Export-Import Bank has for many years offered two classes of guaranties available on loans for both export financing and economic development. The first category, transfer guaranties, cover the risk of currency inconvertibility in the case of foreign loans made by United States lenders. The Bank has now raised the limits on such guaranties to 90% of the value of the loan (formerly 85%), and has reduced the charge to one-half of one percent per annum on the outstanding balances guaranteed. The second type, all-risk guaranties, covers loans extended by commercial banks or other entities on projects that would be eligible for Export-Import Bank financing. Such arrangements provide for reimbursement by the Bank in the event of default or for a "take out" upon demand, on terms agreed upon by the Bank and the lending entity. The Bank's fee for all-risk guaranties takes into account the condition of the money market at the time, the possible effect of the guaranty on the sale of obligations of the

United States

United States Treasury, and its effect on sales from the Bank's portfolio without its guaranty. The Bank's guaranty authority has been extensively used in the past, but there has been little demand for such guaranties during periods when the demand for funds in the money market was great and interest rates were high.

In response to certain expressions of interest on the part of American exporters and bankers in an export credit insurance program, the Administration is again reviewing the adequacy of export credit facilities currently available to U.S. business. No definite conclusions have emerged from this review as yet.

Private Financing Facilities

The Small Business Administration has announced that small business investment companies may make loans to finance the foreign operations of qualified small business concerns, either through overseas branches or through controlled foreign subsidiaries, provided that at least a major portion of the firm's assets remain within the territorial jurisdiction of the United States after the employment of such funds. This policy was set forth in the November, 1959 issue of the Reporter, an informational organ published by the Small Business Administration.

The past year has seen a revival of interest on the part of American banks in establishing special corporations to engage in foreign financing and investment activities, under the provisions of Section 25(a) of the Federal Reserve Act. ^{1/} Several banks have recently applied to the Federal Reserve Board for authorization to establish such corporations, and other banks have indicated that they are contemplating such a move. These specialized American banks normally carry on a much greater range of activities than the ordinary commercial bank operating outside the United States, including providing credit on terms longer than those usually extended by commercial banks. They also are permitted, with the consent of the Federal Reserve Board, to purchase and hold stock in other corporations, including foreign banks.

Thus,

^{1/} Section 25(a) of the Federal Reserve Act authorizes the Federal Reserve Board to charter banking and financing corporations "for the purpose of engaging in international or foreign banking or other international or foreign financial operations... either directly or through the agency, ownership or control of local institutions in foreign countries... and to act when required by the Secretary of the Treasury as fiscal agents of the United States..." This Section of the Federal Reserve Act is normally referred to as the Edge Act.

Thus, they are in a position to assist the less developed countries in mobilizing their own capital resources and in obtaining outside capital for their economic development programs.

Private Participation

The United States utilizes private enterprise as far as practicable in executing its programs, particularly by contracting to private companies and by using normal commercial channels. Contracting procedures are under constant review to insure continued maximum private participation.

The DLF has extended many loans, directly and indirectly, to private enterprise. Some loans have been made directly to private companies; other loans have financed steel and capital goods imports for sale to private companies in the less developed countries. The DLF is prepared to support sound projects developed by private interests who are themselves prepared to make a substantial investment in the projects. About two-thirds of the DLF's financing has been extended to projects of a non-commercial nature--notably to the "economic overhead" type of undertaking such as dams, roads, power and harbor facilities, for which private capital is not normally available but which are essential as a foundation for the sound growth of private enterprise. The DLF has not extended loans to governments for industrial-type projects except in a few cases. In such cases it has wherever appropriate required the borrower to institute procedures for transferring the project ultimately to private ownership.

The Export-Import Bank requires initial private financial participation in transactions which it finances through exporter credits, through its policy of requiring a cash payment by the purchaser and credit participation by the vendor. In addition, in all project loans to private entities the Bank requires that there be ample private equity investment as a base for any loan of the Bank's funds. As a further means of encouraging private financial participation, the Bank follows the policy of selling its loans at par to private banks whenever possible. The Bank has long had a separate division to maintain constant contact with private sources of capital, including commercial banks, investment houses, and insurance companies. During the past two years, the Bank has sold to private purchasers more than \$200 million of its loans without guaranty of payment by Eximbank. The DLF is also prepared to sell its loans to private investors, although there has been little interest on the part of the investors, due to the fact that many DLF loans are repayable in foreign currencies. Some DLF loans to private enterprises are partly in the form of convertible debentures which it is hoped can later be sold to private investors.

International Activities

International Activities

The United States took the lead in 1959 in increasing the resources of the International Bank for Reconstruction and Development and of the International Monetary Fund, and is exploring with other members of the IBRD the possibility of creating an International Development Association, to serve the World Bank as a more flexible tool for development. Our Government has also taken part in creating the Inter-American Development Bank, which is expected soon to play an important role in the progress of Latin America. We have also endeavored to persuade others among the world's industrialized countries to assume an increasing share of the responsibility for assisting less developed nations in their struggle for advancement.

IV. Taxation of Foreign Investment

The Administration's interest in the field of taxation of foreign investment was manifested during 1959 in negotiating tax treaties and in testifying at Congressional hearings on proposed legislation affecting the taxation of income earned abroad.

Tax Treaties

The United States has income tax treaties in effect with 21 countries, and is pursuing an active program of negotiating similar conventions with other nations. ^{1/} These treaties, by reducing the area of double taxation of income flowing between the two signatory states, and by providing for fiscal cooperation between the contracting Governments in matters concerning the taxation of such income, improve the climate for international investment and facilitate foreign commerce, to the mutual advantage of the countries concerned.

In 1959, negotiations or technical discussions aimed toward the conclusion of income tax conventions were held with Ceylon, Ghana, India, Israel, the Republic of China, Thailand, and the United Arab Republic. An income tax convention with India was signed on November 10, 1959. Full agreement was reached at the technical level with several other of these countries, and it is hoped that the treaties can be signed, after review by the respective governments, in the near future. Negotiations were also held with Japan and the Federal Republic of Germany, with a view to amendment of income tax treaties already in effect with those countries, and a general revision of our existing estate tax convention was discussed with Canada.

Several other

^{1/} Table 13 in the appendix to this report lists the countries with which income tax treaties are in force.

Several other countries, notably in Latin America, have expressed interest in tax treaty discussions at an early date, and a busy program of activity lies ahead of us in this field during 1960.

