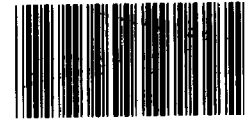


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UNITED STATES GENERAL ACCOUNTING OFFICE
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STATEMENT OF
FRANK C. CONAHAN
DIRECTOR, INTERNATIONAL DIVISION



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BEFORE THE
SUBCOMMITTEE ON TELECOMMUNICATIONS, CONSUMER PROTECTION,
AND FINANCE
HOUSE COMMITTEE ON ENERGY AND COMMERCE

ON

[Comments on H. CON. RES. 59] HSE 07002

Mr. Chairman and Members of the Subcommittee:

We appreciate the opportunity to testify today on H. Con. Res. 59 requesting reports from the Securities and Exchange Commission and the Department of Commerce on the acquisition of U.S. firms by foreign nationals. We concur with the Subcommittee's recognition of the importance of studying the effects of foreign direct investment in the United States and expect such an expression of interest will encourage the administration to monitor and analyze foreign direct investment. We believe such analyses are necessary to keep the public adequately informed about foreign investment activity and to provide the Congress and the administration with adequate information to determine whether there are problems that need to be addressed.

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You also asked us to testify on H.R. 1294 that would amend the Securities Exchange Act of 1934 to apply Federal Reserve margin requirements to foreign purchasers of U.S. securities. Our office has not examined margin regulation and, therefore, we regret that we are unable to assist you in consideration of this matter.

Our comments on H. Con. Res. 59 are drawn primarily from our June 3, 1980 report, "Foreign Direct Investment in the United States--The Federal Role," ID-80-24. We have included a listing of other GAO reports on foreign direct investment in attachment 1.

Foreign direct investment in the United States more than tripled in the 1970s, reaching an estimated \$52.3 billion by the end of 1979. To put the figure in perspective, it is equal to about 25 percent of U.S. direct investment in other countries. The \$52.3 billion figure, however, does not reflect all investment outlays by foreign owners. It only measures the direct investment flow component of the U.S. balance of payments. It is lower than the actual investment outlays of foreign firms to the extent that such investments were financed through borrowings in the U.S. capital market. For example, if a U.S. affiliate expanded its manufacturing facilities and financed half of the expansion with funds from its foreign parent and half with funds borrowed in U.S. capital markets, the direct investment figures would reflect only that amount financed by the foreign parent.

These investments reflect a U.S. policy supporting open international economic relations. The types of

foreign investments in the United States are limited somewhat by current Federal laws which restrict foreign investment in such areas as aviation, coastal shipping, atomic energy, radio and television broadcasting, and mineral development on Federal lands. Proposals for further Federal restrictions were considered by the Congress and rejected. However, it was determined that there was a continuing need for information on the nature and effects of foreign investment and legislation was enacted over time to address this problem. The legislation provided both for the collection of data on foreign investment in the United States and for its analysis.

To oversee monitoring of the effects of foreign investment and to coordinate the implementation of U.S. policy for such investment, President Ford established in 1975 an interagency Committee on Foreign Investment in the United States. The Committee's responsibilities are to (1) arrange for analyses of trends and significant developments of foreign investment, (2) provide guidance on arrangements with foreign governments for advance consultation concerning their major investments in the United States, (3) review investments which might have major implications for U.S. national interests, (4) consider proposals for new legislation or regulations, (5) submit, as necessary, recommendations to the National Security Council and the Economic Policy Board, and (6) arrange for the preparation and publication of periodic reports. The Committee is currently composed of representatives from the Departments of Treasury, State, Defense, and Commerce; the Office of the U.S. Trade Representative; and the Council of Economic Advisors, with the Treasury representative as chairman.

In our June 1980 report, we noted that very little was done by the Interagency Committee to meet these responsibilities.

Within the executive branch departments, primary data collection relating to international investment flows is the responsibility of the Department of Commerce. The Bureau of Economic Analysis gathers these data as an element of the U.S. balance of payments. Since 1978, the Bureau has also collected financial and operating data on U.S. affiliates of foreign firms. Beginning on January 1, 1979, the Bureau has required that Commerce form BE-13 reporting the details of foreign takeovers and the establishment of new foreign businesses in the United States be filed within 45 days of the transactions. The first results of these new data surveys began to appear in the Survey of Current Business with the July 1980 issue.

