

Private Enterprise, International Development, and the Cold War

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In October 2018 the U.S. Congress passed the Build Act, establishing a new International Development Finance Corporation (DFC). Capitalized at some \$60 billion, the DFC is supposed to promote “development by supporting foreign direct investment (FDI) in underserved types of projects, regions, and countries.”¹ Its larger geopolitical purpose, however, is to challenge China’s Belt and Road Initiative (BRI), a huge global infrastructure program. As Vice President Mike Pence said of DFC at the time it was set up, “we’ll be giving foreign nations a just and transparent alternative to China’s debt-trap diplomacy.”²

Many experts in both government and business have characterized DFC as a sea-change in U.S. foreign assistance policy. Ray Washburne, then head of the Overseas Private Investment Corporation (OPIC, which DFC replaced), argued that the formation of DFC “launches a new era in development finance.”³ Mark Green, who headed the United States Agency for International Development (USAID) when the DFC was created, held out its promise to “catalyze market-based, private-sector development, spur economic growth in less-developed countries, and advance the foreign-policy interests of the United States.”⁴ Former Senator Bob Corker (R-Tenn.), who cosponsored

1. U.S. Congressional Research Service, *BUILD Act: Frequently Asked Questions about the New U.S. International Development Finance Corporation*, R4561 (Washington, DC: Congressional Research Service, January 2019), p. 3.

2. “Remarks by Vice President Pence on the Administration’s Policy toward China,” 4 October 2018, The White House, <https://www.whitehouse.gov/briefings-statements/remarks-vice-president-pence-administrations-policy-toward-china/>.

3. “OPIC President and CEO Washburne Statement as President Signs BUILD Act into Law,” 5 October 2018, U.S. International Development Finance Corporation, available online at <https://www.dfc.gov/media/opic-press-releases/opic-president-and-ceo-washburne-statement-president-signs-build-act-law>.

4. Mark Green, “Statement on Creation of the US International Development Finance Corporation,” press release, 3 October 2018, USAID, available online at <https://www.usaid.gov/news-information/press-releases/oct-3-2018-administrator-green-statement-creation-usidfc>.

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the bipartisan Build Act, claimed that the founding of DFC heralded the end of traditional, government-to-government foreign aid programs. These programs, he asserted, could now “set the goal of putting themselves out of business.”⁵ The U.S. Chamber of Commerce, representing the views of its corporate members, wrote in supporting the Build Act that it “would leverage the U.S. private sector’s expertise and investment capital to generate economic growth in the developing world and provide tangible benefits for American companies selling their goods and services there.” In so doing, it would “advance U.S. national security and economic interests.”⁶

The purpose of this article is to examine from a historical perspective these claims about the promise of private enterprise as an instrument for advancing U.S. strategic interests in the developing world. The ideas animating the DFC, far from being revolutionary, represent the continuation of a long-standing effort to induce U.S. firms to act on behalf of Washington’s geopolitical objectives—an effort that was at the focal point of foreign assistance policy during the early years of the Cold War. For at least a decade beginning in the late 1940s, the U.S. government believed that foreign investment could fuel international development, providing a robust challenge to the existential threat posed by international Communism.⁷ As President Dwight D. Eisenhower said in a 1955 address to Congress, “An increased flow of United States private investment funds abroad . . . would do much to offset the false but alluring promises of the Communists.”⁸

The “theory of change” lying behind the promotion of FDI was that U.S. firms would spur economic growth by motivating local entrepreneurs to invest in the supply chains and support functions that multinational corporations required, generating jobs, incomes, and tax revenues in the process. Economists later referred to this process as one of creating “linkages” between foreign and domestic firms. By promoting linkages and related investments,

5. Bob Corker, “Corker, Coons BUILD Act to Modernize U.S. Development Finance Passes Committee,” press release, 26 June 2018, Chris Coons [website], available online at <https://www.coons.senate.gov/newsroom/press-releases/corker-coons-build-act-to-modernize-us-development-finance-passes-committee>.

6. Myron Brilliant to Sen. Bob Corker and Sen. Bob Menendez, 8 May 2018, U.S. Chamber of Commerce, available online at https://www.uschamber.com/sites/default/files/180508_s2463_build_corker_menendez.pdf.

7. David Baldwin, *Economic Development and American Foreign Policy: 1943–1962* (Chicago: University of Chicago Press, 1966); and Raymond Mikesell, *Promoting United States Private Investment Abroad* (Washington, DC: National Planning Association, 1957).

8. Dwight D. Eisenhower, “Foreign Economic Policy,” Message to Congress, 10 January 1955, in *Public Papers of the Presidents: Dwight D. Eisenhower: 1955* (Washington, DC: U.S. Government Printing Office, 1959), p. 32, available online at <https://quod.lib.umich.edu/p/ppotpus/4728407.1955.001/74?rgn=full+text;view=image;q1=foreign+economic+policy>.

countries would enjoy faster rates of development than they would otherwise (the extent of these linkages and whether they do in fact promote economic growth remain topics of debate in the economics literature).⁹

The process of development was not solely of economic interest to Washington; even more important, it held out the promise of generating political and national security spin-offs, including a pro-American foreign policy orientation, and perhaps even democracy. This causal chain reflected key tenets of modernization theory, one of whose advocates, W. W. Rostow of the Massachusetts Institute of Technology, was an influential academic who went on to become a national security adviser to Presidents John F. Kennedy and Lyndon Johnson.¹⁰ As Richard N. Cooper has written of U.S. statecraft in the early Cold War, “the principal instruments for preventing the spread of Communism by nonmilitary means involved building an international economic system conducive to economic prosperity,” which required the spread of trade and private enterprise.¹¹

What core interests and ideas motivated Washington’s private-sector approach to international development? What does this history tell us about the relationship between the U.S. government, the developing world, and U.S.-based multinational corporations—a contentious topic among scholars over many decades?¹² What lessons can foreign policy officials today, including those running the DFC, draw from this Cold War history, in particular as they seek to confront China in the developing world? These are among the questions that this article addresses.

The U.S. government’s private enterprise project had only limited success during the early Cold War years, reflecting the clash between the policy preferences of U.S. officials on the one hand and the interests of private-sector firms and of many developing countries on the other. Whereas U.S. policymakers believed that foreign investment could drive the economic growth of developing countries—which in turn would also contribute to keeping them out of

9. Theodore Moran, Edward Graham, and Magnus Blomstrom, eds., *Does Foreign Direct Investment Promote Development?* (Washington, DC: Institute for International Economics, 2005).

10. On the policy relevance of modernization theory, see David Ekbladh, *The Great American Mission: Modernization and the Construction of an American World Order* (Princeton, NJ: Princeton University Press, 2011); and Nils Gilman, *Mandarins of the Future: Modernization Theory in Cold War America* (Baltimore, MD: Johns Hopkins University Press, 2003).

11. Richard N. Cooper, “Economic Aspects of the Cold War, 1962–1975,” in Melvyn Leffler and Odd Arne Westad, eds., *Cambridge History of the Cold War* (New York: Cambridge University Press, 2010), p. 44. See also Robert Pollard, *Economic Security and the Origins of the Cold War, 1945–1950* (New York: Columbia University Press, 1985).

12. Robert Gilpin, *US Power and the Multinational Corporation: The Political Economy of Foreign Direct Investment* (New York: Basic Books, 1975).

the Communist orbit—multinational firms during the early Cold War years already had many profitable opportunities for investment in the United States and other industrialized countries.¹³ Investing in developing economies was simply not a priority for most of them, no matter the geostrategic objectives of the White House and the U.S. State Department. As a result, even though FDI flows rose in the 1950s, they lagged behind the amounts U.S. officials had hoped for, with major consequences for the government's philosophy of foreign assistance.

This history demonstrates that, contrary to Robert Gilpin's assertion, U.S. firms did *not* become reliable "instruments of American global hegemony" after 1945.¹⁴ More broadly, it casts doubt on the school of diplomatic history that emphasizes the "necessity" of global capitalist expansion and the alleged hand-in-glove relationship between firms and the state in shaping and driving U.S. "Open Door" foreign policy.¹⁵ To the contrary, when the Eisenhower administration found it was unable to mobilize private capital in sufficient amounts to meet development objectives and challenge the spread of Communism, U.S. officials slowly came around to the view that they would have to increase government-to-government foreign aid—a program they had earlier been planning to cut.

The developing countries, for their part, varied enormously in their demand for FDI and ability to attract it, and these variables changed over time as well. In Latin America, for example, U.S. officials in the early 1950s feared that a combination of economic nationalism and the growing influence of international Communism might lead some leaders to replace foreign investment with domestic-led "import-substituting industrialization" (ISI). By late 1955, however, this fear had abated, with the Central Intelligence Agency (CIA) reporting that "the climate for foreign investment . . . is gradually improving." Still, even this level of generalization had to be treated with caution, as countries varied with respect to the sectors that were open to foreign investment. In Latin America, for example, the same CIA assessment emphasized that "individual governments determine the area in which such foreign capital . . . will be permitted to operate."¹⁶ Taiwan's Kuomintang (KMT)

13. Raymond Mikesell, *Promoting United States Private Investment Abroad* (Washington, DC: National Planning Association, 1957).

14. Gilpin, *US Power and the Multinational Corporation*, p. 139.

15. See Bradford Perkins, "The Tragedy of American History, 25 Years Later," *Reviews in American History*, Vol. 12, No. 1 (March 1984), pp. 1–18.

