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FOREIGN INVESTMENT IN INDONESIA: SUPPLEMENT III

FACTORS LIMITING AMERICAN FOREIGN INVESTMENT

The United States Department of Commerce has undertaken two studies which throw light on the problems that must be overcome to encourage a substantial flow of American capital to underdeveloped areas. The first of these was entitled: Foreign Investment of the United States, and the second, Factors Limiting U. S. Investment Abroad, both published in 1953. The latter Report incorporates "the findings of several months of investigation undertaken in compliance with Section 516(C) of the Mutual Security Act of 1951, as amended. That sub-section directed the Department of Commerce to conduct a study of the legal and other impediments to private investment abroad and the methods and means whereby these impediments can be removed or decreased".

The general picture given by these two reports is the same as that presented in the Report of the Canadian Advisory Committee on Overseas Investment. First, the figures show clearly that the bulk of American foreign investment is made in advanced countries, or at least in the relatively advanced sectors of underdeveloped ones. Canada is by far the most important single country for American foreign investment. Canada absorbs 30 per cent of total direct investment abroad of Americans, 37 per cent of the foreign branches of American firms, 50 per cent of all American foreign investment in manufacturing, and 70 per cent of "the interest of United States owners not affiliated with United States reporters". Yet Canada is the second most highly developed country in the world, as well as one which is currently developing at a very rapid rate. Of total foreign direct investments amounting in 1950 to $11,788 million, $3,579 million were in Canada (see Table I). It is interesting to note (Table II) that Canada also absorbed nearly twice as much of the increase in investment between 1943 and 1950 as its nearest rival, the Persian Gulf. This investment is an important factor in Canada's recent expansion. The Latin American Countries combined absorbed a somewhat larger amount of direct American investment, $4,735 million. However, a large share of this total is represented by petroleum investment in Venezuela. About one-fifth of total American investment in Latin America is in Venezuela, and the bulk of this investment is in the petroleum industry. Moreover, most of the remaining Latin American investment is either in the "ABC countries," which are relatively advanced, or in Cuba, where most American investment takes the form mainly of producing raw materials and foodstuffs for the American market. Much of the Latin American investment outside the petroleum industry is in the meat packing industry, where again an American market is assured. Europe accounts for another 20 per cent of American foreign direct investment while "other countries" combined, absorb only some 11 per cent of total.

Manufacturing and the petroleum industry are the two categories of investment which have absorbed the larger share of American foreign investment (see Table I). In the "other" countries, however, the petroleum industry is by far the most significant sector. In this connection, it should be noted that Southeast Asia has shared very little in the increase in American foreign investment in petroleum since 1929 (see Table III).

The preference of American investors for familiar and relatively developed countries is shown also by the figures of net receipts (Table IV). As a ratio to investments in 1950, net receipts amounted to 6.5 per cent in Western Europe, 8 per cent in Canada, 11 per cent in Latin America, and 20.4 per cent in other countries. In other words, to attract even the relatively small amounts invested in "other countries" in 1950, rates of return more than three times as high as in Western Europe, and two and a half times as high as in Canada, were required. Even in Latin America, rates of return were nearly double those in Western Europe.

In summarizing these results, the United States Department of Commerce writes,

> It is apparent that American individuals and others venturing to make investments abroad without acquiring control of a foreign enterprise did so primarily in countries, such as Canada and the United Kingdom, with familiar business practices and enterprises; in companies supplying raw materials to the U. S., such as sugar, copper, or tin; and in senior securities of companies owned or controlled in the United States, like shipping enterprises incorporated in Panama or Liberia.... The only significant exception is the heavy investment in Canadian mining companies. However, the more important of these securities are traded on the New York stock exchanges.[1]

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1. Foreign Investment of the U. S., United States Department of Commerce, Washington, 1953, pp. 22.

In the second Report, the Department of Commerce lists the following factors as the major impediments to higher investments in Latin American countries: differences in political traditions and legal concepts; the small size and milited population and resources of some of the countries; the large measure of governmental intervention in political, social (including labor-management relations) and economic affairs; the exclusion of foreigners from participation in some activities in some countries; the threat of expropriation or nationalization; foreign exchange controls, and particularly "the problems and difficulties inherent in the delays and administrative complexities of exchange controls"; difficulties with customs, in connection with imports of equipment and raw materials; inadequate prior surveys and investigations; and finally, "creeping expropriation". This latter factor, says the report,

> has been a more serious problem for large investors then outright nationalization. ...Some countries have harassed foreign-controlled enterprises with fines and discriminatory tax and labor requirements, or have refused to permit utilities to charge rates high enough to yield adequate returns. ...Foreign firms may also be subject to discriminatory application of exchange rates.[1]

In summarizing the experience in Latin America, the report states:

> Most of the barriers to foreign investment arise out of national policy designed (1) to protect or favor national ownership and employment, or (2) to regulate financial or other activities for specific national or social objectives.[2]

The analogies between Latin America and Indonesia with regard to impediments to foreign investment, are too obvious to require detailed elaboration here.

