ECONOMIC PROBLEMS OF FOREIGN TRADE AND INVESTMENT IN UNDERDEVELOPED COUNTRIES

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The pleasure of receiving your invitation to address you is somewhat mitigated by the embarrassment I feel, as a layman, about being able to contribute to a conference of the legal profession. Perhaps I can be of some use by sketching in broad outline some of the conditions and forces at work in a part of the world which is becoming increasingly important —as a background against which to consider more specific issues and problems of foreign trade and investment.

I propose to concentrate on foreign investment rather than foreign trade. I do so partly because of the limits of time and partly because investment for development is the main activity of the institution with which I am associated, and I am therefore more familiar with it. You will see as we go along that much of what I have to say is relevant to trade as well as to investment.

The underdeveloped countries, which are my subject, include virtually every nation of Asia, of Africa and of the Western Hemisphere south of the Rio Grande. These countries cover about 60% of the world's land area and include 67% of its population. Among them are countries poor in resources and others rich in fertile land and minerals; countries virtually empty of people and others where population presses hard against natural resources; countries with the most varied social and economic history and structure; countries covering the entire spectrum of political organization and affiliation. Despite their diversity, they have certain common characteristics. They are poor, compared to Europe, Canada, the United States, Australia and New Zealand. They have low levels of literacy and high birth rates. Their populations use primitive technologies, requiring very little capital, in doing their daily work. The great bulk of them live on, and make their living from the land; they produce primarily for their own subsistence or for trading in their immediate, often isolated, village communities, and they have little or no surplus for sale and little money with which to buy goods from outside their communities. Savings are likely to find outlets in relatively non-productive ways, in speculative ventures, in conspicuous consumption, in idle hoards of gold or commodities. The people are largely tradition-bound; few have any managerial and technical experience. Values, incentives and institutions are built up around a relatively static outlook on life.

Another common characteristic appears throughout the underdeveloped world, and this is in some respects the most important. Governments and segments of the population are becoming increasingly self-

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conscious of their nationality and political integrity and are seeking to better their material conditions. They are increasingly aware of the wide gap between their own economic power and welfare and that of Europe and the United States and they are determined to narrow the gap rapidly. Economic development has become not only a political catch phrase, but a positive goal—however vague and undefined—towards which political leaders must strive if they wish to maintain their power.

Of course, I know of no country in which the entire population lives in such a pre-industrial, even pre-commercial, setting. Indeed, it is also a characteristic of underdeveloped countries that wealth and poverty, the primitive and the modern, exist side by side in startling contrast. In most underdeveloped countries there are well-established mercantile communities fully familiar with every trick of trade and finance, and as capable of reacting to a monetary motive as one could wish. Some have a lucrative export trade which provides a large proportion of the national income, though here again there is usually a spectacular contrast between the machinery of the export trade and the level of living of the population that produces for it. Many have highly skilled engineers and scientists. Some have efficient and sizable modern industrial establishments. Not all have a broadly-based drive towards development. While in some the drive amounts to an obsession, in others it is opposed by powerful groups; for development would bring about shifts in economic and political power and important changes in family and class relationships and in philosophical outlook.

What this adds up to is that the term "underdeveloped countries" covers a diversity of conditions and that the problems of doing business in one may be quite different from those in another. It is very hard to generalize in such a way as to cover economic conditions affecting investment in Panama, the Congo, Iraq and Indonesia, or legal and social problems affecting investment in Buddhist, Moslem and Catholic countries. Such generalizations as one might be tempted to make in these cases are likely to be so general or so tentative as to be of limited usefulness to the trader or to the investor, who must be concerned not with the generalized problems of underdeveloped countries, but with the specific problems of the country in which he wants to do business.