16. See U.S. Central Intelligence Agency, "Conditions and Trends in Latin America," National Intelligence Estimate 80/90-55, 6 December 1955, in U.S. Department of State, *Foreign Relations of the*

regime initially discouraged private enterprise (Chiang Kai-shek wanted to control the island's economy) but eventually opened up some sectors to foreign investment and local entrepreneurship—partly because of substantial U.S. pressure—during the latter half of the 1950s and 1960s.¹⁷

Despite the differences in the economic policies and trajectories of the world's developing regions (and even within Latin America, East Asia, and sub-Saharan Africa there was great diversity in both policies and outcomes), certain commonalities among the world's poorest countries played a major role in shaping the contours of U.S. policy.¹⁸ Some generalizations about the postwar developing world, no matter the region, are fairly robust, such as the need of the poorest countries to import foreign capital in some form (i.e., either as grants, loans, or investments) given the “gap” between domestic savings and investment requirements. After all, by definition, developing countries lacked savings, and thus savings had to be mobilized through some combination of domestic and international effort. These countries also needed to generate dollars to pay for crucial imports, a challenge made harder by the postwar “dollar shortage” (lack of dollar liquidity) on the one hand and U.S. protectionism on the other.

U.S. policymakers also discovered that the leaders of developing countries generally did not believe that FDI was a substitute for government-to-government assistance; instead, different sources of capital were needed for the production of public versus private goods. The leaders of poorer countries urged Washington to accept the proposition that foreign aid and direct investment were complimentary rather than competitive and that aid-funded infrastructure would attract more foreign investment. At the United Nations (UN),

United States, 1955, Vol. VI (hereinafter referred to as *FRUS*, with appropriate year and volume numbers), p. 1. On U.S. economic policy toward Latin America, see Matthew Loayza, “An ‘Aladdin’s Lamp’ for Free Enterprise: Eisenhower, Fiscal Conservatism, and Latin American Nationalism, 1953–1961,” *Diplomacy and Statecraft*, Vol. 14, No. 3 (June 2003), pp. 83–105; Bevan Sewell, “A Perfect (Free-Market) World? Economics, the Eisenhower Administration, and the Soviet Economic Offensive in Latin America,” *Diplomatic History*, Vol. 32, No. 5 (November 2008), pp. 841–868; and Thomas Zoumaras, “Eisenhower’s Foreign Economic Policy: The Case of Latin America,” in Richard Melanson and David Mayers, eds., *Reevaluating Eisenhower: American Foreign Policy in the 1950s* (Chicago: University of Illinois Press, 1987), pp. 155–191.

17. For a good overview of U.S.-KMT relations, see Nancy Tucker, *Taiwan, Hong Kong, and the United States: 1945–1992* (New York: Twayne, 1994).

18. See, for example, Stephan Haggard, *Developmental States* (New York: Cambridge University Press, 2018); Stephan Haggard, *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing States* (Ithaca, NY: Cornell University Press, 1990); and James Lee, who emphasizes the importance of the Cold War in U.S. development policy in “US Grand Strategy and the Origins of the Developmental State,” *Journal of Strategic Studies*, Vol. 43, No. 5 (2019), pp. 737–761, available online at <https://doi.org/10.1080/01402390.2019.1579713>. On economic divergence, see Lant Pritchett, “Divergence, Big Time,” *Journal of Economic Perspectives*, Vol. 11, No. 3 (1997), pp. 3–17.

where leaders of Third World countries often expressed similar views on foreign assistance, they called for “external grant aid to finance ‘low-yielding . . . social and economic overhead projects’ basic to economic development.”¹⁹ Not until many years later did U.S. policymakers come to see official aid as anything other than an admission of failure by recipient countries to do what was necessary to harness their own resources for the betterment of their people. As President Eisenhower liked to say, aid was the equivalent of putting money in a “tin cup.”²⁰

The article is divided into five sections. The introduction is followed by a section analyzing the postwar impetus for private-sector development. The third section describes the instruments the United States devised in the 1940s and 1950s to stimulate private investment abroad, and the fourth section examines the founding of the International Finance Corporation (IFC) during the Eisenhower administration. The article concludes with recommendations for policymakers and for further research.

U.S. Foreign Investment and International Development

At the end of World War II, the United States confronted the foreign economic challenges of European reconstruction and the global integration of a growing number of newly independent countries. In 1945, the UN had 51 members. That number increased to 76 in 1955 and rose well above 100 by the early 1960s, continuing steadily upward. President Truman recognized that the U.S. government had economic, moral, and geopolitical interests in promoting the growth of these new countries, many of which were emerging from decades of colonial rule, and “Point Four” of his 1949 inaugural address had pledged U.S. technical assistance to their development.²¹

Truman’s “bold new program” proposed to make

the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. . . . Our aim should be to help the free peoples of the world, *through their own efforts*, to produce more

19. Ruth Gold, “Position Paper on General Assembly Resolution to Establish Grant Fund for Economic Development,” 2 May 1952, in *FRUS*, 1952–1954, Vol. I, p. 232.

20. Stephen G. Rabe, *Eisenhower and Latin America: The Foreign Policy of Anti-Communism* (Chapel Hill: University of North Carolina Press, 1988).

21. Stephen Macekura, “The Point Four Program and U.S. International Development Policy,” *Political Science Quarterly*, Vol. 128, No. 1 (Spring 2013), pp. 127–160.

food, more clothing, more materials for housing, and more mechanical power to lighten their burdens.²²

However, Truman did not intend Point Four to be driven by government alone: “With the cooperation of business, private capital, agriculture, and labor in this country, this program can greatly increase the industrial activity in other nations and can raise substantially their standards of living.”²³

Though hardly a monolithic entity, the U.S. business community had strong views about Point Four and the use of public funds to support it, if witness testimony at congressional hearings provides any evidence (bearing in mind that witnesses are often carefully selected by congressional committees to elicit desired perspectives). These witnesses “agreed that ‘technical cooperation programs should be authorized only with foreign countries which have indicated their firm intention to cooperate in fostering private enterprise.’” This view was bolstered by Representative Christian Herter (R-Mass.), who later served as Eisenhower’s secretary of state, in declaring

I think it is of the utmost importance to let foreign nations know that . . . there is a limit to which this country will go in supplying government funds, unless those nations are willing to be reasonable from the point of view of possible private investments.²⁴

Following the announcement of Point Four, key policymakers in the Truman administration scrambled to clarify what the United States would be doing and the roles various parties were expected to play in its execution. In a memorandum to the president, Secretary of State Dean Acheson emphasized his understanding

that neither technical cooperation activities nor measures to foster capital investment be allowed to give an impression that the United States Government thereby becomes obligated to supply the funds needed to finance economic development. The US cannot accept the ultimate responsibility for seeing that economic development really takes place. *This responsibility must . . . rest unmistakably on the nations desiring development.*²⁵

22. Harry S. Truman, “Inaugural Address,” 20 January 1949, available online at https://avalon.law.yale.edu/20th_century/truman.asp.

23. *Ibid.*

24. David McLellan and Charles Woodhouse, “The Business Elite and Foreign Policy,” *Western Political Quarterly*, Vol. 13, No. 1 (March 1960), pp. 172–190.

25. Secretary of State to President Truman, “Progress Report on Point IV,” 14 March 1949, in *FRUS*, 1949, Vol. I., p. 779; emphasis added.

As David Baldwin has written, “no principle of United States policy toward underdeveloped areas has been more consistently embraced than the proposition that the underdeveloped countries themselves are primarily responsible for economic development.”²⁶ This principle of “self-help” reappears throughout the history of U.S. development policy. Treasury Secretary Lawrence Summers said much the same thing when he proclaimed in 2000, as the Asian financial crisis of 1998 was finally winding down, that “nations . . . shape their own destiny.”²⁷ Developing countries were, in essence, expected to pull themselves up by their own bootstraps.

Nowhere in these statements does one find a recognition that the international system might also play a decisive role in shaping the economic trajectory of the world’s poorest nations. To be sure, the United States took the lead after World War II in creating a new international trade regime, which was supposed to serve as the main vehicle for lifting countries out of poverty and generating global economic growth.²⁸ For developing countries, however, the promise of that regime was limited by protectionism within the leading economic powers themselves. In the United States, for example, the textile-heavy Southern states sought to limit imports either through tariffs and quotas or through “voluntary” trade agreements.²⁹

Further, protection of domestic agriculture in the industrial world limited the ability of these countries to export commodity foodstuffs. Development was also undermined by “tariff escalation” in the industrial world, meaning that tariffs were higher on value-added products (such as chocolate bars) than on the underlying raw materials (e.g., cocoa beans). This meant there was

26. David Baldwin, *Economic Development and American Foreign Policy: 1943–1962* (Chicago: University of Chicago Press, 1966), p. 16. This “self-help” philosophy has deep roots in U.S. mythology. It is resonant of the frontiersman described by Frederick Jackson Turner whose “rugged individualism” included a belief in self-reliance and an opposition to government intervention. A trio of economists has recently shown that Americans who today live in regions that remained part of frontier territory for the longest time are more inclined to think of themselves as self-reliant and less supportive of government-led redistributive economic policies than are those who live in parts of the country that were settled and became states earlier. See Samuel Bazzi, Martin Fiszbein, and Mesay Gebresilasse, “Frontier Culture: The Roots and Persistence of ‘Rugged Individualism’ in the United States,” National Bureau of Economic Research Working Paper, No. 23997, June 2018, available online at <https://www.nber.org/papers/w23997.pdf>.

