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Inducement to Invest: The United States Investment Guaranty Program and Foreign Investment

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nature of the constitution, the executive, the legislature, the judicature, general observations. The descriptions of the structure and legal framework of the governments are brief and clear. Enough of historical background, geographical setting and social and economic development is given to enable the student to understand the political behavior of the various governments. After the section on individual governments of the Commonwealth, a special chapter is devoted to an analysis of the effects which geography, economics, national circumstances and beliefs have upon the forms of the Commonwealth governments. A whole chapter is likewise devoted to a discussion of federalism—the reason for it, the common features and the inherent difficulties of federal governments. The chapters on democratic governments are followed by a “comparative anatomy” for the purpose of considering “what results tend to flow from their forms of government, and to assess how fully they have earned the democratic title.” The consideration of the Soviet Republics is preceded by a chapter on the Communist ideology. The concluding chapter is an essay on “what is politics for?”—a very valuable chapter, for the student, in his concern about structure and operation, can lose sight of the purpose of government.

Mr. Stewart achieves the aim of his work to the extent that a concise textbook can. The beginner in political science will find the book not only clear but also stimulating. The author does not, by being brief and clear, fall into the pitfalls of over-simplification. He succeeds in showing that, while the comparative study of governments is difficult, it is not uninteresting. Behind the structural facade of all governments lie social, economic, geographic, ethnic, ideological and other forces which give rise to problems affecting not only the structure but also the stability and operation of governments. The student is given an introduction to these problems. It is hoped that a subsequent edition will contain a list of suggested readings on specific problems.

JOAQUIN G. BERNAS

INDUCEMENT TO INVEST

THE UNITED STATES INVESTMENT GUARANTY PROGRAM AND FOREIGN INVESTMENT. By Marina von Neumann Whitman. Princeton, New Jersey: Princeton University Press, 1959. 91 p.

Reviewing Mrs. Whitman's essay provides a chance of calling to the attention of PHILIPPINE STUDIES' readers the splendid papers which

the International Finance Section of Princeton University publishes from time to time in three series. There are Special Papers in International Finance, Essays in International Finance, and finally Princeton Studies in International Finance of which Mrs. Whitman's is Number 9.

The Investment Guaranty Program is a form of public inducement to United States citizens and corporations to invest abroad. Starting in 1960 only investments in underdeveloped countries are insurable under the program. It is a recognition of the fact that, in addition to public grants and loans, new private investment is required to speed up development in less advanced areas. But private investment needs a push; it finds many deterrents in its path. Most of these are business risks against which the home government can offer no insurance. But some are non-business risks, against three of which the Program offers insurance in favor of new foreign investment: convertibility blockage, as in the case of blocked pesos, expropriation and war damage. Actually, in twelve years of operation, no investor has taken out war damage insurance.

The participation of any country in the Guaranty Program is contingent upon the negotiation of a bilateral treaty whose terms are simple: first, the investment project must be approved by the President of the United States and the nation concerned as "furthering the development of the economic resources and productive capacities of underdeveloped areas"; second, the insurance is restricted to the three risks mentioned; third, after a guaranty payment has been made, the insured credits or investment on account of which payment was made becomes the property of the United States,—for example, the blocked pesos. Historically, it is somewhat unusual that the guaranties be extended by the investing country.

As of mid-1959 guaranties against inconvertibility and expropriation covered an investment whose face value was \$448.7 million in 23 countries; of this, \$167.4 was for investment in 14 underdeveloped nations. The Philippines was one of the first non-European countries to sign an agreement—in 1952. Only four new investors in the Philippines have availed themselves of the program's guaranties: Consolidated Dairy Products Company, Phelps Dodge Corporation, Rheem Manufacturing Company and the B. F. Goodrich Company. Peso earnings have been blocked since January 1956; hence, the United States is open to claims from the four guaranteed investors here though none has yet been filed.

Has the Investment Guaranty Program succeeded in inducing private investment to go abroad? It certainly has not loosed upon underdeveloped areas a flood of new foreign investment. Mrs. Whitman expresses the reasonable opinion that the bilateral agreement

"cannot create but can only record the existence of a favorable investment climate." What she means obviously is a favorable psychological climate; it cannot even create a readiness on the part of a host suspicious of foreigners in business to receive foreign investment. It does not affect at all the cosmological climate, as it were—whether or not the complexus of real conditions exists which make investing abroad profitable enough to persuade capital to leave home. Here the essay illumines one hitherto obscure point. It is usually taken for granted that foreign investment, especially in less advanced economies, has been enormously more profitable than capital invested at home. But it appears that whereas petroleum investment has verily gained handsome earnings, in other fields domestic and foreign profits are approximately equal, except in public utilities, where foreign returns are considerably less. In a word, where general conditions are not attractive to new foreign investment, guaranties against inconvertibility and expropriation are not enough to bring investors forward. One of today's truly baffling problems is how to bring less advanced countries to realize, first, that they need foreign investment to attain their present goals and, second, that they must be smart and energetic in alluring it to their shores.

One notes with respect that Marina von Neumann Whitman wrote her paper originally in 1958 as a Master's Essay at Columbia University. It is a thoroughly assured and professional piece of work.

MICHAEL MCPHELIN

A SCIENTIST IN CHINA

ONE CHINESE MOON. By J. Tuzo Wilson. New York: Hill and Wang, 1959. xiii, 274 p.

This book is a very honest report on what a scientist can see in China today. The author, President of the International Union of Geodesy and Geophysics, went to Russia as Canadian delegate to the final meeting of the committee that organized the International Geophysical Year. As he himself says, "one should never miss a chance to see something new," and thus decided on this one month's trip through China.

The book is also a delightful travelogue, describing in a vivid and precise narrative the peripatetics of the author: the bureaucratic maze of the Moscow Intourist, the long trip on the Trans-Siberian, the border crossing ("for an apparently peaceful frontier