Compared to the weight of their population and area, the underdeveloped countries receive only a small portion of American overseas investment. In the four years from 1950 through 1954, direct American investment in enterprises abroad increased by $6 billion, of which 53% went to Canada and Europe and another 25% to Latin America. Investment in foreign securities increased by only $600 million, of which 83% was in Canada, Europe and the International Bank.[1] Net private invest-

[1] The proceeds of Bond sales of the International Bank were, of course, used to finance development projects and programs, for the most part in underdeveloped countries.

enormous. About 20-25% of all U. S. imports derive from U. S. enterprises abroad. That includes 95% of all crude oil, 90% of nickel and bauxite, 85% of copper, 75% of paper stock, 55% of lead and iron ore, etc., a large part of which comes from underdeveloped countries. The earnings from direct investment abroad are quite good. Investment in Canada, calculated at book value, yielded about 10.5% and in the rest of the world 16.5% after taxes, while that of domestic enterprises seemed to average about 11% after taxes. In individual industries the results are similar, except in public utilities. By and large, investment in underdeveloped countries yielded the higher returns.

If foreign investment is so profitable in underdeveloped countries, why is there not more of it? Aside from the actual results just mentioned, one could argue on principle that investment opportunities are particularly great in the underdeveloped countries, which have plenty of labor and natural resources but little capital and which should therefore give a higher return for each unit of capital invested. This is another way of saying that capital should move to areas that lack it but that have the other factors necessary for production. In terms of the individual investor, the profits will be greatest where capital is most needed, which is certainly the case in the underdeveloped countries. What, aside from the competitive opportunities at home, is keeping the investor back?

Now, I take it for granted that, except in the most unusual circumstances, no one invests his capital for charitable or patriotic reasons. He does so because he expects a return which, taking account of all possible risks, he considers reasonable. If he invests abroad, a second consideration, absent in domestic investment, looms equally large. He will invest if he is sure that he can bring his profits home and, ultimately, repatriate his original capital. The first problem is amenable to calculation, if not with precision at least with reasonable assurance, although even "reasonable assurance" requires familiarity with conditions in the country in which the investment is to be made. What it amounts to is, will he sell enough of the product he produces to assure him the profit he wants? That is, does he have a market?

Perhaps the most important economic factor affecting investment in underdeveloped countries, compared with which all others shrink into insignificance, is the small size of the market. In most underdeveloped countries, the size of the market for all but foodstuffs and a few other basic necessities is severely limited. In some countries this may be the result of small population. Would it make any sense, for instance, to build a steel mill in Honduras, which has a population of 1.6 million? A modern mill could provide all the many types of iron and steel shapes that country needs in a few days, and would be idle the rest of the time unless it could produce for export in competition with half a dozen highly industrial countries. But the smallness of the population is not the crucial issue in determining the size of the market. At the heart of the matter is ment in the underdeveloped countries has averaged about $750 million per year (of which $400 million in Latin America), compared with an average of $850 million elsewhere. Of the total direct investment at the end of 1954, amounting to $17.7 billion, 48% was in Canada and Europe, and another 36% in Latin America. Of portfolio investment, $5 billion was in Canada and Europe, $500 million in the International Bank, and only $1.1 billion in the underdeveloped world. Evidently, except for Latin America, the underdeveloped world holds little attraction for American investment. Why is this so?

In my judgment, the most important economic ocstacle to American private investment abroad is not peculiar to underdeveloped countries. That obstacle is the wealth of competing opportunities with good prospective returns that exist in the United States. Unused resources and expanding markets are, or have been so great and the development of technology has been so rapid that there has been relatively little incentive to seek capital outlets and profits abroad, especially in areas in which American businessmen have had relatively little experience. The return on investment abroad has in general been higher than on investment at home, but that premium has apparently not been high enough to compensate for the risks and unfamiliarity of investing abroad, in face of the beckoning opportunities for capital at home.

This factor probably lies at the heart of the small role that foreign investment plays in the American economy and in American prosperity. The fact that private long-term investment abroad has increased at the rate of about $1.5 billion a year since the war, and has doubled since then, may seem impressive. But, in perspective, it is not. The total foreign investment of the United States amounted to only about 4% of the reproducible national wealth at the end of 1954; private investment represented only 2.5%. Capital outflows were only about 2% of total annual private investment. Corporate earnings from investment abroad were much less than 1% of the national income. If the American economic position in the world today bears comparison with that of the U. K. at the turn of the century, then it is worth noting the relative performance of the two countries. In 1914 a third of all private British wealth was overseas. Were we investing at the same rate, that would mean an overseas investment of about $300 billion, compared with an actual $25 billion. The British were then investing about 40% of their savings abroad. For us today that would mean new outflows of $20 billion a year, compared with an average $800 million. Ten percent of Britain's national income was income from investment abroad; less than half of 1% of ours comes from that source.