27. Lawrence Summers, “Statement to the Development Committee of the World Bank and International Monetary Fund,” 17 April 2000, cited in Ethan B. Kapstein, *Economic Justice in an Unfair World* (Princeton, NJ: Princeton University Press, 2006), p. 21.

28. Thomas Zeiler, *Free Trade, Free World: The Advent of GATT* (Chapel Hill: University of North Carolina Press, 1999).

29. See Douglas Irwin, *Clashing over Commerce: A History of U.S. Trade Policy* (Chicago: University of Chicago Press, 2017), Ch. 11.

little incentive to invest in, for example, food processing plants in developing countries.³⁰ The provision of “food aid” by the United States and West European countries beginning in the 1950s—generally surpluses that Western farmers wanted to remove from inventories—added to the pain of producers in the developing world by undercutting them.³¹

The economic structure of many developing countries, with their heavy reliance on commodity exports, created another potential barrier to development that the United States tended to overlook. In the late 1940s, two economists in the United Nations (UN) system—Raul Prebisch at the Economic Commission for Latin America (ECLA) in Santiago and Hans Singer in New York—independently elaborated what has since become known as the Prebisch-Singer hypothesis with respect to international trade. The two economists posited that commodity exporters inevitably confronted declining terms of trade and thus were consigned to export more and more natural resources in order to import fewer and fewer manufactured goods.³² The answer to them was obvious: ISI in which firms, operating behind high tariff barriers, would displace imported manufactures and diversify the local economy.

The call for ISI was also amplified by the so-called “dollar shortage” that many countries faced after World War II. Given the widespread economic devastation that the war had left in its wake, the United States became the global supplier for many goods and services. Naturally, these exports had to be paid for in dollars, and few countries had the economic capacity to generate the necessary funds. The dollar shortage was a major factor behind the elaboration of the Marshall Plan and other emergency foreign assistance programs.³³

30. Bela Balass, “Tariff Protection in Industrial Nations and Its Effects on the Exports of Processed Goods of Developing Nations,” *Canadian Journal of Economics*, Vol. 1, No. 3 (August 1968), pp. 583–594.

31. Burton Kaufman, *Trade and Aid: Eisenhower’s Foreign Economic Policy, 1953–1961* (Baltimore: Johns Hopkins University Press, 1982), pp. 2–3; and Johan Norberg, “American and European Protectionism Is Killing Poor Countries and Their People,” *Investor’s Business Daily*, 25 August 2003, available online at <https://www.cato.org/publications/commentary/american-european-protectionism-is-killing-poor-countries-their-people>.

32. H. W. Singer, “The Distribution of Gains Between Investing and Borrowing Countries,” *American Economic Review*, Vol. 40, No. 2 (May 1950), pp. 473–485; and Raul Prebisch, “Commercial Policy in the Underdeveloped Countries,” *American Economic Review*, Vol. 49, No. 2 (May 1959), pp. 251–273.

33. A point emphasized by William Adams Brown and Redvers Opie, *American Foreign Assistance* (Washington, DC: Brookings Institution, 1953). See also Charles P. Kindleberger, *The Dollar Shortage* (Cambridge, MA: MIT Press, 1950).

Beyond self-help, another central tenet of U.S. development policy emphasized private enterprise as the foremost capitalist institution. Baldwin writes, “To representatives of the less developed nations it must seem that the United States never tires of citing the advantages—real and imagined—of an economic system based on private enterprise.”³⁴ Like self-help, belief in private enterprise was buried deep within the U.S. historical and psychological landscape.

Legal historian Scott Bowman writes of the United States, “Throughout the history of the republic, the corporation has served as the primary agent for economic development and expansion, at home and abroad.”³⁵ Eisenhower observed in his memoirs that his philosophy of economic growth was shaped by the U.S. experience, as if it could be readily transferred abroad: “Our economic strength had developed, historically, freely and without artificial and arbitrary government controls.”³⁶ Bowman notes that the emergence of the modern corporation is intimately tied to the history of liberalism, with its roots in England’s “rising capitalist class” and the privileges they sought from an aristocratic political system. Both liberalism and free enterprise emphasize “individualism” and personal initiative. In this model, economic dynamism emerges “from the bottom up”—from entrepreneurs rather than from “top down” government officials.

But as with self-help, most developing countries faced structural barriers to private enterprise, whether local or foreign, including in those places where governments were not actively opposed to its emergence. These included the lack of sufficiently large markets with profitable opportunities to attract investment; an absence of capital markets among other market-supporting institutions; and the failure or inability to provide strong property rights and the rule of law (something that U.S. officials took for granted but was actually uncommon outside the core of advanced industrialized countries).

Nevertheless, U.S. officials believed that recipient countries could readily overcome such shortcomings by improving their “investment climate.” As the Randall Commission on Foreign Economic Policy stated in a 1954 report to President Eisenhower, the U.S. government “can and should give full diplomatic support to the acceptance and understanding abroad of the

34. Baldwin, *Economic Development*, p. 19.

35. Scott Bowman, *The Modern Corporation and American Political Thought: Law, Power and Ideology* (University Park, PA: Penn State University Press, 1996), p. 2.

36. Eisenhower, cited in Bevan Sewell, *The U.S. and Latin America: Eisenhower, Kennedy and Economic Diplomacy in the Cold War* (New York: I. B. Taurus, 2015), p. 22.

principles underlying the creation of a climate conducive to private foreign investment.³⁷

Not all developing countries (much less the rising Communist powers) shared the Anglo-Saxon perspective on the importance of the private sector. An alternative view was that economic activity must serve broad national objectives, particularly the state's developmental goals, and this meant that firms needed political direction from the top down. Further, newly independent countries often associated private enterprise with colonial shackles. As economist Frank Golay wrote in 1958, "the economic counterpart of political nationalism in newly-sovereign Southeast Asia is best understood as a determination to 'de-alienize' the economies inherited from the period of colonialism."³⁸ Given these objectives, including, inter alia, employment generation, national security, and independence from colonial-era supply chains, it followed that governments needed to establish state-owned enterprises that could adopt political mandates, a model that eventually proliferated around the world.³⁹ Many of these enterprises over time fell deep into debt and dysfunction, leading in the 1980s to a massive, global privatization movement.⁴⁰

Whereas self-help and free enterprise provided two of the "ideological cornerstones" of U.S. development policy during the early Cold War years, these ideas also had some pragmatic basis in economic and fiscal realities. After all, poor countries, by definition, lacked domestic savings for investment, and the postwar development community agreed that capital had to be mobilized at least partly from overseas, in the form of aid, bank loans, or equity investment (either portfolio or direct). This belief played a salient role in the founding of the World Bank at the Bretton Woods Conference.⁴¹

But in the late 1940s and early 1950s, the United States had little appetite for major government-to-government foreign aid programs, despite the success of the Marshall Plan in stimulating European recovery. That political constraint, in turn, left policymakers no choice but to rely on private capital to

37. Commission on Foreign Economic Policy (Randall Commission), *Report to the President and Congress*, Washington, DC, 23 January 1954, p. 17, available online at <https://babel.hathitrust.org/cgi/pt?id=uc1.b3428012&view=1up&seq=9>.

38. Frank Golay, "Commercial Policy and Economic Nationalism," *Quarterly Journal of Economics*, Vol. 72, No. 4 (November 1958), pp. 574–587, esp. p. 579.

39. Malcolm Gillis, "The Role of State Enterprise in Economic Development," *Social Research*, Vol. 47, No. 2 (Summer 1980), pp. 248–289.

40. Henry Bienen and John Waterbury, "The Political Economy of Privatization in Developing Countries," *World Development*, Vol. 17, No. 5 (1989), pp. 617–632.

41. Uner Kirdar, *The Structure of United Nations Economic Aid to Underdeveloped Countries* (The Hague: Martinus Nijhoff, 1966), pp. 97–99.

meet the developing world's "gap" between domestic savings and investment requirements. U.S. foreign assistance policy, then, focused on how to mobilize U.S. capital in the interests of pro-Western economic development.⁴²

Catalyzing Private Investment

During the Truman administration and first Eisenhower administration, policymakers believed that private capital would flow in sufficient amounts to meet the investment needs of the developing world.⁴³ These needs were deemed by the international community to be great. According to a group of experts brought together by the UN in 1951, the developing world required about \$19 billion per annum to achieve even modest annual growth rates of 2 percent, only \$5 billion of which could be met by domestic savings. International and bilateral agencies and private investors therefore would have to contribute the remaining \$14 billion annually if that target was to be met. This difference between domestic savings and overall needs became known as the "investment gap," which became an influential concept within development institutions such as the World Bank, shaping the first generation of postwar programming aimed at spurring economic growth. The notion of an "investment gap" became increasingly contested over time, as those involved in development came to recognize that many countries were making poor use of the funding available to them.⁴⁴

In an attempt to stimulate more FDI, the Truman administration initially devised three incentive schemes, drawing on input from the business community about which policy innovations would be most effective in leading them overseas. The three were tax breaks, investment guarantees, and investment treaties.⁴⁵ U.S. businesses in the late 1940s and early 1950s concentrated their lobbying efforts on tax breaks, specifically tax reductions on earnings from subsidiaries and branches in the developing world. According to Marina von Neumann Whitman,

42. W. W. Rostow, *Eisenhower, Kennedy and Foreign Aid* (Austin: University of Texas Press, 1985), p. 34.

43. *Ibid.*

44. United Nations Department of Economic Affairs, *Measures for the Economic Development of Under-Developed Nations* (New York: UN, May 1951). For a discussion of the investment gap and its influence in the development community, see William Easterly, *The Elusive Quest for Growth* (Cambridge, MA: MIT Press, 2001).

