

13 Statement Announcing United States Policy on Economic Assistance and Investment Security in Developing Nations. *January 19, 1972*

WE LIVE in an age that rightly attaches very high importance to economic development. The people of the developing societies in particular see in their own economic development the path to fulfillment of a whole range of national and human aspirations. The United States continues to support wholeheartedly, as we have done for decades, the efforts of those societies to grow economically—out of our deep conviction that, as I said in my Inaugural Address, "To go forward at all is to go forward together"; that the well-being of mankind is in the final analysis indivisible; and that a better fed, better clothed, healthier, and more literate world will be a more peaceful world as well.

As we enter 1972, therefore, I think it is appropriate to outline my views on some important aspects of overseas development policy. I shall discuss these matters in broader compass and greater detail in messages to be transmitted to the Congress in the coming weeks. Nineteen seventy-one saw great changes in the international monetary and trade fields, especially among the developed nations. A new economic policy was charted for the United States and a promising beginning was made on a broad reform of the international monetary system, starting with a realignment of international exchange rates. Now, in 1972, the problem of how best to assist the development of the world's emerging nations will move more to the forefront of our concern.

Any policy for such assistance is prompted by a mutuality of interest. Through our development assistance pro-

grams, financing in the form of taxes paid by ordinary Americans at all income levels is made available to help people in other nations realize their aspirations. A variety of other mechanisms also serves to transfer economic resources from the United States to developing nations.

Three aspects of U.S. development assistance programs received concentrated attention during the past year. These were:

- Continuing a program of bilateral economic assistance
- Meeting our international undertakings for the funding of multilateral development institutions
- Clarifying the role of private foreign investment in overseas development and dealing with the problem of expropriations.

As to our bilateral economic program, it is my intention to seek a regular and adequate fiscal year 1972 appropriation to replace the present interim financing arrangement which expires February 23. I urge that this be one of the first items addressed and completed by the Congress after it reconvenes. Looking beyond this immediate need, I hope the Congress will give early attention to the proposals which I submitted last year to reform our foreign assistance programs to meet the challenges of the seventies.

In regard to our participation in multilateral institutions, I attach the highest importance to meeting in full the financial pledges we make. In 1970, the United States agreed with its hemispheric partners on replenishing the Inter-American

Development Bank. Our contributions to this Bank represent our most concrete form of support for regional development in Latin America. While the Congress did approve partial financing for the Bank before the recess, it is urgent that the integrity of this international agreement be preserved through providing the needed payments in full.

These Inter-American Bank contributions—together with our vital contributions to the International Development Association, the World Bank, and the Asian Development Bank—are the heart of my announced policy of channeling substantial resources for development through these experienced and technically proficient multilateral institutions. These latter contributions also require prompt legislative action, and I look to the Congress to demonstrate to other nations that the United States will continue its long-standing cooperative approach to international development through multilateral financial mechanisms.

I also wish to make clear the approach of this Administration to the role of private investment in developing countries, and in particular to one of the major problems affecting such private investment: upholding accepted principles of international law in the face of expropriations without adequate compensation.

A principal objective of foreign economic assistance programs is to assist developing countries in attracting private investment. A nation's ability to compete for this scarce and vital development ingredient is improved by programs which develop economic infrastructure, increase literacy, and raise health standards. Private investment, as a carrier of technology, of trade opportunities, and of capital itself, in turn becomes a major factor in

promoting industrial and agricultural development. Further, a significant flow of private foreign capital stimulates the mobilization and formation of domestic capital within the recipient country.

A sort of symbiosis exists—with government aid efforts not only speeding the flow of, but actually depending for their success upon, private capital both domestic and foreign. And, of course, from the investor's point of view, foreign private investment must either yield financial benefits to him over time, or cease to be available. Mutual benefit is thus the *sine qua non* of successful foreign private investment.