Evidently U. S. investment, in the aggregate, is marginal to American wealth, income and prosperity. But these comparatively insignificant aggregate figures do not tell the whole story of the impact of foreign investment. For specific industries and specific firms, that impact is the poverty, the low real income of the population, which often leaves little beyond what is needed for subsistence. That is, productivity and output are low; purchasing power is low; and effective demand is too small to justify the large-scale production which accompanies and is indeed a purpose of capital investment. This condition is almost a definition of an underdeveloped country. It is interesting to note, that one of the most persistent delusions in American history has been the promise that China, with its teeming millions, was a great potential outlet for American goods. The promise never came off, for it confused population with market.

The size of the market is undoubtedly the main factor in determining the pattern of American investment abroad. Direct private investment has tended to concentrate on production of food and agricultural and mineral raw materials, not for markets in the countries in which the investment was made but for the American market. Of the $6 billion of direct investment from the end of 1950 to the end of 1954, about 51% went to petroleum, agriculture and mining. If one looks at the underdeveloped countries alone, more than 60% of investment was in those fields; in the others, about 47%. On the other hand, 67% of all direct investment in manufacturing, which means largely for local markets, was in Canada and Europe, that is, in developed countries; 28% was in Latin America; and only about 5% in the rest of the world. Of total direct investment in 1954, in the developed countries, about 32% was in the extractive industries generally; in all underdeveloped countries, the percentage was 56; in those outside Latin America, it was about 80%. To a considerable extent the recent increase in manufacturing investment was brought about not by new markets, but by the wish to hold markets abroad from which goods hitherto exported from the U. S. might have been excluded by tariff barriers and other restrictions.

Here we can see a source of the close link between American investment and American foreign trade. I have already noted that 20 to 25 percent of United States imports originate from American enterprises abroad, including the lion's share of certain goods needed in both peace and war. One need only mention Venezuelan iron or Peruvian copper or Brazilian manganese or Middle Eastern oil to make the point. Conversely, a substantial amount of American capital goods exports goes to American enterprises abroad. The growth of American direct investment is undoubtedly more closely connected with the requirements and expansion of industrial production in the advanced countries than with the needs and desires of underdeveloped countries. Should American production fall off, the impact would be felt by American investors abroad as well as by the host countries.

These statements about the market apply only to direct investment. They do not apply to loans, either public or private, to foreign governments or to non-controlling purchases of private securities. As to the latter, there are very few outside Europe and Canada; for, in the underdeveloped countries, enterprise is overwhelmingly individual rather than corporate. Loans to public authorities constituted a large part of American investment in the 1920's (about half). From 1946 to the end of 1954, however, barely $300 million of foreign bonds were issued in the United States, excluding those of Canada and the World Bank, and that sum included the bonds of Israel, which fall into a special category. Taking account of redemptions and validations of existing issues and excluding Canada and the World Bank, portfolio investment actually fell by about $100 million. Evidently investors still remember the defaults of the 1930's, and are unaffected by the fact that only 7% of pre-war issues are still in default. Evidently too they have little interest in fixed-return securities, in view of the risks thought to be involved, and prefer to maintain control of their resources. Moreover, institutions, which have replaced individuals as the main investors, are often blocked by domestic legal restrictions. And, finally, investors remain inhibited by the general economic and political climate, of which I shall speak in a moment.