Of particular interest are the statements made in the report with respcet to investment in Venezuela, a country which has relied heavily on foreign capital for its economic development.

> Venezuela's economic growth has coincided with a huge increase in foreign investment. Direct investment of United States capital alone in Venezuela--representing perhaps two-thirds of foreign direct investment in the country--rose from $232.5 million in 1929 to $993 million at the end of

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1. Factors Limiting U. S. Investment Abroad, United States Department of Commerce, Washington, 1953, pp. 4-6.
2. Ibid, p. 6.

> 1950 and as of that date constituted the second largest U.S. direct investment in any foreign country. The country's rich petroleum reserves have provided the basis for the entry of an amount estimated as high as $2 billion of foreign capital. Petroleum development and the estimated $175 million of other foreign investment could not have taken place without Venezuelan Government cooperation and approval and the maintenance of conditions generally favorable to the conduct of business by foreign enterprises.
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> The Venezuelan Government recognizes the role that new private foreign capital can play in diversifying the economy, now largely dependent upon petroleum, by continuing a minimum of purely legal barriers to the establishment of foreign enterprise. At present, petroleum provides directly or indirectly, two-thirds of the Government's revenues, and crude petroleum and refined products account for 97 per cent of Venezuela's exports.[1]

The comments with respect to Turkey may also contain some lessons for Indonesia:

> The primary problem with respect to private foreign investments in Turkey is the fact that the Government still plays a dominant role in the economy of the country. Although since 1950 the Government has relaxed its policy of statism and has been looking increasingly to foreign capital for development in some fields, its attitude is still cautious. This caution is due in large part to experiences during the period of the Ottoman Empire when the Turkish economy fell under foreign control through a series of capitulations and concessions. ...Although Turkey has a wide variety of mineral resources, such as chrome, copper, manganese, and coal, they are largely owned and developed by the Government. While there is some indication that private operation of some mines is contemplated, these fields are not presently open to private foreign investment. Other resources not controlled by the Government are of limited interest to foreign investors. ...This deficiency of investment capital has been partially remedied by the creation of the Industrial Development Bank in 1950. This bank has the function of providing medium- and long-term credit for private enterprise as well as the task of encouraging Turkish investment in private industry by underwriting issuances of share capital. The Bank's rate of interest, 6 per cent, was set by agreement with the Government. This Bank has loaned over $24 million to 136 industrial enterprises. As mentioned above, the IBRD assisted in establishing the Bank and provided it with foreign exchange through a loan of $9 million. Most of the BankUs equity capital was subscribed by private interests.[2]

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1. Ibid, pp. 40-41.
2. Ibid, pp. 92, 93, 94.

In the section devoted specifically to the Far East, the report lists the following factors as major impediments to American investment: the uncertainty created by the present political situation in the Far East; the policies or practices of most Far Eastern countries with respect to foreign capital investment; the relatively low level of economic development of much of the area, and the lack of trained labor; the growing sphere of government activity; and the limited knowledge of the Far East on the part of many American businessmen.

Indonesia is not accorded separate study in this report, but some of the comments made with respect to India may be applicable in Indonesia as well. The particular impediments stressed in the case of India, are the nature of India's screening policy, which has denied admission to some types of investment and proved slow and costly for others; the import, export, foreign exchange and other controls; a government policy which favors nationalization of some industries and government participation in industry in general; the unfamiliarity of Americans with Indian business ways; the relatively low stage of Indian economic development; and the absence of a double taxation agreement.