"Tax Sparing"

Many less developed countries have enacted incentive laws to encourage the establishment of new industries or the expansion of existing industries which are expected to contribute materially to their national economic development. The incentives offered take many forms, including lowered customs duties on machinery and raw materials and temporary reduction or suspension of income taxes levied on the investor. Where income tax reduction or suspension is offered, the operation of the United States tax credit system could have the effect of frustrating the law's tax incentive effect, when a reduced tax paid to the host country results in a reduced credit against United States tax. In such cases, the tax incentive measures, after operation of the United States tax credit, would have the effect of decreasing the revenue of the taxing country, with no reduction in the total amount of tax paid by the United States investor. The Administration is seeking to remove through tax treaties the nullifying effect of our tax system in such cases, by including a provision under which the tax temporarily waived for a United States corporation would be deemed, under appropriate circumstances, to have been paid, and would be credited against the United States tax as if it had, in fact, been paid. This so-called "tax sparing" provision was considered in connection with each of our recent tax treaty negotiations with less developed countries.

The proposed Foreign Investment Incentive Tax Act of 1959 (H.R. 5) would provide for tax sparing by legislation, in cases where the Secretary of State, or his delegate, certified that payment of the tax had been waived by the foreign country as an inducement extended and accepted in good faith to begin, increase, or continue within such foreign country the rendition of technical, managerial, engineering, construction, scientific or like services, or the active conduct of a trade or business. The amount of taxes so waived would have been deemed to have been paid or accrued to the foreign country for a period not to exceed the first ten taxable years during which such taxes would have been paid or accrued except for such waiver. The Administration, although strongly supporting the principle of tax sparing, recommends that policy considerations guiding the selection of foreign taxes for this purpose remain flexible, and that tax sparing be implemented on a selective basis, either by tax treaties or by negotiated agreements authorized by statute.

A further

A further reason for keeping tax sparing in the domain of treaties is that the prospect of sparing is an important inducement to a less developed nation to enter into a tax treaty. Income tax treaties are reciprocal in form, but when one of the signatories is a capital-importing country the standard type of tax treaty, without sparing provisions, offers little immediate reciprocity in fact. Even though a treaty will operate in the long run to the mutual advantage of both contracting parties, the tendency is for the less developed country to regard taxation treaties primarily in terms of the initial and largely one-sided reduction in revenue to its treasury. Tax sparing, on the other hand, offers an immediate and easily demonstrable advantage to the capital-importing country. A large number of less developed countries which had shown little or no interest in discussing tax treaties without sparing have responded enthusiastically to invitations to negotiate treaties including a tax sparing provision.

The concept of tax sparing is a relatively new one in the treaty field, and the United States has never ratified a treaty in which this principle was embodied. Only one tax treaty including a sparing provision has ever been submitted to the Senate for advice and consent to ratification -- the treaty with Pakistan, submitted to the Senate in 1957. In the case of this treaty, the Pakistan incentive law on which sparing depended expired before the Senate could act on the treaty. The Senate then gave consent to ratification of the convention without the tax sparing provision, in accordance with the Foreign Relations Committee's report which so recommended, without prejudice to the tax sparing principle as such, because the issue was no longer pertinent in regard to the Pakistan treaty.

Tax Legislation

The Administration submitted to the Ways and Means Committee of the House of Representatives its recommendations for changes in the taxation of foreign earnings, in its report on the proposed Foreign Investment Incentive Tax Act of 1959 (H.R. 5).

The Administration supported, in modified form, what it considered to be the bill's most significant provision; namely, the establishment of a class of United States corporations, known as Foreign Business Corporations (FBC's), which would enjoy deferral of United States tax on its foreign earnings until those earnings were distributed in the United States in the form of dividends. In order to qualify for FBC status, a corporation must

derive

derive 90 percent or more of its gross income from sources without the United States, and must derive 90 percent or more of its gross income from the active conduct of a trade or business.

The Administration recommended that tax deferment be granted to Foreign Business Corporations on a basis limited to operations in the less developed areas of the free world, and that the deferral provision be limited in the case of companies engaged in exporting. The Administration also recommended enactment of a provision permitting deduction as an ordinary loss, within prescribed limits, of losses incurred by the original investor on stock of a Foreign Business Corporation deriving substantially all of its income from the active conduct of a trade or business, utilizing plant and equipment, in one of the less developed countries. Such tax relief was recommended as a means to induce American firms to invest in manufacturing facilities in the areas of greatest need, by reducing the after-tax cost and thus the risk of incurring losses.

V. Other Activities

Antitrust and Foreign Investment

The continued strong enforcement of the antitrust laws to free United States foreign trade and investment from private restraints is deemed essential to protect our free enterprise system. Artificial barriers to trade place at a disadvantage small and medium sized American businesses abroad so that they may be easily foreclosed or excluded from the market by restrictive or monopolistic practices on the part of larger rivals. In addition, such enforcement indicates to the world our firm belief that free enterprise is a superior form of economic activity and that it is the aim of American business not to exploit, but to compete, openly and fairly, to bring better goods and services to others at more reasonable prices.

It has been maintained that fear of prosecution under United States antitrust legislation has in some cases inhibited American investment abroad, especially in countries where local law or established business practices require forms of organization not permitted in the United States. Deterrents to useful investment must, of course, be balanced against the positive advantages of freeing investment and trade from private restraints generally. To mitigate business uncertainties in those areas where antitrust questions are highly doubtful as a matter of law, and previously undecided by a court, the Department of Justice may issue so-called "Railroad

Release"

"Release" letters in appropriate cases to companies submitting to the Department full information with respect to a proposed plan. These letters, while preserving the possibility of Government civil action, declare that the Department, if it decides to test the validity of the proposed plan in actual operation, will forego criminal action. The Department of Justice has taken every opportunity to publicize this procedure, and will continue to do so in the future.

Where foreign law requires arrangements which otherwise might violate United States antitrust laws, the rights of a foreign nation to regulate commerce within its own borders is recognized by our courts. It is the view of the Department of Justice that, unless any larger conspiracy exists, a requirement of foreign law is usually a justification under our antitrust laws for restrictive arrangements abroad to the extent that such activities are carried on entirely within the bounds of a foreign country. The Report of the Attorney General's National Committee to Study the Antitrust Laws (1955) has also pointed out that the Sherman Act "applies only to those arrangements between Americans alone, or in concert with foreign firms, which have such substantial anticompetitive effects on this country's 'trade or commerce... with foreign nations' as to constitute unreasonable restraints."

The Administration believes that intergovernmental discussions may be very helpful in dealing with the problem of business compulsion upon an American company to enter into restrictive arrangements in a foreign country whether exerted directly or indirectly by a foreign government or by a cartelized industry, and a regular liaison procedure is now in effect between the Departments of Justice and State with reference to restrictive arrangements abroad and to proposed actions and suits which might affect the foreign policy of the United States. This procedure will be continued, and strengthened where appropriate.