The U. S. Government, of course, is not daunted by the inhibitions that dog private investors, since profit is not its motive. Its long-term loans abroad have grown from $5 billion at the end of 1946 to $15.2 billion at the end of 1954, at a rate which was very high in the early post-war period but which has since fallen off. Less than $1 billion of this total was lent directly to underdeveloped countries. Yet, loans of this kind are precisely what underdeveloped countries need most to achieve their economic objectives: that is, capital for irrigation works, ports, highways, railways, educational facilities and a host of activities which private capital, foreign or domestic, does not or cannot finance, but on the existence of which private investment heavily depends. And this brings me to a second category of economic problems facing foreign investment in underdeveloped countries: the absence or inadequacy of basic physical facilities.

A plantation in a Central American jungle must be accessible if its produce is to be brought out. So must a tin mine in Malaya, which must also have power. Five years ago in Ethiopia, it took a truck driver three weeks or more to make the 250 miles from Addis Ababa to Jimma, the heart of the coffee country. He might not return for several months, perhaps because he was engaged in a lucrative smuggling trade over the Sudanese border; but his firm could not check on him because there were no telephone or telegraph facilities. The spectacular growth in the Turkish economy until its recent set-back is often linked to the importation of tractors; but just as important was the improvement and expansion of the highway network, which opened up new areas, broadened the domestic market and lowered transport costs, and the installation of new power capacity and an electric grid in northwest Anatolia, which provided the power needed for industrial expansion.

In America we are inclined to take for granted the existence of transport, power and communications facilities. Not that we always had enough. Quite the contrary. But in the United States, somehow, the growth of transport facilities and power capacity manages to keep not too far behind the requirements of the country. In some of the underdeveloped areas, where a start has hardly been made, the problem is an urgent one.

As regards foreign investment in these fields, perhaps we are back to the basic factor of the market. When an investor abroad is reasonably sure of his market, he manages to create the roads and power facilities he needs even in an underdeveloped country. A banana company hacks its own path through the jungle and a mining enterprise erects its own generator, because they are producing goods for a profitable market abroad. The creation of such facilities in order to provide the basic underpinning for the development of the host country, may be a long and expensive task. Some such projects, a highway or a port, may be non-revenue earning and clearly outside the interest of the private investor. In some countries, transport and utilities have been fenced off as the domain of the government, to the exclusion of private enterprise, foreign or domestic. In others, railway or power companies are subject to strict, perhaps discriminatory, rate regulation, often for the deliberate purpose of subsidizing other sectors of the economy, with the result that profits may be negligibly low. In the underdeveloped countries as a whole, there seems little opportunity for direct foreign investment in basic facilities unless they are tied to a specific investment of another kind.

This field was once the main interest of foreign investors. Until 1914, most foreign investment took the form of loans to governmental authorities and to private companies for the creation of basic facilities. More than half of French and German foreign investments went to governmental authorities; so did 30% of Britain's. Three quarters of Britain's overseas investment was for ports, railways, waterworks and other utilities. But another fact is relevant here. A full two-thirds of Britain's investment in 1914 was in the so-called "new and empty countries", countries like the United States, Canada, Australia, New Zealand and the Union of South Africa, which had no long established cultures and which were to a great extent populated by emigrant English men and other Europeans. These countries were not like the underdeveloped countries of today. They were never significantly poor by comparison with Europe; their technology was never far behind Europe's; their institutions were essentially European, geared to economic growth.

The contrast between China and Japan illustrates my point with regard to both markets and portfolio investment. In 1930, about 80% of foreign capital in China was in direct investment, largely engaged in export industries, and playing but a small part in the Chinese economy. In Japan, on the other hand, three-quarters of all foreign investment took the form of loans to the government, made mostly before the first World War, which were used in accordance with its ideas of national development, largely for basic facilities. By the 20's, when a market and public facilities had been created. Japan began to receive substantial direct investment. American exports to Japan in 1930 were almost twice as high as exports to China; imports from Japan were two and three-quarters times imports from China.