The particularly gloomy discussion of opportunities for investment in Japan may also be of interest to those concerned with Indonesian policies:

> Japan has an extremely low ratio of natural resources to population and those relatively meager resources are already highly developed. Per capita income in 1951 has been estimated as equivalent to $150-$160. The country does not have the capacity within its boundaries to produce enough food, clothing, shelter, or fuel to maintain 86 million people at the present standard of living. Furthermore, the population is growing at the rate of more than a million annually and the productive capacity of some resources is declining. Japan must import one-fifth of its food supply and virtually all of its cotton and wool. Its forests cannot meet normal demands for construction, fuel, and the manufacture of paper and artificial fiber. Large quantities of potash and phosphate must be imported if agricultural production is to be maintained at its present level. Sea water is the only domestic source of salt for the chemical industry. Japan is deficient in iron, lead, aluminum, tin, manganese, antimony, tungsten, nickel, petroleum, and coking coal suitable for large blast-furnace use. Although there may be new discoveries, and technical improvements may result in more efficient uses, presently known resources, with the exception of water power, offer little opportunity for further development.

Japan's chief resource, as well as its greatest problem, is its large and growing population, the principal reservoir of skilled labor in the Far East. Owing to the paucity of natural resources, the maintenance of the present economic level is dependent in large part upon earnings from industry and trade. It is these two fields, rather than the primary industries, in which prospective investors are interested. In 1951, 29.5 per cent of the national income was produced by manufacturing and 18.3 per cent by trade, as compared with 15.9 per cent by agriculture, 3.9 by mining, 2.6 by fishing, and 2.5 by forestry.[1]

In general, then, the factors stressed in the United States Department of Commerce Reports are essentially the same as those brought out by the Canadian Advisory Committee on Overseas Investment.

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1. Factors..., op. cit., pp. 112-113.

TABLE I: DIRECT INVESTMENTS ABROAD, 1950

(Millions of dollars)

Industries	All areas, total	Canada	Latin American republics	Western Europe	Western European dependencies	Other countries
ALL INDUSTRIES, TOTAL:	11,788	3,579	4,735	1,720	435	1,318
Agriculture	589	21	520	1	9	39
Mining and smelting	1,129	334	628	21	88	57
Petroleum	3,390	418	1,408	424	296	844
Manufacturing	3,831	1,897	780	933	9	214
Transportation, communication and public utilities	1,425	284	1,042	27	18	54
Trade	762	239	243	186	13	81
Finance and insurance	425	313	71	37	(1)	3
Miscellaneous	237	72	45	92	1	27

1. Less than $500,000.

Source: United States Department of Commerce.

TABLE II: INVESTMENT IN SPECIFIED COUNTRIES, 1943 AND 1950

(Millions of dollars)

Country	1950	1943	Increase
Canada	3,564	2,378	1,186
Persian Gulf Area[1]	726	61	665
Venezuela	981	373	608
Brazil	627	233	394
United Kingdom	840	519	321
Panama[2]	349	110	239
Chile	530	328	202
France	285	167	118
Mexico	399	286	113
Cuba	638	526	112
Union of South Africa	140	50	90
Australia	198	114	84
Colombia	194	117	77
Peru	140	71	69
Liberia[2]	82	18	64
Philippine Republic	149	95	54
TOTAL FOR SPECIFIED COUNTRIES:	9,842	5,446	4,396

1. Includes Saudi Arabia, Iraq, Jordan, Lebanon, Syria, Aden, Bahrein, Kuwait, and Qatar.

2. Increases represent mainly ships registered under foreign flags and owned mainly by subsidiaries of United States corporations.

Source: U. S. Department of Commerce, Office of Business Economics.

TABLE III: AMERICAN INVESTMENT IN FOREIGN PETROLEUM INDUSTRIES

(Millions of dollars)

	Total	Canada	Latin America	Western Europe	Other	Persian Gulf
1929	1,117	55	617	231	214	—
1950	3,390	418	1,408	424	1,140	659

Source: U. S. Department of Commerce.

TABLE IV: NET RECEIPTS OF INCOME, 1950, BY AREA AND INDUSTRY

(Millions of dollars)

	All areas	Canada	Latin American Republics	Western Europe	Western European dependencies	Other countries
ALL INDUSTRIES, TOTAL:	1,294	294	522	111	98	269
Agriculture	91	1	76	(1)	4	11
Mining and smelting	112	31	64	1	12	3
Petroleum	555	- 3	262	9	75	212
Manufacturing	357	211	55	69	1	22
Transportation, communication, and public utilities	44	9	33	(1)	(1)	1
Trade	72	17	17	21	3	14
Finance and insurance	40	21	9	4	2	5
Miscellaneous	23	8	7	7	(1)	1

1. Less than $500,000.

Source: United States Department of Commerce.