45. Minutes of Meeting of the National Advisory Council, 14 April 1949, in *FRUS*, 1949, Vol. I, pp. 784–786.

A number of powerful business organizations and government advisory groups . . . argued that such favorable tax legislation would be the most effective way to increase foreign investment quickly and substantially. Such a tax reduction or elimination . . . would not only have a tremendous psychological incentive effect, but would also permit returns to increase to a point where they would outweigh the extra risks of foreign investment.⁴⁶

This proposal simply extended reductions to other countries that were already in place for earnings in Latin America and pre-Maoist China and a deferral of tax payments until profits were remitted to the parent company.

As Whitman points out, these policy proposals were quickly attacked by some Republicans in Congress, among other critics, as being patently unfair corporate subsidies because they focused on investments in poor regions over rich ones. But the targeted subsidies conformed to the foreign policy objectives of the tax program. Again, in a political and ideological environment in which neither Truman nor his successor could muster much support for official foreign aid to the developing world (this was certainly true of Eisenhower's first administration, but less so for the second, when business leaders voiced their support for a more ambitious aid program), the proposed subsidy program needed to rely on the private sector to cover the investment gap these countries were facing.⁴⁷ If the incentive of lower tax rates was needed to stimulate more foreign investment, the administration had no choice but to support that policy.

The second policy innovation was to guarantee investments. Guarantee schemes had existed for many decades before World War II, but these generally protected bondholders against default risk and were usually provided by private insurers. In the 1920s and 1930s, Western governments devised new schemes to encourage exports, which mainly covered non-payment risks; the U.S. Export-Import (Exim) Bank, for example, was founded in 1934 with this as one of its purposes.

The real innovation of the late 1940s and early 1950s was to provide government insurance against political risk, including wars, expropriations, and currency inconvertibility. Specifically, the government would provide firms with *dollars* in the event of local currency losses. Because many local currencies at this time were effectively non-convertible, the government hoped

46. Marina Von Neumann Whitman, *Government Risk-Sharing in Foreign Investment* (Princeton, NJ: Princeton University Press, 1965), p. 50.

47. Thomas DiBacco, "American Business and Foreign Aid: The Eisenhower Years," *Business History Review*, Vol. 41, No. 1 (Spring 1967), pp. 21–35; and McLellan and Woodhouse, "The Business Elite and Foreign Policy."

this form of insurance would motivate firms to invest in places where they might not otherwise. Further, as Whitman emphasizes, an additional purpose of having the U.S. government provide the insurance was to *reduce* the risk rather than simply to price it. Officials hoped that foreign leaders would be less likely to nationalize, expropriate, or attack U.S. firms if they knew the U.S. government was acting as their guarantor.⁴⁸

Business criticism, however, mounted around these guarantee schemes as they began to take shape. First, many businesses were reluctant to share with the U.S. government the amount of information that was required in the insurance application. Second, some executives were concerned that “delicate political problems may result if the Government refuses guarantees on [an] investment project in one country while approving some in another.” Third, debates arose about which agency should administer a program of this type. Although the Exim Bank was authorized by Congress to provide this function in the 1950s, responsibility passed to USAID a decade later and eventually to OPIC following its establishment in 1971.⁴⁹

The guarantee scheme was, in any case, little used during its first years of operation.⁵⁰ According to Raymond Mikesell, from 1948 to 1956 the scheme’s insurance contracts were valued at no more than \$124 million, “and less than 10 percent of these covered investments in the less developed countries. Thus far the results of the program have been disappointing.”⁵¹

The final innovation was the investment treaty, which again had an earlier incarnation in the many treaties of “friendship, commerce and navigation” that the United States had signed over the years, including with developing countries. But the protections afforded to industry in these earlier documents, which focused mainly on trade, were often ill-defined, even though the changing international situation meant that U.S. officials were increasingly unlikely to use military force or “gunboat diplomacy” to protect U.S. investors as in the past. Accordingly, a new emphasis was placed on drawing up investment treaties that specified the obligations of investors and recipient governments, including provisions for mediation in the event that the two parties could not reach agreement over how to settle differences. Truman’s State Department

48. Whitman, *Government Risk-Sharing*, p. 60.

49. Gardiner Patterson, *Survey of U.S. International Finance, 1949* (Princeton, NJ: Princeton University Press, 1950), p. 202.

50. Gardiner Patterson and Jack Behrman, *Survey of U.S. International Finance, 1951* (Princeton, NJ: Princeton University Press, 1951), p. 85.

51. Raymond Mikesell, *Promoting United States Private Investment Abroad* (Washington, DC: National Planning Association, 1957), p. 49.

thought the United States “should expect any countries receiving guaranties to enter into such treaties with us.”⁵²

Upon starting to negotiate these investment treaties in 1949, however, U.S. officials encountered “considerable reluctance on the part of governments to enter into . . . commitments for giving assurance to private investment.”⁵³ These governments did not necessarily share the priority Washington allotted to private enterprise, and the apparent economic success of the Soviet Union offered a different economic model that some developing world leaders found intriguing, especially as Moscow began to increase its foreign aid and trade promotion activities—the so-called Soviet Economic Offensive of the mid-1950s.⁵⁴

In light of some developing countries’ apparent lack of interest in attracting foreign investment, Congress in 1951 urged that “the removal of restrictions and obstacles to foreign private investment be made a condition for receiving United States aid.”⁵⁵ The Truman administration took up these concerns at the UN, but there

the representatives of most of the underdeveloped nations made it clear . . . that in their view large-scale public aid was necessary *before* conditions attractive to foreign investment could be created . . . in any case *they much preferred capital assistance from public rather than private sources.*⁵⁶

U.S. officials were again taken aback by the doubts that many Third World leaders expressed about private enterprise and the priority they gave to official grants and long-term loans.

By the closing years of the Truman administration, the promise of private capital fueling international development had not been realized. As seen in Figure 1, total FDI by U.S. firms never reached even \$1 billion in any year from 1946 to 1952, and more than half of the FDI during that period flowed to Canada. The largest developing region, Latin America, received only 25 percent of overall funding, far below the amounts needed to close the investment gap. The reluctance of U.S. businesses to invest overseas at a time when many profitable opportunities still existed at home, coupled with foreign resistance to the private sector and a “dollar shortage” that made it difficult to import capital inputs to foreign subsidiaries, served to undermine the U.S.

52. Minutes of Meeting of the National Advisory Council, 14 April 1949, p. 785.

53. *Ibid.*

54. Cooper, “Economic Aspects of the Cold War.” See also Sewell, *The US and Latin America*.

55. Patterson and Behrman, *Survey of U.S. International Finance, 1951*, p. 88.

56. *Ibid.*, p. 89; emphasis added.

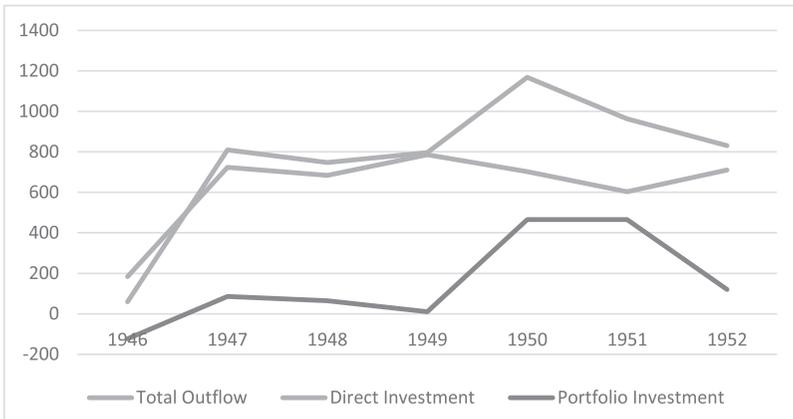


Figure 1: Monthly U.S. Capital Outflows (\$ million)

Source: Gardiner Patterson and John Gunn, *Survey of U.S. International Finance, 1952* (Princeton, NJ: Princeton University Press, 1953), p. 124.

government's preferred approach to international development. Accordingly, the incoming Eisenhower administration eventually sought new ideas.