Commercial Treaties

In furtherance of a policy that goes back to the birth of our Republic, the United States since the end of the Second World War has negotiated commercial treaties with 39 countries. ^{1/} The aim of

19

this program

^{1/} Table 14 in the appendix to this report lists the countries which have concluded commercial treaties with the United States since the Second World War, while Table 15 lists earlier treaties that are still in force.

this program is to use the treaty process to assure a greater measure of security for United States citizens and United States interests in foreign countries and to advance the general objectives of our country's foreign policy.

When an American is in a foreign country, these treaties serve as a charter of his rights. They pledge constant protection and security for his person and property, and confer on him the right to engage in the normal run of economic pursuits, whether by himself or in association with others, and in general assure to him the privileges necessary to carry on his business effectively.

During the calendar year 1959, the United States pressed forward with the negotiation of commercial treaties wherever favorable opportunities offered. The treaty of amity, economic relations, and consular rights with the Sultan of Muscat, signed on December 20, 1958, received the Senate's advice and consent to ratification of April 28, 1959, and was ratified by the President on May 8. The treaty will enter into force as soon as ratification procedures have been completed by Muscat.

A treaty of friendship and commerce with Pakistan was signed on November 12, 1959, and a convention of establishment (a treaty limited principally to investment matters) with France on November 25, 1959. The latter treaty is initially applicable to metropolitan France and the overseas departments, but provision is made for possible future extension to the less developed overseas territories and member states of the French Community. It is planned to submit both the French and Pakistan treaties to the Senate for advice and consent to ratification early in 1960.

Negotiations with two other countries are substantially completed, and signature may be expected within a few months. One other negotiation has reached an advanced stage, and may be completed early in 1960. Six other projected treaties are in various stages of consideration by the foreign governments concerned, and two new projects are on the point of being initiated.

Activities of the Business Council for International Understanding

The Business Council for International Understanding, an organization of businessmen acting with the encouragement of the Department of State and the United States Information Agency, inaugurated during the past year several programs that are designed to expand private investment abroad. Notable among the Council's activities are its Industry Orientation Program for Foreign Service officers, through

which

which selected senior Foreign Service officers departing for or returning to overseas assignments consult with American business organizations that play a significant role in the economy of the country to which the officer is assigned, and its Training Program for Overseas Business Executives for developing in American businessmen about to go abroad the skills they will need to operate in a foreign environment. The Training Program typically includes instruction in the language and customs of the host country, and is designed to make the executive a more effective representative of his employer and of his country. Such training is of special value to businessmen going to less developed countries where a long tradition of private enterprise is lacking, and where familiar institutions on which the American entrepreneur is accustomed to rely do not exist. The Council also has initiated a program of recruiting American businessmen for interviews to be broadcast by the Voice of America, both in English and in foreign languages.

American Bar Association Study

The American Bar Association, under a planning grant from the ICA, has been engaged in a study of the feasibility of a conference of lawyers from many nations "to consider and recommend means of developing and strengthening within and among nations, legal concepts, standards and institutions which will contribute, through facilitating the expansion of the flow of international investment and trade and otherwise, to the economic growth of such nations and which will facilitate peaceful settlement of disputes within and among nations." The study was undertaken by a Special Committee on World Peace Through Law, under the chairmanship of Charles S. Rhyne, former President of the American Bar Association.

In the Committee's report, which was submitted on May 18, 1959, the Committee recommended, among other things, the holding of an international conference of lawyers. Two of the agenda topics suggested by the Committee deal directly with the problems of development. They are the following:

--"Extension and improvement of institutions and procedures for arbitration of disputes between governments and of disputes growing out of concessions contracts and international business transactions between governments and individuals and between private parties."

--"Extension and improvement of institutions and procedures for the improvement of legal framework for the economic

advancement

advancement of all nations and the removal of the legal uncertainties and fears which now block such advancement."

Because of the Government's interest in promoting the security of private investment abroad, the Administration supports the objectives in these two agenda items. The International Cooperation Administration is discussing with the Bar Association plans for an international conference of lawyers and the sharing with private foundations and other organizations in its costs.

Business Advisory Council Committee on Private Enterprise Overseas

To provide the Government agencies responsible for encouraging and supporting foreign economic development a more effective channel of direct and speedy communication with the American business community, the Business Advisory Council, at the request of the Secretary of Commerce, has established a Committee on Private Enterprise Overseas under the Chairmanship of Mr. Harold Boeschstein. This Committee will cooperate with United States Government agencies through the Secretary of Commerce in bringing to bear the capabilities of American industry in support of United States economic policy objectives in friendly developing countries. Thus, the Committee may consult regarding applications for Government assistance in development projects overseas, make recommendations regarding the most effective, efficient and expeditious manner in which desirable projects can be accomplished, and cooperate in obtaining such private support as may be indicated. The Committee will encourage American business to seek additional ways of furthering private enterprise activities in the less developed countries. It is also expected that the Committee will augment its work through the use of consultants and advisors.

As the Committee is just beginning its work it is impossible to cite any particular accomplishments to date. However, the Government welcomes the assistance of the Business Advisory Council and is confident that its new Committee will make a real contribution to meeting the challenge of industrial progress in the developing countries.

Services to Business

An executive branch study is currently being made with a view to developing a program designed to give further assistance to private business in increasing its exports in expanding world markets. It is anticipated that the study will be completed at an early date in order that any proposals involving Congressional action can be presented to Congress early in the 1960 calendar year. The study is

examining

examining the services currently offered to American business in its export effort by the U.S. Government at home and abroad and how these services and facilities might be improved and expanded.

During the past year, the Department of Commerce, with the assistance of the Foreign Service, continued to give all possible emphasis to its regular program of providing information and counsel to that part of the business community interested in foreign trade and investment. Work has been completed on a revised investment handbook on India, and a new volume on Chile, and these will soon be added to the extensive informational and advisory literature for potential investors published by the Department of Commerce. The Department, through its Bureau of Foreign Commerce and its field offices, serviced a heavy volume of both personal interviews and written inquiries concerning foreign investment.

Appendix

Section 413(c) of the Mutual Security Act as amended in 1959

"Under the direction of the President, the Departments of State and Commerce and such other agencies of the Government as the President shall deem appropriate, in cooperation to the fullest extent practicable with private enterprise concerned with international trade, foreign investment, and business operations in foreign countries, shall conduct annual studies to keep the data up to date of the ways and means in which the role of the private sector of the national economy can be more effectively utilized and protected in carrying out the purposes of this Act, so as to promote the foreign policy of the United States, to stabilize and to expand its economy and to prevent adverse effects, with special reference to areas of substantial labor surplus, and to the net position of the United States in its balance of trade with the rest of the world. Such studies shall include specific recommendations for such legislative and administrative action as may be necessary to expand the role of private enterprise in advancing the foreign policy objectives of the United States."

