FOREIGN INVESTMENT IN THE US

1. Categories: Investment falls into two categories: direct, where the investor is in a position to exercise a significant degree of control over the investment; and portfolio, where the investor lends his capital (e.g., in purchasing stocks or bonds) to get a return on it, but actually has no control over the use to which it is put. For statistical purposes, the Commerce Department considers a holding by a foreign organization or person of 10% or more of the voting stock of a US-incorporated firm to be direct investment. Anything under that is portfolio investment.

2. Sources: Foreign direct investment in the US traditionally has come from Europe and Canada. Almost three-fifths ($15.5 billion) of the total of $26.7 billion in book value of foreign direct investment in the US at the end of 1975 came from the UK, Canada, and the Netherlands. By contrast, direct investment in the US by the 13 nations of the Organization of Petroleum Exporting Countries in 1975 was about $300 million.

3. Investment preferences: Historically, foreign portfolio investment in the US has far exceeded foreign direct investment ($36.5 billion and $26.7 billion respectively in 1975). This contrasts sharply with US investment abroad, the bulk of which in 1975 was direct ($133.2 billion) rather than portfolio ($35.2 billion).

4. Benefits: Foreign investment can provide significant benefits to our economy. It can:
   - provide additional capital to expand our plant capacity;
   - create additional employment for our work force;
   - encourage competition;
   - stimulate purchases of additional supplies and equipment from American producers;
   - generate inflows of technology.

5. US principles: The US Government is committed to an international system which provides for a high degree of freedom in the movement of trade and investment flows. The US applies, and encourages other nations to apply, the principle of "national treatment" to foreign investors—that is, foreign investors are treated the same as domestic investors. We do not offer artificial incentives to, nor do we impose special restrictions upon, foreign investment in this country—with a few exceptions noted under Safeguards below. This policy is consistent with our international obligations under the Code of Liberalization of Capital Movements of the Organization for Economic Cooperation and Development, and under our bilateral treaties of Friendship, Commerce, and Navigation with some 50 of our trading partners.

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Our commitment to liberal international investment flows was reaffirmed in June, 1976, with the adoption in Paris of the OECD Declaration on International Investment and Multinational Enterprises. The rights and obligations are in all meaningful respects reciprocal: the rights we seek for US investors abroad are also applicable to foreign investors in this country.

6. US Safeguards: Federal law restricts foreign participation in US enterprises associated with:

- atomic energy;
- hydroelectric power;
- communications;
- air transport;
- coastal and inland water shipping;
- fishing; and
- development of federally-owned lands and mineral resources.

Under Defense Department regulations, foreigners are generally excluded from participation in, or access to, work by firms on classified defense contracts.

In addition, many individual American states impose further restrictions on foreign participation in banking, insurance, and land ownership. However, these must be consistent with US treaty obligations. Finally, foreigners investing in the US must comply with all of the various Federal, state, and local regulations, such as anti-trust laws and Securities and Exchange Commission regulations which apply to both foreign and domestic investors.

7. US Measures: An extensive interagency policy review during 1975 resulted in a reaffirmation of our traditional policy of noninterference in international investment flows. However, within the framework of this liberal policy several administrative actions were taken to minimize any potential investment problems. They include:

- Creation of an interagency Committee on Foreign Investment in the US, chaired by the Treasury Department, which monitors foreign investment trends, consults with foreign governments contemplating major investments in the US, reviews investment proposals having major implications for US national interests, and makes recommendations to the National Security Council and the Economic Policy Board.

- Establishment in the Commerce Department of an Office of Foreign Investment in the US responsible for obtaining, compiling, and analyzing US foreign investment information.

These measures provide effective means for assuring that foreign investments in the US are consistent with our national interests.