The Eisenhower Administration and Private Investment

Even though President Truman had signaled that international development was one of his administration's chief priorities, the resources allocated to that task were paltry during his years as president. The administration's total request to Congress for the fiscal year (FY) 1952 Point Four program was only \$79 million, and of the appropriated amount only about half was ultimately expended in the field. The start of the Korean War in June 1950 and the need for rearmament took precedence in Washington over the expansion of foreign aid programs. But developing countries "expressed dissatisfaction" with the U.S. effort and called for "large amounts of capital assistance."⁵⁷ That same year, the UN General Assembly passed a resolution stating that "the volume of private capital which is currently flowing into under-developed countries cannot meet the financial needs of the economic development of

57. *Ibid.*, p. 82.

the under-developed countries” and that “those needs cannot be met without an increased flow of international public funds.”⁵⁸

Under the new Eisenhower administration, these pleas did not fall on deaf ears. According to historian Burton Kaufman, “the United States became more attentive to the problems of Third World Countries and assumed greater responsibilities for meeting their economic needs . . . the economic development of the Third World became one of the administration’s highest priorities.”⁵⁹ This conviction was largely the product of Eisenhower’s evolving views regarding the Communist threat to the developing world and how that might affect U.S. security, especially at a time when U.S. military forces were relying more heavily on the raw materials these countries provided.⁶⁰

A pertinent case study of how U.S. security interests influenced foreign aid decision-making is provided by the case of Taiwan. In mainland China, the United States had supported Chiang Kai-Shek and his KMT party during the civil war against Mao Zedong’s Communists, hoping that foreign assistance would cajole Chiang into adopting the sorts of economic reforms, including land reform, that might curb the peasants’ revolutionary fervor. Chiang’s inability to pursue these reforms because of KMT political infighting and elite capture by landlords made this impossible. Even after fleeing to Taiwan he seemed incapable of running anything but an incompetent and thoroughly corrupt administration. U.S. officials expected the island to fall to a Maoist invasion, which they were initially unwilling to defend against.⁶¹

But after the outbreak of the Korean War in June 1950, the U.S. strategic calculus changed. The Truman administration stressed the need to provide Taiwan with a security umbrella and to support its economic development as well. As Yongping Wu bluntly states, “It is no exaggeration to say that the Korean War . . . saved Taiwan.”⁶² Henceforth, Taiwan was a linchpin of Washington’s anti-Maoist strategy in East Asia and the recipient of generous amounts of direct economic aid, totaling over \$1 billion in the 1950s (and an amount far higher on a per capita basis than that received by any other

58. Cited in UN, *Special Fund for Economic Development* (New York: United Nations, 1954), p. 13.

59. Kaufman, *Trade and Aid*, p. 7.

60. Stephen D. Krasner, *Defending the National Interest: Raw Materials Investments and U.S. Foreign Policy* (Princeton, NJ: Princeton University Press, 1978).

61. Tucker, *Taiwan, Hong Kong, and the United States*.

62. Yongping Wu, *A Political Explanation of Economic Growth: State Survival, Bureaucratic Politics, and Private Enterprises in the Making of Taiwan’s Economy, 1950–1985* (Cambridge, MA: Harvard University East Asia Center, 2005), p. 39.

country). The KMT used the aid to pay for needed imports, infrastructure, and industrial projects.⁶³

The U.S. position in the 1950s was also shaped by the Soviet Union's growing role in the developing world and the "dependence" on Moscow that U.S. analysts feared this might be creating.⁶⁴ After the death of Joseph Stalin in 1953, a "Soviet economic offensive" was launched in Third World countries where the United States had vital strategic interests, including Egypt, Iran, and India (the main U.S. interest in India, a "nonaligned" state, was to keep it out of the Soviet orbit), and even in Latin America, where Argentina in particular strengthened its trade relations with Moscow.⁶⁵ Initially, however, a president devoted to balanced budgets could hardly lend his support to a large increase in bilateral foreign aid, and these programs went against his market-oriented priors in any case. Instead, Eisenhower believed that a combination of increased trade and FDI would "assure economic growth and prosperity."⁶⁶

Eisenhower had already signaled his approach to international development in his 1953 inaugural address, declaring that the United States "shall strive to foster everywhere, and to practice ourselves, policies that encourage productivity and profitable trade. For the impoverishment of any single people in the world means danger to the well-being of all other peoples."⁶⁷

His emphasis on free trade, however, was not an easy sell domestically. Any expansion of world trade would require reductions in U.S. tariffs. Under Senate majority leader Robert Taft (R-Ohio), a staunch isolationist and protectionist, many Republicans in Congress opposed such changes. As a consequence, the administration deferred any major action on trade policy in 1953, instead accepting a one-year extension of the president's trade negotiating authority and appointing a commission (the "Randall Commission," named after its chairman, Clarence Randall, CEO of Inland Steel Company) that was charged with conducting an overall review of foreign economic policy.⁶⁸

63. David Chang, "U.S. Aid and Economic Progress in Taiwan," *Asian Survey*, Vol. 5, No. 3 (March 1965), pp. 152–160.

64. Philip Roeder, "The Ties that Bind: Aid, Trade, and Political Compliance in Soviet–Third World Relations," *International Studies Quarterly*, Vol. 29, No. 2 (June 1985), pp. 191–216.

65. Rostow, *Eisenhower, Kennedy and Foreign Aid*, pp. 15–21.

66. Kaufman, *Trade and Aid*, p. 7.

67. Dwight D. Eisenhower, "Inaugural Address," 20 January 1953, American Presidency Project, available online at <https://www.presidency.ucsb.edu/documents/inaugural-address-3>.

68. Kaufman, *Trade and Aid*, p. 17; and Irwin, *Clashing Over Commerce*, pp. 513–519, on trade policy during the Eisenhower administration.

The Randall Commission recommended that “economic aid on a grant basis should be terminated as soon as possible.”⁶⁹ To be sure, most economic aid at that time flowed to a recovering Western Europe; the sums allocated to the developing world were insignificant by comparison. But this recommendation by definition meant that trade and investment must play a larger role in U.S. foreign economic policy.

However, the commission recognized that the political climate was not ripe for major changes in U.S. trade policy: “We are fully aware of the arguments for free trade. It is sufficient to say that, in our opinion, free trade is not possible under the conditions facing the United States today.”⁷⁰ Instead, the commission emphasized giving the president greater authority to negotiate multilateral trade agreements.

Given the limitations the commission placed on aid and trade as vehicles for economic development, it followed that “the United States Government should make clear that primary reliance must be placed on private investment to undertake the job of assisting in economic development abroad.”⁷¹ Accordingly, the commission suggested that the United States should use its diplomatic corps as, in effect, representatives of the private sector to ensure that Third World governments would understand the conditions that would make their countries conducive to private-sector investment. The commission further argued that the United States should relax any antitrust laws that constrained firms from creating joint ventures overseas.

On 30 March 1954, President Eisenhower adopted a slightly refined version of the Randall Commission’s recommendations, which he delivered as an address to the Congress on U.S. foreign economic policy. On trade, the president called for “the gradual and selective revision of our tariffs” through multilateral negotiations. But it was “investment abroad” that would achieve multiple U.S. objectives, including trade expansion, the maintenance of U.S. employment, the securing of mineral resources, and the strengthening of “the economies of foreign countries.” Given “the great importance of private investment to our foreign economic policy,” Eisenhower called for further changes in taxation that would make such investment even more appealing. In line with the Randall Commission, he also said that private investors would have “full diplomatic support,” including through the negotiation of investment treaties. As for grant aid, Eisenhower echoed the recommendation for

69. Commission on Foreign Economic Policy, *Report to the President and Congress*, 23 January 1954, p. 8.

70. *Ibid.*, p. 44.

71. *Ibid.*, p. 18.

eliminating it. “Dollar grants are no solution” to development problems, he insisted.⁷²

The private investment theme was taken up in April in an article for *Foreign Affairs* written by Harold Stassen, the director of the newly established Foreign Operations Administration (successor to the short-lived Mutual Security Agency). Stassen reiterated that “an important objective of our foreign economic policy in the years ahead must be to stimulate the flow of private investment into those areas of the world where the need is greatest.” He noted that the vast majority of U.S. FDI in the developing world after 1945 was aimed at exploiting natural resources, particularly when the price of these commodities skyrocketed during the Korean War. He expressed the belief that FDI would diversify into manufacturing and into countries that did not rely primarily on commodity exports. In addition to the U.S. actions already outlined by President Eisenhower for spurring investment, Stassen urged Third World governments to adopt investor-friendly policies: “we hope it will be realized that private investment is the best, indeed the only means of supplying adequate funds to do the job for which the underdeveloped countries are clamoring.”⁷³ Public assistance, it seemed, would not be forthcoming.

Overall, as Rostow argued, “1954 was a . . . somewhat regressive year in foreign aid.”⁷⁴ Despite the Eisenhower administration’s belief in the strategic importance of development to counter the Communist threat, the United States continued to rely on private investment as the elixir for growth. Although the amount of capital flowing to the developing world was on the rise, increasing from \$6.1 billion in 1950 to \$7.3 billion in 1953, it still lagged far behind the amounts required to fill the \$19 billion “investment gap.”⁷⁵

Still, confronted by the Soviet economic offensive and by Third World demands for more assistance, by the fall of 1954 an Eisenhower economic adviser was asking Randall (who was now also acting as a counselor to the president) whether he would be open “to new thinking in the [development]

72. For background on the address, see Memorandum by the Deputy Assistant Secretary of States for Economic Affairs to the Secretary of State, 18 March 1954, in *FRUS*, 1952–1954, Vol. I, pp. 57–53; and “Minutes of a Cabinet Meeting Held at the White House,” 19 March 1954, in *FRUS*, 1952–1954, Vol. I, pp. 63–65. The text of Eisenhower’s message to the Congress is in *Department of State Bulletin*, 19 April 1954, pp. 602–607.

73. Harold Stassen, “The Case for Private Investment Abroad,” *Foreign Affairs*, Vol. 32, No. 3 (April 1954), pp. 402–415.

74. Rostow, *Eisenhower, Kennedy and Foreign Aid*, p. 92.

75. U.S. Department of Commerce, *Selected Data on U.S. Direct Investment Abroad, 1950–76* (Washington, DC: Bureau of Economic Analysis, 1982), Table 1.

field. Mr. Randall replied affirmatively.”⁷⁶ One aspect of that “new thinking” would be U.S. support for an International Finance Corporation, to be housed within the World Bank. But to get approval for the IFC, the administration had to overcome opposition both at home and abroad.

