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Meeting on Industrial Investment Promotion Services

Vienna, Austria, 23 - 26 September 1968

EVALUATION OF INDUSTRIAL INVESTMENT OPPORTUNITIES 1/

by

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Corrigendum

Cover page, add under United States of America

Prepared for the
UNIDO/UNITAR Training Programme
May 1968

We regret that some of the pages in the microfiche copy of this report may not be up to the proper legibility standards, even though the best possible copy was used for preparing the master fiche.

I am happy to participate in this training program conceived and spearheaded by Mr. Abdel-Meguid, of the United Nations Industrial Development Organization. After reviewing the roster of speakers and subjects to be discussed at this seminar, I am convinced that each of you will be better qualified to carry on your important investment promotional assignments when you return to your respective bases of operation.

Before delving into my subject, "Evaluation of Industrial Investment Opportunities," I would like to take a few moments to describe briefly the activities of Owens-Illinois and our international operations, which are of primary interest to me and may have some interest to the group represented here today since, in my comments, I will be referring to our various product lines.

Within Owens-Illinois, we define our scope as the packaging industry in all of its breadth - plus anywhere that our growing technological competence relative to glass, paper products, and plastics may take us. Obviously with such a broad domestic and global scope, we must have criteria to identify those investment opportunities in which we are specifically interested since we couldn't possibly pursue all of them. We have established three conditions which we prefer that any new products or global investment opportunity should meet. At least two of the following conditions must be met, namely

- a) a substantial capital outlay
- b) considerable depth of technology
- c) a knowledge of the applicable market through experience with related products.

Owens-Illinois has been organized around five major operating divisions, each headed by a principal profit-accountable group executive. In four instances, the divisions have been further sub divided into profit centers based on technical, marketing or geographical considerations. Glass Container Division is the largest accounting for about 50% of the sales, followed by Forest Products, Consumer & Technical Products, International Division, and Plastic Products in that order.

The International Division is one of our fastest growing divisions which enables O-I to capitalize on the advanced technology and market practices developed within the United States and, of further import, to contribute constructively to the economies of the countries in which we participate. The latter is of particular importance to each of you.

In the middle 1950's in order to consolidate our position in certain world markets, management decided that to maintain our position, it was necessary to become a manufacturer in certain of these localities. Our first foreign venture was, unfortunately, in Cuba. Economically, the venture was quite successful, but, as you undoubtedly know, our investment like that involving other United States principals was expropriated.

Today, our international activities in Europe encompass an equity interest in Gerresheimer - the largest glass container manufacturer in Europe operating in Germany; equity interest in Durobor - a very substantial glass tableware operation in Belgium; equity interest in Kimble Italiana - a glass tubing operation in Pisa, Italy; an equity interest in Buender Glas, GmbH - a German manufacturer of plastic and glass tubing products; equity interest in Giralt Laporta with a glass container plant in Madrid and a new plant coming on stream at Sevilla, Spain; and a minority position in United Glass - the major glass container producer in England.

In Latin America, Owens-Illinois has an equity interest in Cispor - the principal glass container manufacturer in Brazil; equity in a glass container operation in Venezuela and in a flat glass operation in the same country; and an equity in Peldar, which is the sole manufacturer of window glass and, with one exception, the sole manufacturer of glass containers in Colombia. In Mexico, our most recent acquisition, we have an interest in a business engaged in the manufacture of glass tubing and tube converting operations for ampuls and vials.

In the Bahamas, we operate a major pulpwood operation and in the fourth quarter of this year, we will be operating a sugar mill. Some may question the relationship of a sugar operation to that of packaging, the principal scope of our business. The cultivation of cut-over woodlands for sugar cane was initiated in the Bahamas to provide employment to those formerly employed in cutting timber which has become depleted. The maturity of the seedlings for pulping is expected in 1990 which represents an extensive period of idleness if an alternative source of employment were not developed.

In the Orient, we have a minority interest in Nippon Electric Glass Company, the largest manufacturer of telecommunications equipment in this sector of the world, and we are engaged in a joint venture involving stemware manufacture with Sasaki Glass in Tokyo.

In Africa, we have a minority interest in Consolidated Glass Works Ltd., the largest glass container manufacturer on the Continent, located in South Africa. In addition to our equity interest, we have extensive licensing and know-how agreements in 23 countries and our products are supplied in 111 sales and marketing areas throughout the world. Last year, the parent company spent \$31MM in research, engineering and development expenses.

