U.S. Policy Toward Outward FDI

- U.S. govt extremely supportive of outward FDI and U.S.-based MNCs (except when national security at stake).
- **Three sets of policies support outward FDI**
  1. U.S. Tax Policy
  2. Foreign Investment Insurance
  3. Anti-Expropriation Activity
- Policies have the strong support of the U.S. business community but face occasional opposition from labor unions and, recently, the U.S. Treasury. Nevertheless, they remain largely unchanged.
- How much of this policy mix can be explained by international, domestic-societal, or domestic-institutional factors?

Policies Supporting Outward FDI

1. **U.S. Tax Policy**: Two elements of the tax code favor FDI.
   - Foreign tax credit: allows corporate taxes paid to foreign govts to be credited against U.S. tax liabilities. Companies thus have incentives to set "transfer prices" to shift income away from the U.S. and shift deductible expenses into the U.S.
   - Foreign tax deferral: allows remaining tax liability to be postponed until the foreign subsidiary remits earnings back to U.S. parent…if ever.
2. **Foreign Investment Insurance and Financing**: Govt insures MNCs against "noncommercial risk" (e.g., losses due to political violence or nationalization).
   - OPIC (Overseas Private Investment Corporation). Insures U.S. MNCs against political instability, nationalization, and currency risk.

Policies Supporting Outward FDI (cont.)

3. **Anti-expropriation policy**: policies aimed at protecting U.S. investments from seizure by "unfriendly" host govts.

- Background:
  - Expropriations peaked in the mid-1970s.
  - Extractive and raw materials industries (e.g. oil, minerals) most vulnerable.
  - Since then, problem has almost disappeared. Why?
- **"Obsolescing Bargain"** (Ray Vernon) posits a negative relationship between MNC "power" over host govts and time (Figure 1).
  - Recent MNC investment is in manufacturing, which is not as vulnerable to the "obsolescing bargain."

3. Anti-expropriation policies (cont.)

- Other foreign policies brought to bear on host govts that threaten U.S. MNCs and their assets:
  - Early 20th century colonialism (see Frieden)
  - Covert destabilization of hostile host govts (e.g., Guatemala in the 1950s, Chile in the early 1970s).
  - U.S. Foreign aid programs required friendly treatment of U.S. MNCs (e.g., Hickenlooper Amendment, Gonzalez Amendment).

U.S. Policies Restricting Outward FDI

- Capital controls 1965-1973. Efforts to reduce balance of payments deficits associated with the Vietnam war by restricting outward foreign investment.

  – "Voluntary Foreign Credit Restraint" program in 1965; becomes mandatory after 1968.

- Trading with the enemy restrictions (e.g., Soviet Pipeline 1982).

Figure 1: Obsolescing Bargain