Excerpts from the Agricultural Trade Development and Assistance Act of 1954, as amended (PL 480 of the 83rd Congress)

"SEC. 104...The President may use or enter into agreements with friendly nations or organizations of nations to use the foreign currencies which accrue under this title for one or more of the following purposes:

"(a) To help develop new markets for United States agricultural commodities on a mutually benefiting basis...;

"(b) To purchase or contract to purchase...strategic or other materials for a supplemental United States stockpile of such materials as the President may determine from time to time...;

"(c) To procure military equipment, materials, facilities, and services for the common defense;

"(d) For financing the purchase of goods or services for other friendly countries;

"(e)

1/ "(e) For promoting balanced economic development and trade among nations, for which purposes not more than 25 per centum of the currencies received pursuant to each such agreement shall be available through and under the procedures established by the Export-Import Bank for loans mutually agreeable to said bank and the country with which the agreement is made to United States business firms and branches, subsidiaries, or affiliates of such firms for business development and trade expansion in such countries and for loans to domestic or foreign firms for the establishment of facilities for aiding in the utilization, distribution, or otherwise increasing the consumption of, and markets for, United States agricultural products: Provided, however, That no such loans shall be made for the manufacture of any products to be exported to the United States in competition with products produced in the United States or for the manufacture of production of any commodity to be marketed in competition with United States agricultural commodities or the products thereof. Foreign currencies may be accepted in repayment of such loans;

"(f) To pay United States obligations abroad;

"(g) For loans to promote multilateral trade and economic development...;

"(h) For the financing of international educational exchange activities...;

"(i) For financing the translation, publication, and distribution of books and periodicals, including Government publications, abroad...;

"(j) For providing assistance to activities and projects authorized by Section 203 of the United States Information and Educational Exchange Act of 1948, as amended...;

"(k) To collect, collate, translate, abstract, and disseminate scientific and technological information and to conduct research and support scientific activities overseas including programs and projects of scientific cooperation between the United States and other countries such as coordinated research against diseases common to all of mankind or unique to individual regions of the globe, and to promote and support programs of medical and scientific research, cultural and educational development, health, nutrition, and sanitation...;

"(l)

1/ That part of Paragraph 104(e) that begins "...for which purposes not more than 25 per centum..." is known as the Cooley Amendment.

"(l) For the acquisition by purchase, lease, rental or otherwise, of sites and buildings and grounds abroad, for United States Government use...;

"(m) For financing...(A) trade fair participation and related activities..and (B) agricultural and horticultural fair participation and related activities;

"(n) For financing...(1) programs outside the United States for the analysis and evaluation of foreign books, periodicals, and other materials...; (2) the registry, indexing, binding, reproduction, cataloging, abstracting, translating, and dissemination of books, periodicals, and related (significant) materials...; and (3) the acquisition of such books, periodicals, and other materials...;

"(o) For providing assistance...in the expansion or operation in foreign countries of established schools, colleges, or universities founded or sponsored by citizens of the United States...;

"(p) For supporting workshops in American studies or American educational techniques and supporting chairs in American studies;

"(q) For assistance to meet emergency or extraordinary relief requirements other than requirements for surplus food commodities...;

"(r) For financing the preparation, distribution, and exhibiting of audio-visual informational and educational materials, including Government materials, abroad..."

Table 1

International Investment Position of the United States, 1955, 1957, and 1958

	(billions of dollars)		
	1955	1957	1958 p
I. Total U.S. investments abroad	44.9	54.2	59.2
A. Private investments	29.0	36.8	40.9
1. Long term	26.7	33.6	37.4
a. Direct	19.3	25.3	27.1
b. Other	7.4	8.3	10.3
2. Short term	2.3	3.2	3.5
B. U.S. Government credits and claims *	15.9	17.4	18.3
II. Foreign assets and investments in the United States	29.6	31.4	34.8
III. Net U.S. investment abroad (I minus II)	15.3	22.8	24.4

* Excluding World War I loans, of which the principal was \$11.4 billion at end of 1939. Includes U.S. Government claims on international institutions.

p Preliminary data

Source: Department of Commerce

Table 2

Geographic Distribution of U.S. Long-Term Private Foreign Investment,
1955, 1957, and 1958

(billions of dollars)			
Direct Investment			
<u>Area</u>	1955	1957	1958 p
Canada	6.5	8.3	8.9
Latin America a,b	6.4	8.7	9.1
Western Europe	3.0	4.0	4.4
Other Countries b	2.8	3.5	3.8
International b	<u>0.6</u>	<u>0.8</u>	<u>0.9</u>
Total	19.3	25.3	27.1
Other Investment			
<u>Area</u>	1955	1957	1958 p
Canada	3.8	4.2	4.9
Latin America a	0.7	0.9	1.0
Western Europe	1.6	1.8	2.3
Other Countries	0.8	0.8	1.2
International Institutions °	<u>0.5</u>	<u>0.6</u>	<u>0.9</u>
Total	7.4	8.3	10.3

- a Includes the Latin American Republics and dependencies in the Western Hemisphere
- b The value of ships registered in Panama and Liberia is listed under "International". Table A-2 in the report "Expanding Private Investment for Free World Economic Growth" listed these values as investments in Latin America and Other Countries, respectively.
- c Mainly private holdings of securities of the International Bank of Reconstruction and Development.
- p Preliminary data.

Source: Department of Commerce

Table 3

Geographic Distribution of Value of U. S. Direct Private
Foreign Investment, 1950-1958

(billions of dollars)

Geographic Areas	End of 1950		Increase 1950-1958	End of 1958 p	
	Amount	%		Amount	%
Canada	3.58	30.4	5.35	8.93	33.0
Latin America a,b	4.58	38.8	4.55	9.13	33.8
Western Europe	1.72	14.6	2.66	4.38	16.2
Middle East	0.70	5.9	0.61	1.31	4.8
Other Countries b	0.85	7.2	1.62	2.47	9.0
International b	<u>0.36</u>	<u>3.1</u>	<u>0.49</u>	<u>0.85</u>	<u>3.2</u>
Total	11.79	100.0	15.28	27.07	100.0

a Includes the Latin American Republics and dependencies in the Western Hemisphere.

b The value of ships registered in Panama and Liberia is listed under "International". Table A-3 in the report "Expanding Private Investment for Free World Economic Growth" listed these values as investments in Latin America and Other Countries, respectively.

p Preliminary data.