While our resources of capital and management talent are considerable, they, unfortunately, are limited. In view of these limitations, we must evaluate each investment opportunity objectively and meticulously with preference directed to those investments which involve either a high level of capital investment or technology of considerable depth and sophistication and preferably both. We, like you gentlemen who are instrumental in attracting foreign investments, are not and should not be interested in simple converting operations which are commonly referred to as hot house plants, for these operations normally are short range in scope and generally do not contribute significantly to the industria' prowess of a nation.

In my discussions this afternoon, I will emphasize the practical applications in evaluating industrial investment opportunities since these are areas that I feel that each of you can make a major contribution in assisting in the conduct of feasibility studies. Since I will comment on my actual experiences in evaluative studies, I considered it advisable to orient you on my company's product lines and its global operations.

Why then are U.S. companies today placing increasing emphasis on becoming a global company? The answer is quite simple if we turn our attention to the markets of tomorrow. For example, in 1962 the total Gross National Product of the 12 largest European countries was about 64% of the U.S. figure \$555 billions; in 1980, the GNP of these countries will range between 65% - 78%, depending whether the low or high estimates for GNP are attained. The EEC figure (without Greece and Turkey) will rise from 39% to approximately 46%, and the combined EEC-UK figure will amount to about 60%.

These figures do not capture the full drama of the growth of European demand. The EEC market may well have an overall GNP in 1980 of \$500 billion, about the size of the U.S. market in 1960.

If LAFTA countries plus Venezuela are included with the 12 largest European countries, the GNP of these two major markets will approximate 94% of the 1980 GNP of the U.S. which is estimated at \$1,030 billion. The addition of Japan would result in a greater potential market in these countries than in the U.S.

These facts signal obvious opportunities for firms, U.S. and foreign, to export and manufacture in foreign markets in the next two decades. The size of the European and Japanese markets together with the potential markets in under-developed countries demands that globally oriented companies cannot ignore these markets but must plan as much time, if not more, to these markets than to their own market. To maximize their research, development and know-how to the fullest, companies must accept the world as a single market, of which the U.S. is only a part, even though it represents the largest slice.

Fundamentally, there is not much difference in evaluating foreign investment opportunities as opposed to domestic investment opportunities since the basic reasons or incentives for investment are the same the world over. The same analyses and same kinds of judgments in deciding whether to invest or not apply in foreign investments as in domestic.

The first step in the evaluation process is to forecast the environment in which the investment programs might be carried out. This effort encompasses an evaluation of all elements likely to significantly affect risk and return of investment. The environmental investigation and forecasts are intended to cover every major factor which may have bearing on profitability. These factors range from the probable political stability and attitudes of government toward foreign investments and incentives, their taxes and labor regulations to the economic potential and balance-of-payments position as it may affect exchange fluctuations and remittability of funds, internal inflation, security of contractual relations and protection of courts - local management potential. The investigations also involve those elements of the environment which immediately relate to the type of investment a company might undertake, such as glass container demand, imported prices, operating and construction costs, availability of indigenous raw materials, incentives or benefits offered, and other concessions which might be available to a new industry.

In evaluating the political environment of a specific nation, we attempt to contact the state department through our Washington office regarding their latest thinking and appraisal of the future of the nation. Also, we contact banking interests operating in the foreign country and their parent companies in the U.S. to get the best possible appraisal of the nation's future political climate. Within the considered country, we contact U.S. operating firms and attempt to get their best thinking on the investment and political climate.

When it comes to political forecasting, there is probably no single statement that will cover such varied nations at such varied states of development. I believe each of you will agree with this statement. In our evaluations, we attempt to appraise a nation's attitude toward the private sector on the basis of the degree of governmental interference in the industrial sector. The problem of nationalization unquestionably adds to the risk of investment but we recognize that it tends to diminish as a nation approaches industrial sophistication. Our own experiences in the international sphere have not been completely successful in predicting a nation's future political destiny. However, in the case of Cuba, for example, we were not alone in our bullish political predictions.

After assessing and forecasting the political and investment climate, we attempt to get a good indication of the country's prevailing labor laws and practices, costs of utilities, construction costs, indigenous raw materials, etc. This evaluation is, of course, made on the spot through personal contacts with firms supplying the required services and materials. Wherever possible, we always consult with U.S. firms with operations on stream in the specific country to obtain their appraisal of the workers' productivity and reliability, fringe payments, availability of productive labor and management personnel, reliability and availability of power and other essential utilities, etc.

Generally speaking, foreign investment decisions are based on intuitive feel, but occasionally these decisions are supplemented by the so-called development of "Environmental Risk Index." Many globally oriented firms have established such indices which they feel are an added tool in the decision-making process, namely "go" or "no go" on new investments. It is well recognized that manufacturing operations outside the U.S.A. can increase the return on a company's invested equity but the risks are generally greater.