In fact, the IFC was an old idea. It was initially proposed in 1951, probably by the World Bank, which recognized its own shortcomings with respect to private-sector development.⁷⁷ Even though the Bank’s articles of agreement obliged it to “promote foreign investment,” its ability to do so was limited by its charter, which, for example, constrained the Bank from taking equity stakes in private companies and projects. An IFC would therefore expand the Bank’s limited ability to jumpstart the private sector in developing countries, and it had the added benefit of being a multilateral organization that would assuage the fears of foreign leaders who viewed U.S. efforts to promote direct investment as a Trojan horse for more sinister attempts to control and manipulate local politics and economics.⁷⁸

The Truman administration had “strongly opposed the IFC concept” when an advisory board on international development, chaired by Nelson Rockefeller, sought U.S. government support for the idea.⁷⁹ The reasons for opposing it were several. First, the administration did not want the United States to be its sole funder, which appeared likely during the early postwar years. Second, business leaders feared that the IFC would “encroach upon a field that should be reserved for private enterprise.” Third, business executives, along with many public officials, including those at the Treasury Department and Federal Reserve Board, were uncomfortable with the mixing of public and private dollars in foreign investments.⁸⁰ This practice would blur the difference between the public and private sectors and muddle the intended message that these were separate spheres of activity.

76. Memorandum of Conversation, 1 September 1954, in *FRUS*, 1952–1954, Vol. I, p. 89. The conversation occurred among members of a new “Randall Committee” on foreign economic policy.

77. Who actually originated the idea of an IFC is a matter of dispute. An alternative theory is that it arose during the deliberations of a postwar committee, headed by Nelson Rockefeller, that issued a 1951 report, *Partners for Progress: A Report to President Truman*, which proposed the formation of an IFC. The evidence indicates, however, that staff work for the IFC proposal was done at the World Bank and that Rockefeller drew on its research. For the historical background, see B. E. Matecki, *Establishment of the International Finance Corporation and United States Policy: A Case Study in International Organization* (New York: Praeger, 1957).

78. Memorandum for the Assistant Secretary of State for Economic Affairs to the Under Secretary of State, 2 May 1952, in *FRUS*, 1952–1954, Vol. I, p. 231.

79. International Development Advisory Board, *Partners for Progress: A Report to President Truman* (New York: Simon & Schuster: 1951).

80. Kaufman, *Trade and Aid*, p. 47.

Developing countries were also unsupportive of the IFC concept when it was first broached. Led by India, with strong support from Latin America, they continued to speak in UN forums in support of higher levels of public funding.⁸¹ Specifically, they lobbied for the creation of a “special fund for grants in aid and for low-interest, long-term loans” that would be housed at the UN. The United States was firmly against this idea, with the State Department in 1952 taking the position that “circumstances do not permit the establishment of an international grant fund at this time.”⁸²

The Eisenhower administration decided to launch its own evaluation of the IFC, but only after first wavering on the issue, with the State Department instructing its UN representatives in June 1953 to “frankly admit that the US government has not yet formulated its position on the IFC proposal.”⁸³ As with the Truman administration, the IFC’s opponents both within and outside government continued to argue that it was not the public sector’s role to make direct investments in private enterprise for the sake of economic development. The National Foreign Trade Council, a peak business organization that lobbied for free enterprise, “maintained that the United States government ‘must make it clear, by word and action,’ that American public funds would not be used for development and investment projects which . . . could be financed by private capital.”⁸⁴ A year later, the debate within the administration continued, and in July 1954 the National Advisory Council (NAC, an interagency body established after World War II and responsible for international economic policy) determined that the United States should report to the UN that it was “unconvinced that the establishment at this time of an International Finance Corporation is either . . . necessary or desirable.”⁸⁵

But the world had not stopped for the new president. At the UN, the developing countries were moving ahead with their call for a “Special UN Fund for Economic Development” (SUNFED), which the United States continued to resist. The U.S. representative to the UN’s Economic and Social Council had already reported in the summer of 1953 that, as a result of Washington’s failure to take a more positive stance toward international development, the

81. Patterson and Behrman, *Survey of U.S. International Finance, 1951*, p. 91.

82. Memorandum for the Assistant Secretary of State for Economic Affairs to the Under Secretary of State, 2 May 1952, p. 230.

83. Draft Position Paper Concerning the IFC, 17 June 1953, in *FRUS, 1952–1954*, Vol. I, p. 272.

84. Cited in McLellan and Woodhouse, “The Business Elite and Foreign Policy,” p. 184. I thank an anonymous reviewer for emphasizing the NFTC’s importance at this time.

85. Paper Presented by the Staff Committee for the National Advisory Council on International Monetary and Financial Problems, 1 July 1954, in *FRUS, 1952–1954*, Vol. I, p. 288.

United States was becoming “the focus of resentment by the underdeveloped countries.”⁸⁶ By October 1954, the U.S. representative was urging Washington “that [the] US position [regarding IFC] be changed.”⁸⁷

By November, the NAC had indeed changed its position; it now recommended “United States participation in an International Finance Corporation.” The NAC noted that its reconsideration was due to the urging of Washington’s ambassador to the UN (former Senator Henry Cabot Lodge), while the State Department added that it “was willing to support the . . . proposal, largely because of the importance to the United States of avoiding a perpetual negative position” on development initiatives. For his part, Federal Reserve Board Chairman William McChesney Martin continued to express skepticism about the IFC, stating that he “remained unconvinced that the IFC . . . had economic merit.” But he added that he would support it if the NAC “felt it necessary to approve the proposal on political grounds.”⁸⁸ With some important changes made to its lending principles, effectively curbing its ability to make loans to state-owned enterprises, several leading U.S. bankers and business leaders came around to accepting the new organization.⁸⁹

The United States announced its official support of the IFC at a meeting of Latin American finance ministers in late November 1954. There, U.S. Secretary of Treasury George Humphrey acknowledged that the proposal for an IFC had been “under study for several years.” After all this deliberation, the Eisenhower administration was now prepared to

ask the Congress to support United States participation in such a corporation. We have in mind an institution organized as an affiliate of the International Bank, with an authorized capital of \$100 million to be contributed by those members of the International Bank who wish to subscribe.⁹⁰

President Eisenhower himself discussed the importance of the IFC proposal in a January 1955 address to the Congress on foreign economic policy.⁹¹ By

86. Special Report of the United States Delegation to the Sixteenth Session of the Economic and Social Council, 5 August 1953, in *FRUS*, 1952–1954, Vol. I, p. 277.

87. United States Representative to the United Nations to the Department of State, 8 October 1954, in *FRUS*, 1952–1954, Vol. I, p. 295.

88. Minutes of the 218th Meeting of the National Advisory Council, 3 November 1954, in *FRUS*, 1952–1954, Vol. I, p. 302.

89. McLellan and Woodhouse, “The Business Elite and Foreign Policy,” p. 185.

90. George Humphrey, “Remarks by Secretary of the Treasury Humphrey” (at the meeting of Ministers of Finance and Economy, Rio de Janeiro, Brazil), 23 November 1954, in *Annual Report of the Secretary of Treasury for the Year Ended 30 June 1955*, p. 250.

91. Message by President Eisenhower to the Congress, “Foreign Economic Policy,” 10 January 1955 (Washington, DC: U.S. Department of State, 1955).

the end of the year, the new institution would be established as part of the World Bank.

With the United States now committed to the IFC's creation, the Eisenhower administration again indicated to the international community that it "intended to rely on the private sector to promote economic development abroad."⁹² Eisenhower also hoped that the developing world's demand to establish a SUNFED for grants and low-interest loans would diminish. That proved not to be the case. As in the past, many developing countries continued to express skepticism about the role the private sector should and could play in driving economic growth, meaning that their appetite for public funds had not changed.⁹³ But would the Eisenhower administration be proved right about the role of foreign investment as a driving force for capital mobilization?

To some extent that question must be answered in the affirmative. During the Eisenhower years, the stock of U.S. FDI in the developing world increased from \$7.3 billion in 1953 to \$11.1 billion in 1960.⁹⁴ Still, the total amount of FDI flowing to developing countries remained far below the \$19 billion that the UN had estimated was needed to meet investment and growth targets.

The IFC made only a small contribution to closing the investment gap. In FY 1960–1961, it made \$6.2 million in new investments, bringing the total since its founding to \$44.4 million. The organization devoted its annual report that year to "some problems of industrial operations in developing countries," citing the small size of many local markets, the financial problems these countries faced, and the conflicts that sometimes arose between domestic and foreign firms.⁹⁵ Despite Washington's best efforts, foreign investment did not flow in sufficient amounts to meet the needs of the developing world.