Source: Department of Commerce

Table 4

Average Annual Increase in Value of U.S. Direct Private
Foreign Investment, 1952-1958

	(billions of dollars)		
	1952-55	1955-57	1957-58 p
Canada	0.64	0.92	0.60
Latin America a,b	0.27	1.13	0.46
Western Europe	0.28	0.50	0.39
Other Countries b	0.25	0.33	0.32
International b	<u>0.06</u>	<u>0.09</u>	<u>0.07</u>
Total	1.50	2.97	1.84
Of which:			
a. Capital outflow c	0.72	1.96	1.08
b. Reinvestment of earnings of subsidiaries	0.78	1.01	0.76

- a Includes the Latin American Republics and dependencies in the Western Hemisphere.
- b The value of ships registered in Panama and Liberia is listed under "International". Table A-4 in the report "Expanding Private Investment for Free World Economic Growth" listed these values as investments in Latin America and Other Countries, respectively.
- c Includes reinvested earnings of branches.
- p 1958 data are preliminary

Source: Department of Commerce

Table 5

Value of U.S. Direct Private Investments Abroad by Major Industries and
Geographic Areas, End of 1958 p

(billions of dollars)

Industries	Canada	Latin America ^c	Western Europe	Middle East	Other Countries ^d	Inter-National ^d	Total
Mining and smelting ^a	1.08	1.33	0.05	b	0.29	-	2.86
Petroleum ^a	2.41	3.21	1.26	1.22	0.92	0.67	9.69
Manufacturing ^a	3.70	1.76	2.31	0.04	0.68	-	8.49
Public Utilities	0.36	1.17	0.06	b	0.09	0.19	1.80
Trade	0.48	0.64	0.40	b	0.24	-	1.76
All other industries	<u>0.90</u>	<u>0.91</u>	<u>0.31</u>	<u>0.03</u>	<u>0.25</u>	<u>-</u>	<u>2.40</u>
Total	8.93	9.02	4.39	1.29	2.47	0.86	27.00

a "Mining and smelting" and "Petroleum", include substantial amounts of investment in manufacturing activity directly associated with those industries.

b Included in the total.

c Includes the Latin American Republics and dependencies in the Western Hemisphere.

d The value of ships registered in Panama and Liberia is listed under "International". Table A-5 in the report "Expanding Private Investment for Free World Economic Growth" listed these values as investments in Latin America and Other Countries, respectively.

p Preliminary data

Totals do not add exactly, due to rounding.

Source: Department of Commerce

Table 6

DEVELOPMENT LOAN FUND STATUS OF FUNDS AND LOAN PROPOSALS
AS OF DECEMBER 31, 1959

(millions of dollars)

	<u>Amount</u>
A. Status of Available Funds	
Lending authority available - - - - -	\$1,397.0
Less: Commitments against available funds:	
(a) Loans and guaranties approved - - - - -	-929.9
(b) Other project commitments - - - - -	<u>- 18.2</u>
Net available for loans - - - - -	<u>\$ 448.9</u>
 B. Status of Loan Proposals	
Total loan proposals received - - - - -	\$3,679.3
Less: Loans and guaranties approved - - - - -	-929.9
Less: Other project commitments - - - - -	- 18.2
Less: Proposals no longer under consideration - -	<u>-1,430.0</u>
Net proposals under consideration - -	<u>\$1,301.2</u>

Source: Development Loan Fund

Table 7

DEVELOPMENT LOAN FUND SUMMARY OF LOANS APPROVED
AS OF DECEMBER 31, 1959

Type of project and industry	Region (millions of dollars)						Total
	Africa	Europe	Far East	Latin America	Near East	South Asia	
A. For public projects							
1. Food, agriculture and irrigation . . .	\$23.0	\$ 7.7	\$ --	\$ 4.3	\$ --	\$ 16.8	\$ 51.8
2. Transportation and communications . . .	5.4	19.9	62.1	32.9	25.0	68.3	213.6
3. Power	5.0	24.0	21.5	--	38.0	47.7	136.2
4. Multi-purpose projects	--	--	21.5	--	--	17.5	39.0
5. Industrial development8	22.5	1.4	--	27.4	32.5	84.6
6. General economic development	--	--	--	18.7	62.5	--	81.2
7. Development banks	--	--	--	--	--	--	--
8. Health & Community development	--	3.0	19.5	1.6	--	5.5	29.6
Total	\$34.2	\$77.1	\$126.0	\$57.5	\$152.9	\$188.3	\$636.0
B. For Private Projects^{a/}							
1. Food, agriculture and irrigation	--	--	--	3.1	--	--	3.1
2. Transportation and communications	10.7	--	--	--	--	75.0	85.7
3. Power	--	3.9	--	--	1.7	--	5.6
4. Multi-purpose projects	--	--	--	--	--	--	--
5. Industrial development	16.9	--	35.6	6.0	11.1	59.0	128.6
6. General economic development	--	--	--	6.0	--	--	6.0
7. Development banks	2.3	--	13.2	5.0	30.2	14.2	64.9
8. Health & community development	--	--	--	--	--	--	--
Total	29.9	3.9	48.8	20.1	43.0	148.2	293.9
Total loans approved	64.1	81.0	174.8	77.6	195.9	336.5	929.9
Funds earmarked	--	--	12.0	6.2	--	--	18.2
Grand Total	64.1	81.0	186.8	83.8	195.9	336.5	948.1

^{a/}Includes loans approved directly for development banks which are for relending to private borrowers (\$74.8); other loans directly to individual private enterprises (\$85.0 million); and loans to governments and publicly-owned organizations which will be for the direct benefit of private industry through purchase of goods and services to be made available to the private sector (\$148.3 million).

Source: Development Loan Fund

Table 8

SUMMARY OF LOANS OF THE EXPORT-IMPORT BANK OF WASHINGTON
as of December 31, 1959

		(millions of dollars)
Credits Authorized		\$10,482.4
Cancellations		1,475.1
Participations ^{a/}		410.9
Undisbursed Balances		1,516.6
Disbursements		7,079.8
Repayments		3,878.5
Outstanding Loans		
Africa	127.4	
Asia	488.9	
Europe	1,103.7	
Latin America	1,470.5	
Oceania	<u>10.8</u>	
		3,201.3

^{a/} "Participations" refer to loans in which private organizations participate jointly with the Eximbank (but without its guaranty) in disbursing and collecting loan funds under what is, in effect, a single joint loan. The private participations are normally in the shorter maturities with Eximbank holding the longer maturities. Participations have been almost entirely by banks.

Source: Export-Import Bank.

Table 9

ICA Investment Guaranties Issued 1948 - December 31, 1959

(value in millions of dollars)

Type of Guaranty

	Convertibility	Expropriation	War Risk	Total
Europe (9 countries)	\$203.6	\$110.9	\$.67	\$315.2
Latin America (7 countries)	30.5	23.0	-	53.5
Africa (1 country)	-	72.0	-	72.0
Asia (9 countries)	33.2	23.1	-	56.3
Totals-December 31, 1959	\$267.3	\$229.0	\$.67	\$497.0*

*While total of \$497.0 million represents all guaranties issued up to December 31, 1959, the maximum outstanding liability was \$409.2.

Source: Investment Guaranties Division, Office of Private Enterprise, ICA.