The ideal situation for the overseas manager is when the risk is less than the estimate of profits. Since a numerical estimate of risks to compare with the numerical estimate of profits is not available, I am aware of several globally oriented companies who have undertaken to develop their own so-called environmental risk indices. We as yet have not established such a measurement but are seriously contemplating such a study for the various geographic areas of the world.

The index is basically a means of assigning tangible values to the varying risks being measured which in the aggregate covers all external and internal conditions and influences, namely political, economic, cultural, social and business affecting the profitability of an investment. This approach in quantifying risks involves the cooperation of multinational organizations, governmental agencies, financial institutions, academicians and investors around the world. The answers to a risk questionnaire are then closely analyzed and correlated in establishing the Environmental Index for the specific country.

As mentioned previously, the establishment of an Environmental Risk Index involves the assignment of numerical estimates to the various risk categories being evaluated. Generally, the following risks are covered in such an evaluation, namely:

- a) political stability
- b) ability to communicate with nationals
- c) economic growth
- d) attitude toward foreign investment and incentives
- e) conversion of currency
- f) internal inflation
- g) current balance account
- h) position of U.S. government policy
- i) security of contractual relations and protection of courts
- j) probability of take-over or destruction
- k) communicating services to U.S.

- l) accounting, attorney, research, etc. services
- m) likelihood of delays in approvals, construction time, etc.
- n) local labor supply
- o) local management potential

Certain risk categories are assigned double weight, namely political stability, ability to communicate with nationals (cultural compatibility), economic growth, attitude toward foreign investment and incentives, and convertibility of currency.

The weight assignment includes:

- a) five points assigned for highly desirable condition
- b) four points for desirable conditions
- c) three points for acceptable conditions
- d) two points for undesirable conditions
- e) one point for highly undesirable conditions

With double weights assigned to the first five risk categories, the possible numerical scoring is 100.

A formula is normally developed which gives effect to the Environmental Risk Index and the profit objective of the company based on its U.S. operations, the latter represents the relationship of net profit (after all taxes) to invested equity capital - for example, let us assume that the U.S. profit objective for the firm is 14% - the formula is:

$$\frac{\text{Profit Objective in U.S.A.}}{\text{Risk Index of Specific Foreign Country}} \times 100$$

In applying the risk index for country (x) we arrive at the following numerical rate of profit return:

$$\frac{14}{\frac{75}{100}} = 18.7\% \text{ Rate of Return on Equity}$$

Therefore, the investment in (x) country to qualify for investment consideration must return at least 18.7% on the equity.

The index is not intended as a substitute for management's judgment in the decision-making process but is merely intended as a guide in establishing:

- 1) a geographic strategy aimed at balancing risk exposure and
- 2) in judging alternative projects.

Such an index is not a new tool, for many sophisticated U.S. companies have a comparable measurement or index to allocate limited cash supplies on various capital expenditure requests.

The area of analysis to which I attach the greatest importance in evaluating a foreign investment opportunity is the potential market demand for the product or products to be manufactured. The absence of reliable market statistics is normally the rule - not the exception. In the initial stages, if we have been exporting to the country under consideration, we know precisely the sales items and the quantities presently being exported. Another excellent source for market data is import manifests which normally are meticulously filled out but the task of collation can be quite tedious. In many cases, we supplement the above-mentioned sources by conducting a market survey which involves an assessment of the potential customers for the product or products under consideration. This survey includes interviews with the user to get a specific fix on the items demanded and the annual consumption.

Our experiences in projecting the market demand in the specific countries being considered for investment have not been always complete and have not only proven embarrassing but, more important, have resulted in curtailments in production activity and shut-down periods. In operations involving a high investment outlay, I cannot over-emphasize the importance of pinpointing the actual market demand, for without a market, the investment can be dissipated.

Since each of you is involved directly or indirectly in attracting foreign investments, I am of the opinion that your major contribution to a potential investor can be made in identifying the local demand for the product or products to be manufactured. It is important to have clearly defined the product or products under consideration for even available statistical information can at times be misleading. For example, in the area of glass containers, I recently uncovered in one of my evaluations that a medicinal glass vial (sample) produced from tubing at a machine speed of 18 pieces per minute was being classified for statistical purposes as a glass container. This same item, if scheduled on an automatic bottle machine, would be produced at production speeds in excess of 200 pieces per minute. From an appearance standpoint, the glass vial produced from glass tubing might be preferred by the customer, but a molded glass container could conceivably satisfy the same packaging requirement. From an investment standpoint, it is obvious that the significant production differential cited in the above example could affect the decision as to the equipment selected and the investment outlay.

