Hoping Foreign Investors Get Direct

One of the great head-scratchers is why people everywhere feel uncomfortable about foreign direct investment (FDI) in their country. This certainly was true in Europe during the days of American economic domination in the 1950s and 1960s and it was true in the U.S. during the Japanese economic desert-bloom (it was pretty, but short-lasting) of the 1980s. And need I mention the reaction to forays by Dubai Ports World to take over various port facilities in the U.S. or China's attempt to buy Unocal in recent years?

As they say in mob movies, it is not personal; it is just business. If a foreign investor wants to buy existing or create new plant and equipment, this will have the same beneficial effects on output and employment as domestic-based investment. This is especially true if the choice is between closing the existing facility or not having the new facility built and welcoming the new investors.

In addition, to the extent foreign-owned plants displace imports and re-export goods to other countries, i.e. a Korean-owned plant shipping goods to Canada, the current account deficit will be reduced. The administration has declared export-enhancement to be a national goal, and an import saved is an export earned, if I might meld the wisdom of Barack Obama with that of Benjamin Franklin.

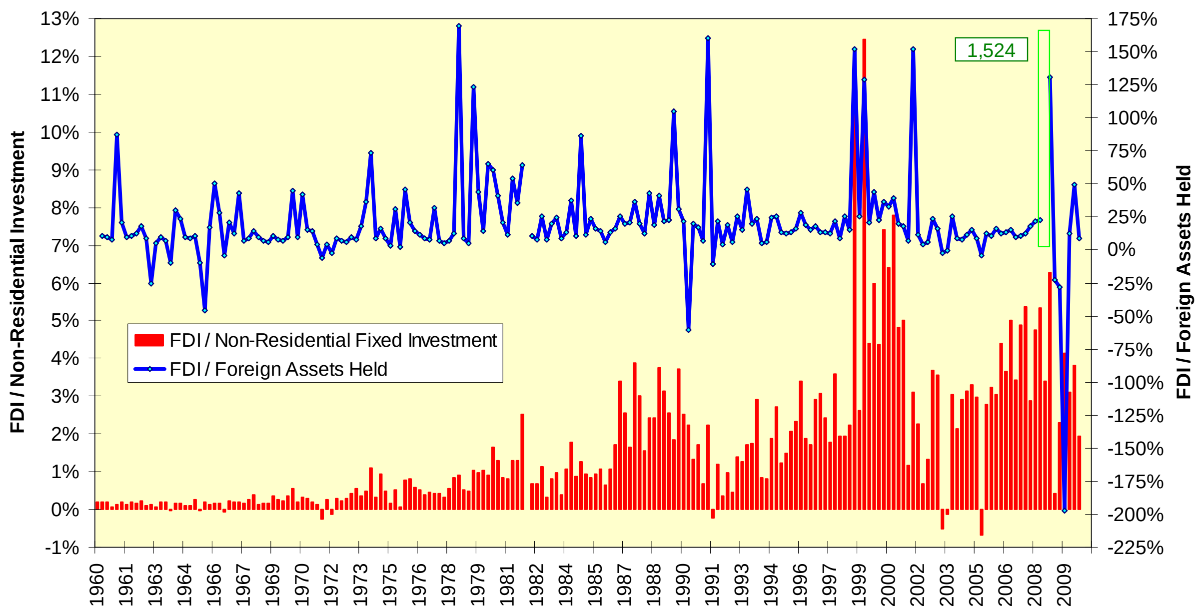
The conditions for FDI increasing are simple:

1. The investor must see the business opportunity;
2. The currency must be seen as relatively cheap; and
3. The foreign exporter must be worried about rising trade barriers

Viewed in this light, the Japanese automobile plants built in the U.S. by Honda and Toyota made a great deal of sense. Automobile manufacture in the U.S. is still economic in the absence of the legacy costs faced by firms such as the old General Motors.

More Is Better
FDI as a percentage of foreign assets held remains at the lower end of a general range; some of the data points become unnaturally high or low as an artifact of the assets-held number and have been truncated for display purposes. Worse, though, is the recent decline in FDI as a percentage of non-residential fixed investment. Those red columns have been trending downward in recent quarters, and no good comes from that.

Foreign Direct Investment In The United States



While some might look at this chart and say it proves the need for a weaker dollar to make American assets cheaper, so haul out the printing presses and start cranking, or (shudder) that the U.S. should start making credible threats to impose trade barriers, the real answer has to be the U.S. needs to become a more attractive place to invest. There are reasons China has become the world's dominant manufacturer, and not all of them involve an artificially suppressed yuan. Chinese labor is cheaper than American labor, by American standards China has no environmental, health or safety standards and there is no word in Mandarin or Cantonese for "contingency-fee class-action lawsuit."

Once the U.S. makes a concerted effort to, in the words of the late Walter Wriston of Citigroup, make the U.S. a place where capital is well-treated, capital will start flowing into the U.S. once again. The term "on-shoring" is being used for American firms reestablishing a domestic manufacturing presence to serve the U.S. market; let's work to make this a reality for foreign firms as well.