Table 10

ICA Investment Guaranty Applications Pending on December 31, 1959^a

(value in millions of dollars)

	Type of Guaranty			
	Convertibility	Expropriation	War Risk	Total
Europe (3 countries)	\$ 18.8	\$ 22.4	\$ 5.7	\$ 46.9
Latin America ^b (14 countries)	344.2	185.3	10.9	540.4
Africa ^c (4 areas)	9.4	48.3	2.6	60.3
Asia (12 countries)	246.6	132.7	45.6	424.9
Total (33 areas)	\$619.0	\$388.7	\$64.8	\$1,072.5

^a Public Law 86-108, dated July 24, 1959, restricts the issuance of guaranties to investments furthering the development of the economic resources and productive capacities of economically underdeveloped areas, except in the case of guaranties issued prior to January 1, 1960, on the basis of applications submitted prior to July 1, 1959.

^b Includes 3 territories of the United Kingdom.

^c Includes French Africa.

Source: Investment Guaranties Division, Office of Private Enterprise, ICA.

Table 11

Countries with which ICA Investment Guaranty Agreements
were in Force, December 31, 1959^a

<u>Area and Country</u>	<u>Type of Guaranty Covered</u>		
	<u>Convertibility</u>	<u>Expropriation</u>	<u>War Risk</u>
Europe (16 countries)			
Austria	X	X	X
Belgium	X	X	
Denmark	X	X	
Finland	X	X	X
France	X	X	
Germany	X	X	
Greece	X	X	
Ireland	X	X	
Italy	X	X	X
Luxembourg	X	X	
Netherlands	X	X	
Norway	X	X	
Portugal	X	X	
Spain	X	X	
United Kingdom	X	X	
Yugoslavia	X	X	
Totals	<u>16</u>	<u>15</u>	<u>3</u>
Latin America (12 countries)			
Argentina ^b	X		
Bolivia	X	X	
Colombia	X		
Costa Rica	X	X	
Cuba	X	X	
Ecuador	X	X	
Guatemala	X	X	
Haiti	X	X	
Honduras	X	X	
Nicaragua	X	X	
Paraguay	X		X
Peru	X		
Totals	<u>12</u>	<u>9</u>	<u>1</u>

^aPublic Law 86-108, dated July 24, 1959, restricts the issuance of guaranties to investments furthering the development of the economic resources and productive capacities of economically underdeveloped areas, except in the case of guaranties issued prior to January 1, 1960, on the basis of applications submitted prior to July 1, 1959.

^bThe agreement with Argentina has been signed by the Executive Branch, but will not be effective until ratified by the National Congress of Argentina.

Table 11 (Continued)

<u>Area and Country</u>	<u>Type of Guaranty Covered</u>		
	<u>Convertibility</u>	<u>Expropriation</u>	<u>War Risk</u>
Africa (3 countries)			
Ghana	X	X	
Sudan	X	X	X
Tunisia	X		
Totals	<u>3</u>	<u>3</u>	<u>2</u>
Asia (13 countries)			
Afghanistan	X	X	X
China (Taiwan)	X	X	X
India	X	X	
Iran	X	X	
Israel	X	X	X
Japan	X	X	
Jordan	X	X	X
Malaya	X	X	
Pakistan	X	X	
Philippines	X	X	
Thailand	X	X	X
Turkey	X	X	
Viet-Nam	X	X	X
Totals	<u>13</u>	<u>13</u>	<u>6</u>
Grand Total	44	40	12

Source: Investment Guaranties Division, Office of Private Enterprise, ICA.

Table 12

Planned Uses of Foreign Currencies From Sale of Surplus Agricultural Commodities
Under P.L. 480 Agreements Signed July 1, 1954 Through June 30, 1959

(million dollar equivalents at the
deposit rate of exchange)

Area	Total	Loans to private enterprise (Cooley amendment) ^a	Loans to foreign governments ^b	All other uses
A. Latin America				
1. Argentina	\$ 64.1	\$ 8.2	\$ 36.5	\$19.4
2. Brazil	179.6	-	149.2	30.7
3. Chile	39.6	-	31.7	7.9
4. Colombia	39.3	3.4	25.3	10.6
5. Ecuador	9.9	0.5	7.2	2.2
6. Mexico	28.2	7.1	13.6	7.5
7. Paraguay	3.0	-	2.2	0.8
8. Peru	25.2	1.9	16.1	7.2
9. Uruguay	12.4	3.0	6.3	3.1
Total	401.6	24.1	288.1	89.4
B. Asia				
1. Burma	40.7	-	32.5	8.2
2. Ceylon	21.0	5.3	8.0	7.7
3. China (Taiwan)	35.3	6.0	1.0	28.3
4. India	658.2	73.9	383.8	200.5
5. Indonesia	137.0	10.0	87.4	39.6
6. Iran	12.4	-	2.5	9.9
7. Israel	131.0	19.8	91.7	19.5
8. Japan	150.8	-	108.9	41.9
9. Korea	165.0	2.0	-	163.0
10. Pakistan	272.0	29.3	90.6	152.1
11. Philippines	14.4	1.0	5.2	8.2
12. Thailand	4.6	-	2.0	2.6
13. Turkey	197.3	13.0	40.5	143.8
14. United Arab Republic	67.9	12.0	25.3	30.6
15. Viet-Nam	6.0	1.5	-	4.5
Total	1,913.6	173.8	879.4	860.4

C. Europe

Table 12 (Continued)

(million dollar equivalents at the
deposit rate of exchange)

Area	Total	Loans to private enterprise (Cooley amendment) ^a	Loans to foreign governments ^b	All other uses
C. Europe				
1. Austria	42.9	-	26.3	16.6
2. Finland	40.1	2.0	24.0	14.1
3. France	57.9	13.9	-	44.0
4. Germany	1.2	-	-	1.2
5. Greece	66.0	2.9	37.4	25.7
6. Iceland	8.1	0.8	5.7	1.6
7. Italy	152.9	6.2	100.5	46.2
8. Netherlands	0.3	-	-	0.3
9. Poland	182.0	-	-	182.0
10. Portugal	7.1	-	3.4	3.7
11. Spain	392.1	-	197.1	195.0
12. United Kingdom	48.2	-	-	48.2
13. Yugoslavia	389.3	-	204.5	184.8
Total	1,388.1	25.8	598.9	763.4
Grand total	3,703.3	223.7	1,766.4	1,713.2

^a The Cooley amendment (section 104e of PL 480) has been in effect only since August 1957. Loans of \$33.5 million had been authorized from the currencies of eleven countries (Colombia, Finland, France, Greece, India, Israel, Italy, Mexico, Pakistan, Peru, Turkey) up to June 30, 1959.

^b Of which appreciable amounts, in some cases, are to be used in support of institutions providing financial assistance, or services, to private industry.