One issue the IFC did not highlight was Third World governments' apparent lack of interest in foreign investment—or at least their lack of interest in foreign investment in which multinational corporations owned controlling shares in local subsidiaries. Instead, many countries sought joint ventures with substantial technology transfer, a model that was preferred, for example, by the government of India.⁹⁶ This lack of interest was of great concern to U.S. policymakers, who grew frustrated with their inability to change the situation. A member of the U.S. delegation to the UN wrote in late 1954,

92. Kaufman, *Trade and Aid*, p. 48.

93. Kirdar, *The Structure of United Nations Economic Aid to Underdeveloped Countries*.

94. U.S. Department of Commerce, *Selected Data on U.S. Direct Investment Abroad*, Table 1.

95. International Finance Corporation, *Annual Report: 1960–1961*, p. 17.

96. See Priyatosh Maitra, *The Globalization of Capital in Third World Countries* (Westport, CT: Praeger, 1996), ch. 5.

There is no seeming disposition on the part of any of the underdeveloped countries to rely on private capital . . . while giving lip service to its flow most of them in practice do little to attract it. Many . . . underdeveloped countries consider foreign private capital as a form of colonialism.⁹⁷

This may have been true, but there were also other economic and political reasons for the lack of interest. One that was widely prevalent during the postwar years was “export pessimism.” Given, on the one hand, the allegedly declining terms of trade for commodity exports that developing countries inevitably faced and, on the other hand, the protectionism that continued to shape industrial world trade policies, many governments felt that they had no choice but to build markets at home for locally produced manufactures through protectionism of their own; that is, through “import-substituting industrialization.”⁹⁸ Some governments (e.g., that of Brazil) welcomed foreign investors into their ISI schemes, but many others did not, instead using ISI as a tool to promote local firms and reward cronies. This meant that the scope for FDI was limited by the desire of host governments to receive it.

How did the United States respond when FDI was either insufficient or deemed by local rulers to be undesirable, especially when the country in question was of strategic interest to Washington? By the end of Eisenhower’s first term, the Cold War competition in the developing world was intensifying. The Suez debacle of November 1956, in which France and Great Britain joined with Israel in attacking Egypt and seizing the Canal Zone in response to President Gamal Abdel Nasser’s nationalization of that waterway, seemingly demonstrated that Europe’s colonial impulse had not died. Eisenhower was slowly coming around to the view that the United States would have to offer more than the promise of private investment if it was to keep developing countries out of the Communist orbit; it would have to provide direct foreign aid in the form of soft loans as well. This was becoming all the more necessary as demands for a SUNFED continued to rise in the United Nations.⁹⁹

Accordingly, Eisenhower submitted to Congress an FY 1958 proposal for foreign assistance that included \$500 million for a development loan fund (DLF) and an additional \$300 million for a “special assistance” fund

97. “Memorandum by the Senior Adviser to the United States Delegation to the United Nations,” 2 September 1954, in *FRUS*, 1952–1954, Vol. I, p. 98.

98. Albert Hirschman, “The Political Economy of Import Substituting Industrialization in Latin America,” *Quarterly Journal of Economics*, Vol. 82, No. 1 (February 1968), pp. 1–32. The thesis that developing countries faced declining terms of trade was made famous by UN economist Raul Prebisch.

99. Kaufman, *Trade and Aid*, ch. 6.

that could be used during “economic and military emergencies.”¹⁰⁰ These requests were not greeted warmly by the Democratic-controlled Congress, which slashed Eisenhower’s requests, approving only \$300 million for the DLF. Senator H. Alexander Smith (R-NJ) lamented that “this is a devastating defeat . . . for the President.”¹⁰¹

Yet even an underfunded DLF represented a sea change in U.S. foreign assistance policy. The long-standing belief that private-sector funds would suffice in meeting Third World demands was evaporating. Under Secretary of State Herter expressed this new perspective when he said in 1957, “it would be unrealistic to plan on a complete substitution of private investment for economic assistance programs.”¹⁰²

Although this does not mean the U.S. government abandoned its commitment to the export of private enterprise, the central place of private funding in development policy lost ground to government-to-government foreign aid programs from the late 1950s onward. A good example of this change is President Kennedy’s Alliance for Progress, a program from which U.S. business leaders felt “excluded.” A task force that Kennedy established to map out the Alliance stated that fostering private-sector development should *not* be “the determining principle or sole objective of American policy.”¹⁰³

Still, the critical role of foreign investment for development was hardly overlooked in the 1960s and beyond. Despite concerns about the impact of FDI on the U.S. balance of payments, both Kennedy and Johnson exempted developing countries from the controls they sought on capital outflows.¹⁰⁴ President Richard M. Nixon, for his part, established yet another agency devoted to promoting foreign investment, OPIC, which offered an enhanced guarantee program, replacing the one that USAID had previously administered. (OPIC is the immediate precursor to the new DFC established in 2018 by the Build Act.) Later, President Ronald Reagan, following up on the recommendations of a task force he had created to study international private enterprise, reoriented USAID toward private-sector development. The task force urged the United States “to guide developing countries toward market-oriented policies; it should reward those countries that adopted strategies that

100. *Ibid.*, p. 106.

101. *Ibid.*, p. 110.

102. *Ibid.*, p. 111.

103. Richard Swansbrough, *The Embattled Colossus: Economic Nationalism and United States Investors in Latin America* (Gainesville, FL: University Press of Florida, 1976), p. 114.

104. Neil Rollings, “Multinational Enterprise and Government Controls on Outward Foreign Direct Investment in the United States and the United Kingdom in the 1960s.” *Enterprise & Society*, Vol. 12, No. 2 (June 2011), pp. 398–434.

will lead to a positive climate for business and investment.”¹⁰⁵ With the end of the Cold War, the Reagan administration and its successors unveiled a medley of new policies and programs aimed at encouraging private-sector development throughout the former Soviet bloc. These later efforts to promote the spread of private enterprise merit their own histories.

Conclusions

During the early years of the Cold War, the U.S. government pinned most of its hopes for international development on the private sector. U.S. officials expected that investors in the United States would be eager to enter developing countries and displace the capital-starved European companies that had once controlled local and regional markets and supply chains. To be sure, the assumption was that investors would need some incentives, including tax breaks and investment guarantees, but officials hoped that these policies and programs would be sufficient to open the floodgates of U.S. financial resources, thus countering and even overwhelming the Communist economic challenge.

This vision reflected a development policy that placed self-help and private enterprise as its core principles. But this ideological underpinning was ill-suited to the postwar economic environment in several important respects. First, the international economy was in shambles at the war's end, and the task of global market reconstruction was far greater than the postwar planners in Washington had anticipated. Second, and related, the world suffered a “dollar shortage” that made foreign investments uninviting, as multinational firms were hesitant to operate in countries with non-convertible currencies. Third, because investment opportunities in the United States and Canada (and, with recovery, in Western Europe) were ample and profitable, there was no capitalist “necessity” to invest in the developing world. Fourth, the Soviet Union and Communist China offered an alternative vision of economic growth and management, one that Moscow in particular promoted through its foreign assistance and trade policies, the “Soviet economic offensive.” Finally, the newly independent countries sought to free themselves from their colonial shackles. Many of them, such as India, were skeptical of Western policies that emphasized foreign investment by multinational corporations, which they saw as instruments of colonial policy. All these factors conspired against the private investment boom envisaged in Washington.

105. President's Task Force on International Private Enterprise, *Report to the President*, Washington, DC, December 1984, p. 46.

On some levels, Third World governments' skepticism about the promise of private investment proved correct. The amount of FDI flowing to the developing world in the 1950s was far below the levels that experts had deemed necessary to overcome the "investment gap," even though the amount steadily increased during that decade. The paucity of international funds, coupled with enduring protectionism in the United States and Western Europe, along with the structural problems faced by commodity exporters, caused many developing countries to believe that they had to rely on "self-help" to generate economic growth. That belief, in turn, provided intellectual support for policies of economic nationalism, including ISI and the establishment of state-owned enterprises, as occurred from Taiwan to Latin America.

Painting the developing world's economic experience with a broad brush is dangerous, however. Latin America and East Asia, for example, ultimately adopted very different developmental models, and even within these regions there was great political-economic diversity. Similarly, the African continent witnessed myriad experiments with economic policy. Still, nearly all developing countries were determined to industrialize and shrink the agricultural sector using the levers of public policy to the extent possible.¹⁰⁶

But the limits of "self-help" became evident as the postwar decades rolled on. Domestic savings, even when coupled with rising levels of bilateral and multilateral foreign aid, proved insufficient to meet the investment needs that growing populations and economies demanded.¹⁰⁷ Gradually, the developing world opened itself to more FDI, making the U.S. government's emphasis on the central role of private capital more compelling. In 2006 the economic historian Dirk Willem te Velde put out a historical review of FDI that noted:

Much of the FDI potential in developing countries was not realized 3–4 decades ago because many countries had severe restrictions on foreign ownership. . . . This is gradually changing. . . . They have liberalized their investment regime, but at different points in time. South-East Asian economies . . . were first, while other Asian . . . and Latin America countries began to liberalize in the 1980s and 1990s. . . . Many African countries followed only in the 1990s.¹⁰⁸

In support of te Velde's analysis, the data suggest that FDI in the developing world did not take off until the late 1980s, following the global debt crisis that began in 1982. The debt crisis limited these countries' access to

106. Norman Girvan, "Economic Nationalism," *Daedalus*, Vol. 104, No. 4 (Fall 1975), pp. 145–158.

107. A point emphasized in *ibid.*

108. Dirk Willem te Velde, *Foreign Direct Investment and Development: An Historical Perspective* (London: Overseas Development Institute, 2006), p. 10.

international bank loans (many developing countries had fueled their ISI programs with bank loans, leading to the debt crisis when interest rates rose in the early 1980s). From 1986 to 1990, for example, the annual growth rate of FDI in the developing world was nearly 24 percent per annum!¹⁰⁹ From 1980 to 1988, the U.S. stock of outward investment grew from \$220 billion to \$345 billion (equivalent to one-third of global FDI); about one-third of that growth, or \$43 billion, occurred in the developing world.¹¹⁰ This FDI contributed to gross fixed capital formation in the recipient countries, though the extent of that contribution varied widely: “the share of FDI flows in gross domestic capital formation . . . averaged 7 per cent” to the least developed countries and “13 per cent for all other developing countries” in the 1990s, according to the United Nations Conference on Trade and Development (UNCTAD).¹¹¹

Of course, FDI of any amount could contribute to economic growth through the so-called multiplier effect. Multinational firms, for example, could create local supply chains, spurring the establishment of domestic firms as well as human capital formation. FDI could also contribute to exports. Through these spillovers into the domestic economy, it seemed incontrovertible that FDI would help boost the growth of its host countries.¹¹²

Yet the relationship between FDI and growth is hardly straightforward. Although most economists argued for many years that FDI constituted “good cholesterol”—in that it contributed technology, (relatively) high-paying jobs, organizational skills, and often exports—Ricardo Hausman and Eduardo Fernandez-Arias found little growth effect from the large infusion of FDI into Latin America in the 1990s.¹¹³ They argue that foreign equity simply replaced foreign debt, but in the absence of structural change within the recipient countries there was no reason to expect growth gains from that injection.