Physical facilities are not the only missing essentials in underdeveloped countries. They lack also what I might call "institutional technology," the institutions necessary to mobilize and make effective use of capital. The inadequacy of banking institutions, particularly for long-term lending, is characteristic of many of them, which makes their position strange to American businessmen. Nor is there likely to be a stock market. Few of the underdeveloped countries have well-established marketing facilities for industrial securities; and many such countries are only just beginning to establish banks which will lend for more than ordinary short-term commercial purposes. In some types of foreign investment, it is desirable to be associated with domestic capital. It is not always easy to find it, and not simply because it may be in short supply. Far more important is the fact that such capital as may be available is more likely to show a preference for traditional forms of investment, sometimes unproductive, sometimes lines of activity which yield very high profits very quickly. They are likely to shy away from production, particularly if it does not yield substantial profits for some years. Even more serious for some investors than the lack of domestic capital is the inadequacy of managerial experience, technicians and skilled labor. The first two mean that managers and technicians must be brought from America, at additional expense; they involve the expenditure of time and money in training local personnel. Labor in underdeveloped countries is often fresh from the countryside, and the expense of training may be lost overnight when a worker decides to return to his family farm to help with the harvest or decides that he has earned enough money to carry him through the rest of the year.

So much for the economic factors which are subject to fair estimation in calculating whether or not an investment might be profitable. I haven't mentioned all of them. There are many others; they vary from country to country, and you can know them only from detailed knowledge of the domestic scene. For instance, in a paper published this year entitled "Establishing a Business in Thailand," the U. S. Departmnt of Commerce mentions, under the heading "Miscellaneous Overhead Costs," the following item, which must come as a surprise to anyone not familiar with Thailand:

> The practice in Thailand whereby the establishment and operation of enterprises is often contingent upon letting public leaders inactively participate in management—as members of the

Board, as holders of free shares, or in some other form—constitutes a factor which may be important in calculating costs.

We come now to the second major question facing the investor in underdeveloped countries. Will he be able to transfer his profits and repatriate his capital? Of course, the investor may not wish to transfer his profits. And if a business abroad is profitable, the investor may never wish to sell out. Some kinds of investment probably never will be sold out. About half of American direct investment each year represents, not fresh capital outflows from the United States, but the reinvestment of profits. But most investors understandably wish to be sure, in advance, that they can get their profits out and their capital back, if they so decide.

Here we come up against a difficult issue. Economic and financial instability is prevalent in many underdeveloped countries and constantly threatens in others. There are two main reasons for this fact. Firstly, many of them are heavily dependent for their livelihood on the export of a small number of agricultural and mineral products. For instance, over 70% of the exports of Chile consists of copper and nitrates; 50-60% of the exports of Ethiopia consists of coffee; more than three-fourths of the exports of Thailand consists of rice, rubber and tin. These exports, dependent on demand abroad, particularly in the industrialized countries, have been subject to wide fluctuations. When they decline in price or in volume, the event is immediately registered in declining foreign exchange earnings, government receipts and domestic purchasing power, situations which call forth corrective action. A second important, and relatively new source of instability is the fact that underdeveloped countries are becoming increasingly committed to heavy investment expenditures as part of their development program. Countries long accustomed to conservative monetary and fiscal policies are borrowing heavily to finance a broad variety of projects aimed at economic development, and in the process generate inflationary pressures which produce foreign exchange shortages, as well as upset their pattern of investment. While they may be aware of the serious consequences of excessive inflationary spending, they often lack the technical information and machinery and the political will to bring such situations under control until it is too late.

The threat of instability, or more precisely of inflation, is not only a direct inhibitor of foreign investment, in that it makes the investor's calculations highly uncertain; the knowledge that the governments will take restrictive measures to counteract their difficulties also discourages such investment. Exchange controls and other restrictions are usually resorted to when balance-of-payments difficulties arise, for they are generally more acceptable politically and easier to administer than the stringent fiscal and monetary measures which might strike more directly at the heart of the matter. Exchange controls, when invoked, affect the transfer of profits and the repatriation of capital.

The danger of financial instability is not unique in underdeveloped countries. Europe and America suffer from it too. If there is a difference in kind in the positions of the advanced and the underdeveloped countries, it is that in the lopsided economies of the latter the impact may be more serious and the quality of governmental management and administration may be poorer. Here again, the very fact of underdevelopment lies at the heart of the difficulty. Their efforts to balance their economies, in the sense of diversifying them and making them less sensitive to fluctuations of economic activity abroad, would considerably mitigate their problem. So would, of course, the maintenance of a high level of economic activity abroad.