Source: Tenth Semiannual Report on Activities carried on Under Public Law 480, 83rd Congress, as Amended.

Table 13

Tax Conventions in Force December 31, 1959

Australia

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on gifts. Signed at Washington May 14, 1953; entered into force December 14, 1953.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington May 14, 1953; entered into force December 14, 1953.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons. Signed at Washington May 14, 1953; entered into force January 7, 1954.

Austria

Convention for the avoidance of double taxation with respect to taxes on income. Signed at Washington October 25, 1956; entered into force October 10, 1957.

Belgium

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington October 28, 1948; entered into force September 9, 1953.

Convention modifying and supplementing convention of October 28, 1948. Signed at Washington September 9, 1952; entered into force September 9, 1953.

Convention supplementing convention of October 28, 1948. Signed at Washington August 22, 1957; entered into force July 10, 1959.

Canada

Table 13 (Continued)

Canada

Convention and protocol for the avoidance of double taxation and prevention of fiscal evasion in the case of income taxes. Signed at Washington March 4, 1942; entered into force June 15, 1942; operative January 1, 1941.

Convention modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes. Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

Convention further modifying and supplementing the convention and accompanying protocol of March 4, 1942 for the avoidance of double taxation and the prevention of fiscal evasion in the case of income taxes, as modified by the supplementary convention of June 12, 1950. Signed at Ottawa August 8, 1956; entered into force September 26, 1957.

Convention for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties. Signed at Ottawa June 8, 1944; entered into force February 6, 1945; operative June 14, 1941.

Convention modifying and supplementing the convention of June 8, 1944 for the avoidance of double taxation and the prevention of fiscal evasion in the case of estate taxes and succession duties. Signed at Ottawa June 12, 1950; entered into force November 21, 1951.

Denmark

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington May 6, 1948; entered into force December 1, 1948.

Finland

Table 13 (Continued)

Finland

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates and inheritances. Signed at Washington March 3, 1952; entered into force December 18, 1952.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington March 3, 1952; entered into force December 18, 1952.

France

Convention and protocol for the avoidance of double taxation and the establishment of rules of reciprocal administrative assistance in the case of income and other taxes. Signed at Paris July 25, 1939; entered into force December 30, 1944.

Convention for the avoidance of double taxation and the prevention of evasion in the case of taxes on estates and inheritances, and modifying and supplementing the convention relating to income taxation signed July 25, 1939. Signed at Paris October 18, 1946; entered into force October 17, 1949.

Protocol modifying the convention signed October 18, 1946, for the avoidance of double taxation and the prevention of evasion in the case of taxes on estates and inheritances, and modifying and supplementing the convention relating to income taxation signed July 25, 1939. Signed at Washington May 17, 1948; entered into force October 17, 1949.

Convention supplementing the conventions of July 25, 1939 and October 18, 1946 relating to the avoidance of double taxation, as modified and supplemented by the protocol of May 17, 1948. Signed at Washington June 22, 1956; entered into force June 13, 1957.

Federal Republic of Germany

Table 13 (Continued)

Federal Republic
of Germany

Convention for the avoidance of double taxation with respect to taxes on income. Signed at Washington July 22, 1954; entered into force December 20, 1954.

Greece

Convention and protocol for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons. Signed at Athens February 20, 1950; protocol signed at Athens July 18, 1953; entered into force December 30, 1953.

Convention and protocol for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Athens February 20, 1950; protocol signed at Athens April 20, 1953; entered into force December 30, 1953.

Honduras

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington June 25, 1956; entered into force February 6, 1957; operative January 1, 1957.

India ^{1/}

Ireland

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons. Signed at Dublin September 13, 1949; entered into force December 20, 1951.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Dublin September 13, 1949; entered into force December 20, 1951.

Italy

^{1/} Agreement for the avoidance of double taxation with respect to taxes on income signed at Washington November 10, 1959 not yet in force.

Table 13 (Continued)

Italy

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates and inheritances. Signed at Washington March 30, 1955; entered into force October 26, 1956.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington March 30, 1955; entered into force October 26, 1956, operative from January 1, 1956.

Japan

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates, inheritances, and gifts. Signed at Washington April 16, 1954; entered into force April 1, 1955.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, with a related exchange of notes. Signed at Washington April 16, 1954; entered into force April 1, 1955.

Protocol supplementing the convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Tokyo March 23, 1957; entered into force September 9, 1957.

Netherlands

Convention with respect to taxes on income and certain other taxes. Signed at Washington April 29, 1948; entered into force December 1, 1948.

Netherlands (Continued)

Table 13 (Continued)

Netherlands (Continued)

Protocol supplementing the convention with respect to taxes on income and certain other taxes for the purpose of facilitating extension to the Netherlands Antilles. Signed at Washington June 15, 1955; entered into force November 10, 1955.

Agreement relating to the application of the income tax convention of April 29, 1948, as modified and supplemented by the protocol of June 15, 1955, to the Netherlands Antilles. Exchanges of notes at Washington June 24 and August 7, 1952, September 15, and November 4 and 10, 1955; entered into force November 10, 1955, operative from January 1, 1955.

New Zealand

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington March 16, 1948; entered into force December 18, 1951.

Norway

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on estates and inheritances. Signed at Washington June 13, 1949; entered into force December 11, 1951.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington June 13, 1949; entered into force December 11, 1951.

Convention modifying and supplementing convention of June 13, 1949 for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington July 10, 1958; entered into force October 21, 1959.

Pakistan

Table 13 (Continued)

Pakistan

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington July 1, 1957; entered into force May 21, 1959.

Sweden

Convention for the avoidance of double taxation and the establishment of rules of reciprocal administrative assistance in the case of income and other taxes, and protocol. Signed at Washington March 23, 1939; entered into force November 14, 1939.

Switzerland

Convention for the avoidance of double taxation with respect to taxes on income. Signed at Washington May 24, 1951; entered into force September 27, 1951.

Convention for the avoidance of double taxation with respect to taxes on estates and inheritances. Signed at Washington July 9, 1951; entered into force September 17, 1952.

Union of South Africa

Convention for the avoidance of double taxation and for establishing rules of reciprocal administrative assistance with respect to taxes on income. Signed at Pretoria December 13, 1946; entered into force July 15, 1952.

Protocol supplementing the convention of December 13, 1946. Signed at Pretoria July 14, 1950; entered into force July 15, 1952.

Convention with respect to taxes on the estates of deceased persons. Signed at Cape Town April 10, 1947; entered into force July 15, 1952.

Protocol supplementing the estate tax convention of April 10, 1947. Signed at Pretoria July 14, 1950; entered into force July 15, 1952.

United Kingdom

Table 13 (Continued)

United Kingdom

Convention and protocol for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington April 16, 1945; protocol signed at Washington June 6, 1946; entered into force July 25, 1946.