Since the market demand is such a crucial element in the decision-making process, I believe it would be opportune to cite some actual cases in which the failure to correctly assess the market demand resulted in a financial blunder. In 1960, I visited a Far East country to evaluate the investment attractiveness for a glass tubing operation. From glass tubing, diversified containers are produced for medicinals ranging from ampuls to vials. The production of tubing involves a high degree of technical sophistication and a relatively high investment. Our interest in the venture was encouraged by foreign principals who pegged the market for glass tubing at a demand which initially could support a minimum facility with attractive profit potentials.

Our initial evaluations included the steps previously outlined and normally followed in conducting feasibility studies. On the scene, we attempted to pinpoint the location factors, but, more importantly, we placed a high degree of emphasis on pinpointing the actual demand for the glass tubing items. This involved direct contacts with the users to establish the real demand for the products under consideration. The potential customers were abstracted from import documents. The market survey conclusively indicated that despite the large potential market based on population alone, the nation's real demand could not support a minimum glass tubing operation. On the basis of the above finding, our recommendation was "no go."

In connection with this same study, we recently were approached as to our interest in taking over a glass tubing operation in the country where our previous feasibility study was conducted. The venture which exceeded an investment of \$1MM involved partners who had no previous experience in glass tubing manufacture and, more importantly, were not successful in hiring foreign personnel who possessed the know-how. As a matter of interest, in this specific field, there are only a handful of companies actually operating in the world. The company, in the initial year of operation, lost in excess of \$350M since it had not been able to produce a quality piece of tubing, the melting furnace was practically lost due to incompetent operating personnel and, no doubt, the morale of the production force was at a low ebb.

In the interest of strengthening the image of the capitalistic system, we accepted the invitation to evaluate the facility on stream, and in the process we attempted to get a realistic picture of the actual market demand. In the follow-up investigation, we uncovered that the technical director who reportedly was a knowledgeable and respected glass technologist years ago was practically senile. The batch formulation and temperature controls so essential for a good operation were grossly neglected. Essentially, the operation was fumbling and eroding its working capital.

An examination of the market intelligence indicated that the market estimates merely represented educated guesses. For example, a follow-up by our people covering the largest user of tubing-made products reflected a demand for 130 tons per year versus estimates by the tube manufacturer of 750 tons. With rated production of 4 tons per day, it is obvious that the discrepancy in

demand data involving the biggest user raised a serious question whether the present demand can support the operation already committed on stream. In view of the serious doubts raised as to the realistic market demand, our management declined the offer to participate in this struggling venture.

Some of you may question why the export potential was not considered. Obviously, this potential could not be pegged quickly, and since we have a comparable operation in Italy, we had a fairly good handle on the export potential for glass tubing in this sector of the world.

An investment in a manufacturing venture involving a substantial outlay of money but dependent on outside markets for a significant share of the production is risky. Such decisions must be categorized as unsound and especially since most countries are anxious to develop their own manufacturing enterprises to satisfy the demands of the country. In many instances, such decisions to establish a facility to satisfy the domestic and export markets are made without pegging the export potential. Recently, we established a new plant abroad where we knew that the local market could not completely sustain the production of the facility. The management of this affiliate were bullish as to the export potential but failed to specifically pinpoint the specific markets. Since the local demand was not sufficient to support the operation, the decision was made to temporarily idle the facility. Such financial mistakes can be precluded by thoroughly researching the market requirements and making certain that the domestic market can profitably support the facility.

In my discussions with personnel at the various investment centers, I find that the export market potential tends to be over-emphasized in justifying the decision to establish a manufacturing venture. We all recognize the importance of generating much needed foreign exchange through export sales, but one cannot over-emphasize the importance of supporting the establishment of a manufacturing venture on the basis of the available local demand.

A serious shortcoming in pegging investment opportunities in under-developed nations stems from hiring consultants who are assigned the responsibility of pinpointing such investment opportunities. We cannot overlook the fact that these organizations are normally responsible for the preparation of the feasibility study and not the implementation.

As of a recent date, Mr. Abdel-Meguid directed such a study to my attention which involved a country in Africa. The investment opportunity involved a glass container operation. The feasibility study was completed by an Italian consulting engineering firm which included geological, technical and a financial evaluation to ascertain whether a second glass container facility could be justified in the specific country. To complement this study since U.S. AID financing for this project might be made available, a U.S. consulting firm was asked to review the initial study and to submit their independent analysis of the project's viability.