Whether or not an investor goes into an underdeveloped country depends also on a host of more or less intangible factors, which generally come under the heading of "climate" or "atmosphere." The term "climate of investment" covers all the many factors and attitudes in the country in which the investment is to be made, which make the investor either feel sure of, or fear for the safety of his investment. Chief among these factors is the attitude toward private enterprise in general and foreign enterprise in particular. Among the 366 companies engaged in foreign investment whom the Department of Commerce interviewed in 1952, "a large majority" referred to this factor, or its manifestations, and thought it outweighed in importance the many other unfavorable factors, the "petty annoyances." It appeared to be the conclusion of the investors that "the role of the U. S. Government in encouraging private foreign investment is minor" and that "the major impediments . . . are entirely within the responsibility—if not within the control—of the foreign government concerned." And chief of these impediments was the question of "attitude."

Now, this is essentially a political issue. I want to comment on it briefly. Outside of Latin America, virtually all underdeveloped countries have long been under foreign political control. All of them have recently acquired, are soon to get, or are hotly demanding their political independence. In most of Asia and Africa, almost all trade and industry have been carried on for a century by foreigners, sometimes the same foreigners who exercised political control, sometimes foreigners long resident in the country but who live in separate communities and maintain their separate identities. It does not require a Marxist outlook for such people to link these facts, to become extremely jealous of their political independence, to resent and limit foreign capital, and to try to pursue such policies as would reduce their dependence on foreign markets and supplies. This attitude of new governments is enhanced by the fact that, to the surprise and disappointment of their peoples, a higher standard of living did not automatically come with independence. While they plan and work for economic improvement, the foreigner often provides a good scapegoat.

One consequence of new found freedom has been that governments have almost universally begun to plan their economic development. Governmental planning has a bad name in this country, though among the underdeveloped countries it may mean everything or nothing: the universal forced plan of China; the plan which concerns primarily a growing sector of government activity; the plan which consists only of an uncoordinated collection of projects; the plan which is a series of fiscal and monetary policies designed to stimulate economic growth or to relieve depressing conditions—that is, the kind of "plan" that prevails in the United States today. Planning often carries with it various restrictive measures. For instance, foreign exchange controls first appeared in the world as a means of adjusting payments fluctuations, and have frequently been used as instruments of economic warfare. Today, they are often resorted to, not as a means of correcting a payments deficit, but in an attempt to control investment and consumption or investment, particularly foreign investment, may be subject to careful governmental screening, in an effort to assure that it will be used for purposes considered useful or necessary. But whatever the nature of the planning, foreign business men must take into account the readiness of governments of underdeveloped countries to intervene when they think it necessary, though investors may have no influence on these governments. This readiness is sometimes so great as to inhibit foreign business. But it cuts both ways. For the great bulk of the economic activity of the governments of underdeveloped countries is directed towards providing just those basic facilities—power, transport, communications, education, etc.—which are considered especially affected by the public interest, for which private capital is usually not available, and the lack of which is so great an obstacle to foreign investment.

Many governments, however, do not limit themselves to such basic facilities; for ideological reasons or because they can not find sufficient domestic enterprise, they sometimes enter fields that American investors usually consider reserved to private individuals. Apart from an occasional threat of nationalization, what frightens foreign capital is the threat of unequal competition from official enterprises. But this again may cut both ways. While some governmental enterprises may be protected from competitive imports, the same restrictions may also protect foreign enterprises in the same field.

The fear of foreign capital, an attitude which is sometimes directed toward domestic private enterprise as well, may take very concrete forms. It may be reflected in the nationalization and expropriation of foreign property; in bans on foreign enterprise in such sectors as power, mining or transport; in requirements that domestic capital must participate with foreign capital even to the point of owning a majority of the shares; in restrictions on the employment of foreigners; in controls on the transfer of capital and profits; and in many other ways. Such measures restrict the field in which foreigners can operate and threaten them with inability to collect their profits or to repatriate their capital.