Unfortunately, for all concerned, these virtually axiomatic views on the beneficial role of and necessary conditions for private capital have been challenged in recent and important instances. United States enterprises, and those of many other nations, operating abroad under valid contracts negotiated in good faith, and within the established legal codes of certain foreign countries, have found their contracts revoked and their assets seized with inadequate compensation, or with no compensation.

Such actions by other governments are wasteful from a resource standpoint, shortsighted considering their adverse effects on the flow of private investment funds from all sources, and unfair to the legitimate interests of foreign private investors.

The wisdom of any expropriation is questionable, even when adequate compensation is paid. The resources diverted to compensate investments that are already producing employment and taxes often could be used more productively to finance new investment in the domestic economy, particularly in areas of high social priority to which foreign capital does

not always flow. Consequently, countries that expropriate often postpone the attainment of their own development goals. Still more unfairly, expropriations in one developing country can and do impair the investment climate in other developing countries.

In light of all this, it seems to me imperative to state—to our citizens and to other nations—the policy of this Government in future situations involving expropriatory acts.

1. Under international law, the United States has a right to expect:

- that any taking of American private property will be nondiscriminatory;
- that it will be for a public purpose; and
- that its citizens will receive prompt, adequate, and effective compensation from the expropriating country.

Thus, when a country expropriates a significant U.S. interest without making reasonable provision for such compensation to U.S. citizens, we will presume that the United States will not extend new bilateral economic benefits to the expropriating country unless and until it is determined that the country is taking reasonable steps to provide adequate compensation, or that there are major factors affecting U.S. interests which require continuance of all or part of these benefits.

2. In the face of the expropriatory circumstances just described, we will presume that the U.S. Government will withhold its support from loans under consideration in multilateral development banks.

3. Humanitarian assistance will, of course, continue to receive special consideration under such circumstances.

4. In order to carry out this policy effectively, I have directed that each potential expropriation case be followed closely. A

special interagency group will be established under the Council on International Economic Policy to review such cases and to recommend courses of action for the U.S. Government.

5. The Departments of State, Treasury, and Commerce are increasing their interchange of views with the business community on problems relating to private U.S. investment abroad in order to improve government and business awareness of each other's concerns, actions, and plans. The Department of State has set up a special office to follow expropriation cases in support of the Council on International Economic Policy.

6. Since these issues are of concern to a broad portion of the international community, the U.S. Government will consult with governments of developed and developing countries on expropriation matters to work out effective measures for dealing with these problems on a multilateral basis.

7. Along with other governments, we shall cooperate with the international financial institutions—in particular the World Bank Group, the Inter-American Development Bank, and the Asian Development Bank—to achieve a mutually beneficial investment atmosphere. The international financial institutions have often assisted in the settlement of investment disputes, and we expect they will continue to do so.

8. One way to make reasonable provision for just compensation in an expropriation dispute is to refer the dispute to international adjudication or arbitration. Firm agreement in advance on dispute settlement procedures is a desirable means of anticipating possible disagreements between host governments and foreign investors. Accordingly, I support the exist-

ing International Center for the Settlement of Investment Disputes within the World Bank Group, as well as the establishment in the very near future of the International Investment Insurance Agency, now under discussion in the World Bank Group. The Overseas Private Investment Corporation will make every effort to incorporate independent dispute settlement procedures in its new insurance and guarantee agreements.

I announce these decisions because I believe there should be no uncertainty regarding U.S. policy. The adoption by the U.S. Government of this policy is consistent with international law. The policy will be implemented within the framework of existing domestic law until the Congress modifies present statutes, along

the lines already proposed by this Administration. The United States fully respects the sovereign rights of others, but it will not ignore actions prejudicial to the rule of law and legitimate U.S. interest.

Finally, as we look beyond our proper national interests to the larger considerations of the world interest, let us not forget that only within a framework of international law will the developed nations be able to provide increasing support for the aspirations of our less developed neighbors around the world.

NOTE: On the same day, the White House released the transcript of a news briefing on the President's policy statement by Peter G. Peterson, Executive Director, Council on International Economic Policy.