A few comments relating to my review of the consultant's study appear in order. The consultant's estimate of the glass container demand in the country involved was understated when compared with data we previously had obtained from the only glass container manufacturer on stream. Our source for the market data was an heir apparent to the already committed glass container facility, who incidentally visited one of our Stateside facilities several years back. This is an excellent media for extracting information if successful in obtaining data on a specific market. Although neither of the consulting firms made a concerted effort to specifically pin down the actual glass container capacity, each, however, admitted that the capacity already on stream was sufficient to satisfy the domestic requirements.

The consultants justified the second glass container plant on the following basis:

- a) freight penalty for shipping bottles to the principal market - approximately 400 miles.
- b) better customer service
- c) poor reputation with small customers

The study further assumed that a new bottle plant located approximately 70 miles from the major market area could reasonably expect to satisfy the entire glass container needs in the major market which reportedly accounted for two-thirds of the nation's glass container demand. To me, these assumptions appeared short-sighted since:

- 1) The glass container manufacturer already on stream was in the brewery business and enjoyed favorable relations with a top brewery located in the market involved. In fact, each was contemplating an equity interest in a new brewery to be established within this major market outlet.
- 2) There is no doubt that customers are anxious to have more than one supplier for obvious reasons, but at times a monopoly position from an economics viewpoint must be condoned. For example, a recent study conducted in England by the Monopolies Commission ruled favorably in Pilkington's behalf for the Commission concluded that the monopoly was still in the best interest of the people.
- 3) The container plant already on stream could counter the new plant by cutting prices, absorbing freight, etc. There is no question that the established plant with older facilities but modern equipment would be in a better position to absorb these cost penalties.

- 4) The consultants failed to recognize the freight impact on imported raw materials which had to be imported regardless of plant location. One of the primary materials was soda ash which makes up approximately 18% of the raw batch composition.
- 5) The container plant on stream had its own sand source which makes up a major percentage of the batch composition.
- 6) The report ignored the freight penalties on indigenous raw materials which were not available within reasonable distances of the planned plant location.

After evaluating the study in depth, we concluded that the investment opportunity did not warrant further interest by Owens-Illinois. I was of the opinion that the consulting firms did a rather mediocre job in their attempt to establish the capacity already on stream, and I certainly was not in agreement with their basic assumptions. We recognize that capacity data is not easily obtainable and particularly with only one firm in operation. However, with some indication of the equipment committed and being familiar with the operation, one can normally project this factor with a reasonable degree of accuracy.

Another glass container study was recently called to our attention by the Technical Studies Department of the Banco Nacional de Fomento in Asuncion, Paraguay. The study reportedly was to be available after August, 1967. We requested a copy of the feasibility study in September and finally received excerpted sections of the report in February.

In view of our committed investments in South America, this market was of interest and particularly so since no glass containers were being produced in Paraguay. The study pegged the glass container market demand at 1,200 tons with a projected tonnage of 3,400 tons in 1970. The break-even for a minimum size operation was established at 4,200 tons. A minimum capital investment of \$1.2MM would be involved for this facility.

Despite the offer of attractive investment incentives and export concessions, I again reiterate the importance of ascertaining whether the domestic demand can support the investment. In the case just cited, I seriously question whether this project will have any takers. First of all, the local demand cannot support a minimum size operation for at least 5 years and the export potential for glass containers appears slim. Paraguay is surrounded by Argentina and Brazil, each of which have ample glass container operations on stream. Since the other major Latin American countries have glass container operations, the export potential for glass containers from Paraguay needs to be seriously questioned.

All nations, whether developed or under-developed, are anxious to attract industry for obvious reasons. However, in this trend to foster growth and industrial development, we cannot undermine the importance of realistic projections with regard to a nation's or region's economic growth. Each potential venture must be individually evaluated on its own merits with primary emphasis placed on the domestic market potential for the item or items to be produced.

It is virtually impossible for one to engage in meaningful quantitative forecasts of global demand by nations, regions, or products. However, it is an established fact that the existing phenomena of demand and accompanying marketing opportunities are greatest in industrialized nations where the relatively smaller population still provides the great bulk of the world's demand and the world's trade. With the rise in living standards, full employment and with the kind of social programs that appear to be inevitable in these industrialized regions, it is rather unlikely to anticipate any real interruption of the ever-increasing and diversified demand pattern. Such demand is a prerequisite of profits for those who can meet it.