While academic debates about the benefits of FDI continue, its future has once again turned cloudy for political and macroeconomic reasons. Whereas

109. Padman Mallampally and Karl Sauvart, “Foreign Direct Investment in Developing Countries,” *Finance and Development*, Vol. 36, No. 1 (March 1999), available online at <https://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm>.

110. Edward Graham and Paul Krugman, “The Surge in Foreign Direct Investment in the 1980s,” in Kenneth Froot, ed., *Foreign Direct Investment* (Chicago: University of Chicago Press, 1994), p. 15; and Thomas Brewer, “Foreign Direct Investment in Developing Countries,” Working Paper No. 712, World Bank, Washington, DC, June 1991.

111. UNCTAD, *FDI in Least Developed Countries at a Glance: 2002* (Geneva: UNCTAD, 2003), p. 1.

112. See Theodore Moran, *Harnessing Foreign Direct Investment for Development: Policies for Developed and Developing Countries* (Washington, DC: Center for Global Development, 2006).

113. Ricardo Hausman and Eduardo Fernandez-Arias, “Foreign Direct Investment: Good Cholesterol?,” Working Paper No. 217, Inter-American Development Bank, Washington, DC, March 2000.

the global financial crisis of 1982 spurred FDI, the “Great Recession” that began in 2008 had the opposite effect, with FDI flows to the developing world falling by 24 percent in 2009, as investment everywhere dried up. Unfortunately, FDI flows continued to fall through 2017.¹¹⁴

The Great Recession also helped spark a rise in economic nationalism in the advanced industrial countries, with potentially devastating consequences for FDI in the developing world. According to a recent report by the PGIM investment fund, the industrialized countries, led by the United States, are placing pressure on their multinational firms to “shift economic activity back to their home tax jurisdictions” and to “onshore” their manufacturing.¹¹⁵ Not only might this political and economic pressure limit future capital outflows, but it could conceivably fuel the global spread of economic nationalism. The COVID-19 epidemic of 2020 has similarly provoked a globalization backlash, as countries seek supply chains that are more secure.

This shift in political philosophy away from globalization could spell trouble for the United States as it prepares to launch yet another U.S. agency whose objective is to promote private-sector development across the developing world, the DFC. If, for example, the United States becomes hostile to imports from developing countries, then China’s BRI might offer a more compelling alternative.¹¹⁶ BRI is a \$1 trillion program, whereas DFC’s capitalization stands at a mere \$60 billion. China likes to claim that its development finance also has no “strings attached,” unlike that of the United States, which has often tied its foreign assistance to civil and political rights.¹¹⁷ For all these reasons, the latest effort to use private-sector development as a tool for geostrategic competition may be no more successful than its previous attempts.

At the same time, U.S. officials should consider the extent to which BRI investments could also *attract* FDI, including from U.S. firms. After all, infrastructure improvements are important to foreign investors. If Chinese foreign assistance improves the investment climate by building better ports, roads, and airports, then it may prove to be complementary to U.S. foreign economic

114. UNCTAD, *World Investment Report: 2018* (Geneva: UNCTAD, 2018).

115. PGIM, *The End of Sovereignty?* (Newark, NJ: PGIM, Spring 2018), p. 9, available online at <https://www.pionline.com/assets/docs/CO116463726.PDF>.

116. See John Hurley, Scott Morris, and Gailyn Portelance, “Examining the Debt Implications of the Belt and Road Initiative,” Policy Paper No. 121, Center for Global Development, Washington, DC, March 2018.

117. Burton Abrams and Kenneth Lewis, “Human Rights and the Distribution of U.S. Foreign Aid,” *Public Choice*, Vol. 77, No. 4 (1993), pp. 815–821. More recently, the Millennium Challenge Corporation has required its “compact countries” to meet a threshold level of civil and political rights.

policy in important respects.¹¹⁸ If the United States and China could cooperate on problems of international development, the world's poorest countries might be the ultimate beneficiaries.

What lessons can U.S. policymakers, including DFC's new managers, learn from the historical record? While the aftermath of World War II and the Cold War that followed presented a much different economic and security environment from the one that exists today, history may still provide some useful guidance. The first is to set modest expectations for what the government can achieve when it attempts to motivate foreign investment. For the most part, foreign investors put money at risk in countries where they can make a profit independent of the sorts of subsidies the U.S. government may offer. Guarantees against expropriation and the like can be helpful when private insurance is lacking, but it is the rare case indeed where Washington can fundamentally change the investment climate in a given country, making that place suddenly "attractive." If (export-oriented) investors are to be enticed abroad, the United States itself must put into place a host of coherent policies, including trade policies that welcome imports.

Second, private investment is unlikely to substitute for forms of foreign aid that are designed to provide public goods such as education and health care. This suggests that DFC should partner with USAID to the extent possible in providing different types of finance. That will not necessarily be easy. DFC's predecessor agency, OPIC, operated independently of USAID.

Third, DFC should cooperate to the extent possible with multilateral development institutions. This, too, is easier said than done given the numerous political and bureaucratic impediments to collaboration. But the multilateral "cover" provided by institutions such as the IFC and World Bank can still prove useful as the United States tries to advance its capitalist, private-sector agenda.

Fourth, U.S. officials must recognize the tensions between their economic and strategic objectives. China's BRI might attract foreign investment in some settings by funding needed infrastructure. That combination of public and private capital would then, one hopes, help spur economic growth. But if the overriding goal of DFC is to undercut Beijing's international ambitions, then the United States might pursue policies that also reduce growth in recipient nations, say by refusing to operate where BRI does business. If the Cold War

118. See Maggie Xiaoyang Chen and Chuanhao Lin, "Foreign Investment across the Belt and Road: Patterns, Determinants, and Effects," Policy Research Working Paper, No. 8607, World Bank, Washington, DC, 2018.

brings home any single lesson for Washington, it is that aligning national security and international development goals is often elusive and fraught with tradeoffs.

The history recounted here holds several suggestions for future research as well. First, a large body of scholarship in diplomatic history and world politics has examined relations between multinational corporations and home and host governments. One school of thought has emphasized the capitalist “necessity” of expansion and the almost indistinguishable workings of home governments and “their” firms. In contrast, the more statist variants of “Open Door” theory look at firms as “instruments” of home government policy. Scholars in either of these camps have yet to develop empirical strategies for testing their hypotheses. An examination of the data might reveal that, despite the U.S. government’s interest in promoting foreign investment (for either economic or national security purposes), it has often failed to do so. That is, private-sector preferences concerning FDI may have been less intense than executive branch officials would have liked.

Second, these accounts also often overlook or minimize the agency of Third World governments. As a result, developing countries are often viewed as the “victims” of great-power politics and multinational enterprises. Have Third World governments really been at the mercy of firms whose revenues exceeded the total economic output of the developing countries? Or did firms inadvertently strike “obsolescing bargains,” to use Raymond Vernon’s phrase, in which leverage shifted to local governments once investments were dug in the ground?¹¹⁹ To what extent were developing countries “actors in their own right” as opposed to being mere “objects of U.S. and other great power policies”?¹²⁰ These questions once provoked a rich scholarly debate, but little research of this type has been conducted in recent years. Revisiting these issues in light of the FDI wave of the 1980s and the more recent challenge from China could yield new insights into the relationships between foreign investors and home and host governments.

Finally, this history raises profound questions about the making of U.S. foreign policy and its execution. Which ideas have animated U.S. foreign policy, and what are the sources of those ideas?¹²¹ Which among them have served

119. Raymond Vernon, *Sovereignty at Bay? The Multinational Spread of U.S. Enterprises* (New York: Basic Books, 1971).

120. David Painter, “Explaining U.S. Relations with the Third World,” *Diplomatic History*, Vol. 19, No. 3 (Summer 1995), p. 544.

121. See Judith Goldstein and Robert O. Keohane, eds., *Ideas and Foreign Policy: Beliefs, Institutions and Political Change* (Ithaca, NY: Cornell University Press, 1993).

U.S. strategic interests, and which have proved counterproductive? What can and should today's policymakers learn from U.S. encounters with the developing world during and since the Cold War? These are among the questions that scholars must continually address and by doing so inform contemporary policy debates.