To better focus on the issue of foreign direct investment, the Department of Commerce established the Office of Foreign Investment in the United States in 1975 to (1) develop a consistent and timely data collection and processing system on foreign direct investment in the United States, (2) evaluate and report on the impact of foreign direct investment, and (3) prepare reports for publication. The Office provided some analysis in the Commerce Department's 1976 Report to the Congress on Foreign Direct Investment in the United States.

In our June 1980 report, we noted that the Office of Foreign Direct Investment in the United States had published little analytic work since 1976. Also the Office had not systematically collected studies by the private sector on foreign direct investment. The

Department of Commerce agreed with the importance of and need for analyzing the economic effects of foreign direct investment and stated it was taking steps to provide the necessary resources as promptly as budgetary and personnel constraints permit.

In light of the aforementioned, we believe the level of interest in studying foreign investment evidenced by H. Con. Res. 59 is warranted. Data necessary for the requested study is available in part at the Commerce Department and the Securities and Exchange Commission. Other data might have to be collected specifically for the study. Perhaps a unified reporting effort that utilizes the data bases and data collection capabilities of both the executive branch departments and the SEC might be more useful than separate reports.

In addition to the guidance included in H. Con. Res. 59, you might consider expanding the guidance as to the range of issues to be addressed in the requested study of the impact on the economy of foreign acquisitions to include issues such as

- borrowing patterns of foreign firms for expansions, new establishments, and acquisitions;
- the rate of technological change and innovation, quality control, productivity, and growth trends of foreign-owned firms;
- trade patterns between a foreign parent and its U.S. affiliate;
- management practices and labor relations; and
- costs and benefits of incentives designed to encourage foreign investment.

Studies on matters relating to the impact on the United States economy requested by H. Con. Res. 59 should be expected to

be complex and require a substantial investment of time and resources. The quality of such efforts should not be constrained by a 90-day time limit. However, it may be useful to apply a 90-day time limit for an initial response that would include

- assessment of available data on matters covered by the resolution;
- an inventory of existing studies conducted in the last several years;
- a list of the types of impacts of foreign investment the Administration plans to study pursuant to the resolution; and
- the target dates for submitting the planned reports to the Congress.

Mr. Chairman, this concludes our prepared testimony. We would be pleased to answer any questions you or other Subcommittee members may have at this time.

GAO REPORTS ON
FOREIGN DIRECT INVESTMENT

Despite Positive Efforts, Further Foreign Acquisitions of U.S. Banks Should Be Limited Until Policy Conflicts are Fully Addressed (GGD-80-66)	Aug. 26, 1980
Changes Needed to Improve Government's Knowledge of OPEC Financial Influence in the United States (EMD-80-23)	Dec. 19, 1979
Implementation of the Agricultural Foreign Investment Disclosure Act of 1978 (CED-80-38)	Dec. 18, 1979
Should Canada's Screening Practices for Foreign Investment Be Used by the United States? (ID-79-45)	Sept. 6, 1979
Considerable Increase in Foreign Banking in the United States Since 1972 (GGD-79-75)	Aug. 1, 1979
Foreign Investment in U.S. Agricultural Land--How It Shapes Up (CED-79-114)	July 30, 1979
Federal Systems Not Designed to Collect Data On All Foreign Investments In U.S. Depository Institutions (GGD-79-42)	June 19, 1979
Are OPEC Financial Holdings a Danger To U.S. Banks or the Economy? (EMD-79-45)	June 11, 1979
Collection of Data On Foreign Investment in U.S. Farmland (CED-78-173)	Sept. 15, 1978
Foreign Ownership of U.S. Farmland--Much Concern, Little Data (CED-78-132)	June 12, 1978
Domestic Policy Issues Stemming From U.S. Direct Investment Abroad (ID-78-2)	Jan. 16, 1978
Controlling Foreign Investment in National Interest Sectors Of the U.S. Economy (ID-77-18)	Oct. 7, 1977
Impact of Foreign Direct Investments: Case Studies in North and South Carolina (ID-76-43)	Apr. 26, 1976
Emerging Concerns Over Foreign Investment in the United States (ID-75-58)	Mar. 24, 1975