In other words, hundreds of millions of people may inhabit the Indias, the Chinas, and the Southeast Asian areas, but business opportunities and profits will, in say 25 years, still be where the fruits of education, social stability, and industrialization have been developed to a progressive state for these are the factors which create realizable demand - the only kind that accelerates the investment. An interesting point in this connection is that within the very industrialized areas in North America, Western Europe and Japan, we still find large proportions of the population that are below the national averages, that is, have a very low consumption standard. Under-privileged minorities in the U.S. south, the rural populations of Italy, inhabitants of Southern Italy and Sicily, and a great part of the Japanese population are outside the stream of high-level consumption which we associate with these nations as a whole.

Turning to the rest of the world, there are always going to be areas of industrialization which in smaller countries could in effect carry the whole nation in the category just discussed. Small Israel in the Middle East and Mexico in North America are examples of countries that have reached a stage which makes possible the rapid cumulative stages of industrialization. The prospects for the rest of the world appear cloudy, and while the demand for products will inevitably increase, it is difficult to predict the rate or the impact of the kind of demand. This is the challenge and responsibility that each of you have, namely to identify the specific investment opportunity based on realistic domestic market demand.

In identifying these specific manufacturing opportunities in your respective countries, I'm not recommending that each of you go back to push hard to introduce or improve your statistical services. However, each of you can make a contribution to improve the reporting of economic data by putting the raw data into more meaningful forms and releasing them on a more timely basis. For example, figures released six months, a year or later after the fact generally are of little real value other than historical interest.

In the U.S., we have the tendency to go overboard in producing an indigestible mass of statistics, some of which find no constructive use and more importantly represents a costly effort. This is true in business and government. Last year, the U.S. government spent \$177MM to collate and compile statistical data. At the end of the year, there were approximately 19M federal statistics workers whose annual salaries averaged \$7M - \$8M or a total of \$130MM. In addition, the government spent \$88MM for automatic data processing and statistical studies under contract with private firms. I believe that each of you will agree that the effort initiated to reduce the waste and inefficiency in this governmental program would certainly qualify as a statistical fact.

After specifically identifying the most significant statistic, namely market demand, the development of the machine requirements, infra-structure, aggregate investment, and proforma earnings projections is merely a matter of piecing the elements together. Since each of you is already acquainted with the format and data generally included in the feasibility study presentation, it is pointless for me to comment on this aspect.

Some of you may be of the opinion that I attach too much importance to the market. However, after committing the investment and especially one that involves a significant outlay of cash, there is little that can be salvaged if the market fails to materialize. In the latter context, I am not referring to simple converting operations but rather to ventures which involve substantial outlays of cash for brick, mortar and equipment.

In your respective capacities then, what can each of you contribute in attracting or inducing foreign capital to consider your country for a potential investment opportunity? Fortunately, most of you are already implementing the answer through the operation of investment centers where the potential investor can turn for counsel and assistance. My experience with several investment centers located in the United States has been very stimulating for the centers were staffed with very competent personnel. The staff personnel were able to supply the answers covering many locational factors which permitted the development of a preliminary feasibility study prior to the actual evaluation abroad.

I strongly recommend that each of you consider, if not already available, the publication of an "investor's guide" with the following cost factors covered in detail:

- a) Investment incentives
- b) Financing and credit facilities
- c) Taxation
- d) Labor laws and labor costs
- e) Land and representative building costs

- f) Power status and electric power rates
- g) Fuel, water, gas and liquid petroleum gas costs
- h) Transportation and communications

Since many of you will be filtering out into various investment centers in the United States as a part of your training program, I feel this will present an excellent opportunity to review what other countries are doing in this connection. From my personal experience, I must admit that Puerto Rico and Iran have developed excellent reference guides for the investor. This appraisal is not inclusive to cover all countries and is not intended to be construed as such. It is important that the investor guides be kept updated with a high degree of emphasis attached to the reliability of the data and not necessarily volume of data contained therein.

In a recent investment evaluation involving a manufacturing operation in Puerto Rico, we were gratified with the amount of data which was available at the Stateside Puerto Rican investment center. We recognize that such centers are not a substitute for the actual evaluation on the scene, but for an initial look-see, I'm convinced that such preliminary studies are more than a worthwhile exercise.

The President's moratorium on foreign investments effective January 1, 1968 and the apparent world-wide stampede to dump dollars for gold are questions that must be bothering each of you, for these forces are bound to affect the flow of private capital into your countries. The only consolation in the executive orders, which in effect are an attempt to stop the flow of U.S. dollars from the U.S., is that investments in under-developed countries have not been completely restricted as is the case with European investments.