Supplementary protocol amending the convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. Signed at Washington May 25, 1954; entered into force January 19, 1955.

Supplementary protocol amending the income-tax convention of April 16, 1945, as modified by supplementary protocols of June 6, 1946 and May 25, 1954. Signed at Washington August 19, 1957; entered into force October 15, 1958.

Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on the estates of deceased persons. Signed at Washington April 16, 1945; entered into force July 25, 1946.

Table 14

LIST OF TREATIES OF FRIENDSHIP, COMMERCE AND NAVIGATION AND
SIMILAR TREATIES

TREATIES CONCLUDED SINCE 1945, AND IN FORCE

China: Treaty of friendship, commerce and navigation signed at Nanking November 4, 1946 (in force November 30, 1948).

Ethiopia: Treaty of amity and economic relations signed at Addis Ababa September 7, 1951 (in force October 8, 1953).

Finland: Protocol modifying the Treaty of Friendship, Commerce and Consular Rights of 1934, signed at Washington December 4, 1952 (in force September 24, 1953).

Federal Republic of Germany: Agreement concerning the Treaty of Friendship, Commerce and Consular Rights of 1923, signed at Bonn June 3, 1953 (terminated in part when the 1954 treaty entered into force).

Treaty of friendship, commerce and navigation signed at Washington October 29, 1954 (in force July 14, 1956).

Greece: Treaty of friendship, commerce and navigation signed at Athens August 3, 1951 (in force October 13, 1954).

Iran: Treaty of amity, economic relations and consular rights signed at Tehran August 15, 1955 (in force June 16, 1957).

Ireland: Treaty of friendship, commerce and navigation signed at Dublin January 21, 1950 (in force April 3, 1954).

Israel: Treaty of friendship, commerce and navigation signed at Washington August 23, 1951 (in force April 3, 1954).

Italy: Treaty of friendship, commerce and navigation signed at Rome February 2, 1948 (in force July 26, 1949).

Japan: Treaty of friendship, commerce and navigation signed at Tokyo April 2, 1953 (in force October 30, 1953).

Korea

Table 14 (Continued)

<u>Korea:</u>	Treaty of friendship, commerce and navigation signed at Seoul, November 28, 1956 (in force November 7, 1957).
<u>Netherlands:</u>	Treaty of friendship, commerce and navigation signed at The Hague, March 27, 1956 (in force December 5, 1957).
<u>Nicaragua:</u>	Treaty of friendship, commerce and navigation signed at Managua January 21, 1956 (in force May 24, 1958).

TREATIES SIGNED SINCE 1945 BUT NOT IN FORCE:

<u>Colombia:</u>	Treaty of friendship, commerce and navigation signed at Washington April 26, 1951.
<u>Denmark:</u>	Treaty of friendship, commerce and navigation signed at Copenhagen October 1, 1951.
<u>Haiti:</u>	Treaty of friendship, commerce and navigation signed at Port-au-Prince March 8, 1955.
<u>Italy:</u>	Agreement supplementing the Treaty of Friendship, Commerce and Navigation of 1948, signed at Washington September 26, 1951.
<u>Uruguay:</u>	Treaty of friendship, commerce and economic development signed at Montevideo November 23, 1949.
<u>Uruguay:</u>	Protocol supplementing the Treaty of Friendship, Commerce and Economic Development of 1949, signed at Montevideo May 19, 1955.
<u>Muscat and Oman:</u>	Treaty of Amity, Economic Relations and Consular Rights, signed at Salalah, December 20, 1958.
<u>Pakistan:</u>	Treaty of Friendship and Commerce, signed at Washington, November 12, 1959.
<u>France:</u>	Treaty of Establishment, signed at Paris, November 25, 1959.

Table 15

LIST OF TREATIES OF FRIENDSHIP, COMMERCE AND NAVIGATION AND
SIMILAR TREATIES

TREATIES CONCLUDED BEFORE 1945, AND IN FORCE

<u>Argentina:</u>	Treaty of friendship, commerce and navigation signed at San Jose July 27, 1853.
<u>Austria:</u>	Treaty of friendship, commerce and consular rights signed at Vienna June 19, 1928.
<u>Belgium:</u>	Treaty of commerce and navigation signed at Washington March 8, 1875.
<u>Bolivia:</u>	Treaty of peace, friendship, commerce and navigation signed at La Paz May 13, 1858.
<u>Brunei:</u>	Convention of amity, commerce and navigation signed at Brunei June 23, 1850.
<u>Colombia:</u>	Treaty of peace, amity, navigation and commerce signed at Bogota December 12, 1846.
<u>Costa Rica:</u>	Treaty of friendship, commerce and navigation signed at Washington July 10, 1851.
<u>Denmark:</u>	Convention of friendship, commerce and navigation signed at Washington April 26, 1826.
<u>Estonia:</u>	Treaty of friendship, commerce and consular rights signed at Washington December 23, 1925.
<u>Finland:</u>	Treaty of friendship, commerce and consular rights signed at Washington February 13, 1934.
<u>France:</u>	Convention of commerce and navigation signed at Washington June 24, 1822.
<u>Germany:</u>	Treaty of friendship, commerce and consular rights, signed at Washington December 8, 1923 (terminated in part when the 1954 treaty entered into force).
<u>Honduras:</u>	Treaty of friendship, commerce and consular rights signed at Tegucigalpa December 7, 1927.
<u>Iraq:</u>	Treaty of commerce and navigation signed at Baghdad December 3, 1938.
	<u>Latvia:</u>

Table 15 (Continued)

<u>Latvia:</u>	Treaty of friendship, commerce and consular rights signed at Riga April 20, 1928.
<u>Liberia:</u>	Treaty of friendship, commerce and navigation signed at Monrovia August 8, 1938.
<u>Morocco:</u>	Treaty of peace signed at Meknes September 16, 1836.
<u>Muscat:</u>	Treaty of amity and commerce signed at Muscat September 21, 1833.
<u>Norway:</u>	Treaty of friendship, commerce and consular rights signed at Washington June 5, 1928.
<u>Paraguay:</u>	Treaty of friendship, commerce and navigation signed at Asuncion February 4, 1859.
<u>Spain:</u>	Treaty of friendship and general relations signed at Madrid July 3, 1902.
<u>Switzerland:</u>	Convention of friendship, commerce and extradition signed at Bern November 25, 1850.
<u>Thailand:</u>	Treaty of friendship, commerce and navigation signed at Bangkok November 13, 1957.
<u>Turkey:</u>	Treaty of establishment and sojourn signed at Ankara October 28, 1931.
<u>United Kingdom:</u>	Convention to regulate commerce and navigation signed at London July 3, 1815.
<u>Yugoslavia:</u>	Treaty of commerce and navigation signed at Belgrade October 14, 1881.