I have the impression that the fear of foreign capital in underdeveloped countries is lessening. If this is so, it is partly the result of growing self-confidence; but even more, it is a result of a growing realization that, with loans not coming fast enough, direct investment and the technique and experience that go along with it are essential to rapid development. Most underdeveloped countries have made policy statements inviting foreign investment to participate in their development, although such statements are not always followed by concrete action to reduce administrative obstacles or by positive inducements. Last year, a United Nations study found that many measures had been taken to reduce the obstacles to capital movements created by previous governmental action, and to provide special incentives to private investors. It found that most countries maintaining exchange controls had adopted more liberal policies regarding transfer of profits and had given assurances concerning repatriation of capital. At the same time there had been some clarification regarding conditions of entry of capital and restrictions on ownership and control.

The screening of investments and their submission to controls of various kinds—however annoying—are not in themselves so serious an obstacle; American businessmen abroad have become accustomed to working profitably under controls of many kinds and are learning to recognize the legitimacy of the aims of underdeveloped countries. What is more serious for them is the fact that regulations are often created, not by law, but by administrative decisions taken in each individual case, that such decisions can easily be changed if balance of payments or other problems arise, and that administrative actions may be arbitrary, whimsical and without recourse.

I must also mention certain social and cultural facts that bear on the atmosphere or climate for investment. Aside from its oil interest in the Middle East, American investors have generally stayed relatively close to home, to people who shared in the main a common historical tradition, moral outlook and similar concepts of law and equity. The bulk of overseas private American investment in underdeveloped countries has been in nearby Latin America. However, the greater part of the underdeveloped world lies in Africa and Asia. Although some of these countries—China, India, the Arab World—have profoundly influenced our own culture, they do not share to so great an extent our historical, legal and moral traditions. Theirs are quite different ways of living and thinking. We are relatively unfamiliar with peoples who live in a subsistence economy; or who, like the man I knew in Ethiopia, had a large tea plantation but never harvested his tea because social prestige came to him from ownership of the plantation not from the income it could yield; or who worship the cow rather than use it; or who have no legal codes; or who keep one set of books for the tax collector, another for their partners, and a third for themselves; or who place a higher value on leisure and other non-economic goods than on income and hence may work less in proportion as their incomes rise; or who place a very high premium on a traditional way if life; or who look down on business as an inferior way of life. Some of these views were characteristic of Western society not so long ago and still show up in our thinking. Businessmen may find it a little difficult to know how to deal with peoples who still hold them, especially while opportunities still beckon in the U. S., where you think you know reasonably well where you are. I do not want to make too much of these social and cultural differences, for our increasing familiarity with Asia and Africa and their gradual economic development will reduce their importance.

To sum up, aside from the general factors that affect American investment everywhere, there are others particularly characteristic of underdeveloped countries. Some stem directly from the very facts of their backwardness; some from the political attitudes and policies that seem to predominate among them; and some from the specific laws and regulations that embody those attitudes and policies. Their reliance on a small number of export goods whose prices fluctuate widely, and the consequences of their efforts to attain a condition of sustained, rapid economic growth often create additional dangers for the investor. Given the fact that many of their governments are new, inexperienced and under heavy pressure, there may be little confidence that, when serious problems arise, they will be able and willing to take the difficult and unpopular measures necessary to put their houses in order. Perhaps all investment is, in the last analysis, an act of faith; but no one but a gambler puts up money unless he feels that the circumstances affecting his investment are predictable with reasonable assurance. In many underdeveloped countries the difficulties are such that predictions concerning long-term investment are fairly uncertain.

The importance of some of these difficulties will disappear as American investors gain knowledge of and experience with the underdeveloped countries. Some may be minimized by U. S. Government action, by such measures as investment treaties, investment guarantees, and tax incentives, although it appears doubtful that such action will have a conclusive effect. Other, more important ones can be relieved only by the direct action of the governments of the underdeveloped countries. But the most persistent will not be relieved or removed until underdevelopment gives way to improved productivity, greater output, a rising standard of living, and institutions geared to economic growth.