In simplest terms, a deficit in our balance of payments merely means that the U.S. spent or lent more money abroad than it took in. If we think of the U.S. as a big family, it means that the family is going broke because it yielded to temptations to spend more than its actual income. If we think of the U.S. as a manufacturing firm, the company is losing money rather than earning profits. The deficit situation if unchecked will inevitably result in bankruptcy.

As a nation, we send money abroad for - among other things - the goods we import, for investments in affiliates of U.S. corporations and for foreign travel. But the United States' biggest expenditures abroad are made to carry on the undeclared war abroad and to sustain our troops in Germany.

Added together, these expenditures more than offset the income that we take in from foreigners traveling to this country, investing in our industries or buying our goods. When we deduct what foreigners spend in the U.S. from what we spend abroad, the result is a deficit which, incidentally, has occurred in 19 of the last 20 years.

As to our gold supply, we still have \$11.4 billion - down from \$24.5 billion in 1949 - still the biggest single hoard held by a nation. What then is contributing to this run on gold?

Monetary systems operate on faith and because our creditors, with the exception of France, have had faith that the dollar is as good as gold, they refrained from exercising their prerogative to convert the dollars into gold. This confidence link has apparently been weakened.

Our foreign creditors are demanding that we get our deficits under control - and what adds muscle to these demands is the fact that they have \$34 billion in claims against our \$11.4 billion in gold.

What would happen if cooperating foreign central banks insisted on changing their dollars for gold - say in the amount of another 5 billion? Some people believe that the U.S. would boost the price of gold to stop the outflow. This is what the gold speculators are hedging on, and if they are right, they will, of course, get rich. Others, on the other hand, speculate that if this would happen, the U.S. will merely announce to the world that it no longer is interested in either buying or selling gold.

And then what would the speculators do? It is doubtful if other governments would buy or sell gold, or that the speculators could get \$35 per ounce from dentists or jewelry manufacturers in such enormous amounts. Gold bullion as such does not earn interest but must be stored and insured which, in reality, are cost penalties for holding the metal.

We hope that the President's curb on the flow of investment dollars abroad is only a temporary expedient, for if prolonged, these curbs could have an adverse impact on the U.S. economy and more importantly could invite a worldwide depression.

How could this develop? U.S. corporations, being unable to spend U.S. dollars abroad, will try to borrow funds abroad, mostly in Europe. This is now occurring on a large scale and this demand for funds is bound to peg up European interest rates. When this happens, Europeans will spin off their investments in the U.S., because it will be more profitable for them to invest in Europe. This then will result in a greater - not lesser - flow of dollars abroad which will worsen our deficit situation.

U.S. affiliates abroad, unable to borrow money from their parent companies, will be placed at a competitive disadvantage vis-a-vis their foreign competitor. Their competitive strengths will gradually erode which are bound to adversely affect earnings and the dividend in-flow to the U.S. Also, such restraints will affect exports since when U.S. firms invest abroad, the investment usually results in new U.S. exports of machinery, parts and raw materials.

The curb and stoppage of U.S. capital exports are bound to hurt the economies of under-developed and developed countries which, in turn, will mean less purchases from the U.S. In short, if these investment curbs as announced by the President become extensive, in time they could have depressive impacts on the world economies.

The government's Foreign Direct Investments Controls Program continues in a state of flux and has tended to raise more questions than answers. In view of the emergency nature of the program, the ground rules have not been too clearly defined or spelled out which add to the frustrations in the decision-making process of globally oriented U.S. companies.

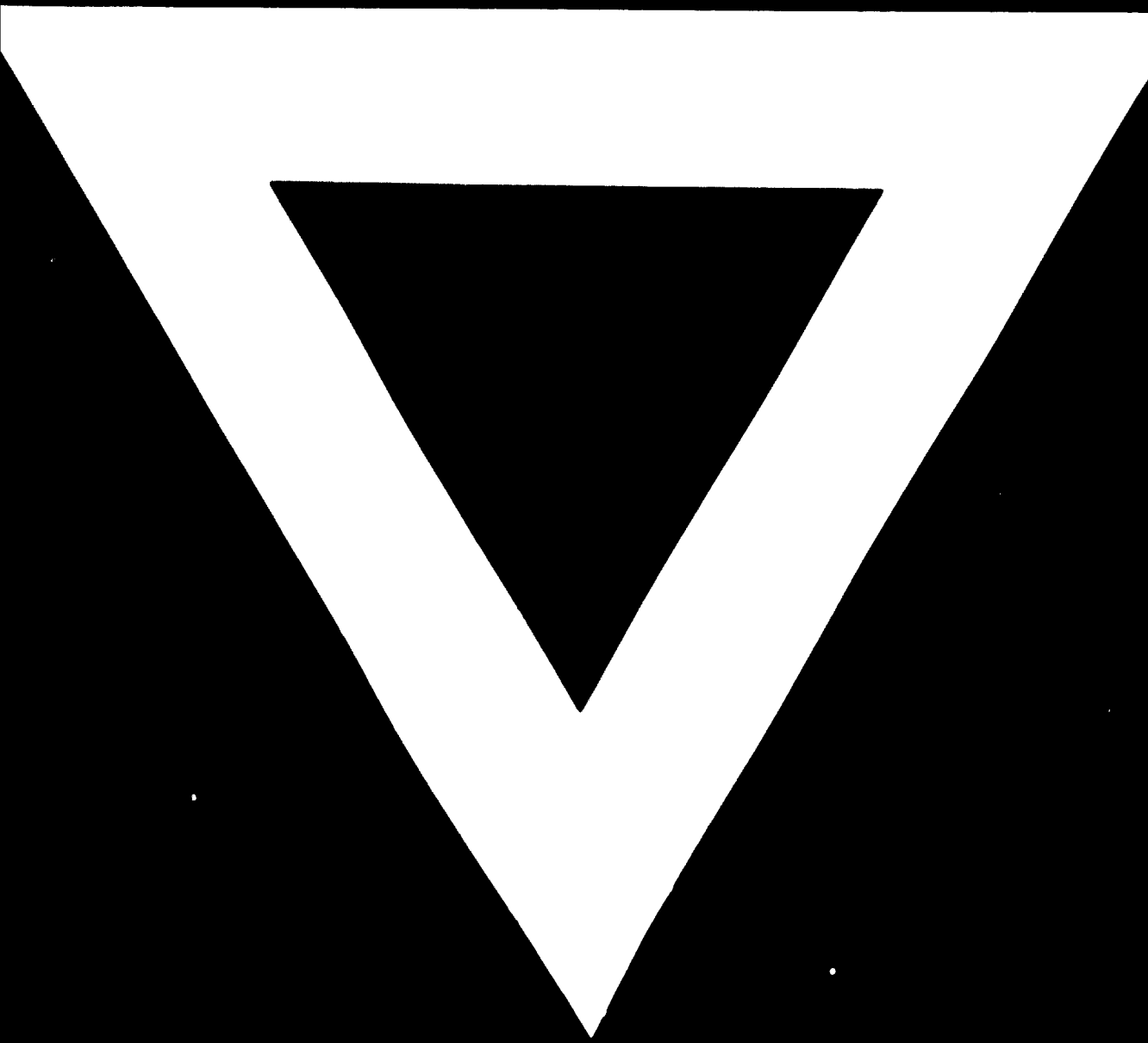
Since the Investment Control Program restricts the flow of dollars from the U.S., we, like other U.S. companies, can use funds borrowed directly overseas (Euro-dollars or other Euro-currencies) but these funds as mentioned previously are not unlimited. Fortunately, the company's treasury department established lines of credit with various overseas banks prior to the initiation of the President's program of restricting the outflow of dollars. In view of these cash limitations, the available funds will be doled out on an allocation basis with the profit return, no doubt, establishing a high priority as to the investment selected.

Despite the U.S. curbs in investing abroad, I feel that each of us must face up to this challenge with the expectation that these investment curbs will be only temporary in nature. This bullish outlook appears justified since the curbs, if continued for an extensive period of time, could have a severe adverse impact on the world economies.

While the investment curbs are in effect, I feel that your responsibilities now become even greater in specifically identifying the investment opportunities which offer the greatest potential for profit. In view of the restrictive program involving the dollar outflow, it is a natural phenomena that globally oriented U.S. firms will be more selective in their choices of investing abroad. Fortunately, the door has not been completely shut involving the flow of U.S. capital for investments in under-developed countries.

In concluding, I hope that I have been successful in a small way at least to convey to you through my actual experiences how you individually can assist the potential foreign investor in his evaluation to support the establishment of viable ventures in your country. Again, I am delighted at this opportunity to talk before this group, and I now welcome questions from the floor. Since I did not bring along my crystal ball, I ask you to refrain from asking questions pertaining to the gold question and the probability of Uncle Sam getting his house in order, namely the ticklish balance-of-payments question. My associate, Mr. Robert Grim, who is slated to speak before this group in several weeks, may be able to cover these phases with more authority.





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