

September 1980

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Recommended Citation

Koenig, Cord-F. (1980) "Foreign Investment in the United States," *Southern Business Review*. Vol. 6: Iss. 2, Article 5.

Available at: <https://digitalcommons.georgiasouthern.edu/sbr/vol6/iss2/5>

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FOREIGN INVESTMENT IN THE UNITED STATES

Cord-F. Koenig

In the last years, the American public has shown increasing concern about foreign investments in the United States. Governmental investigations, like the Foreign Investment Study Act of 1974, which responded to those worries, have shown no indications which justify the public's concern.¹ Nevertheless, the idea of "selling out America" is still a subject of interest to American economic newspaper articles and therefore has survived in people's minds.

This paper will summarize recent developments in foreign investment in the United States. Emphasis will be placed on foreign direct investments since these generally bear more potential influence than portfolio investments.

Foreign Direct Investment in the U.S.

Magnitudes

A closer look at the development of the foreign direct investment position in the United States shows a significant increase of 440 percent for the period between 1962 and 1978, from \$7.6 billion in 1962 to \$40.8 billion in 1978. Specifically evident is the recent 200 percent increase from \$13.7 billion in 1971 to 1978's \$40.8 billion, which occurred in a period in which two drastic dollar depreciations took place. By year-end 1978, foreign direct investments accounted for 11 percent of total foreign assets in the United States.²

Although eminent, these figures lose some of their expressiveness when compared with the degree of U.S. direct investment in foreign countries as shown in the following table:

COMPARISON BETWEEN U.S. DIRECT INVESTMENT IN FOREIGN COUNTRIES AND FOREIGN DIRECT INVESTMENTS IN THE UNITED STATES (in million dollars)³

	U.S.	Foreign Countries	In % of U.S. positions
1973	103,675	18,284	18%
1974	118,819	22,421	19%
1975	124,050	27,662	22%
1976	135,396	30,770	23%
1977	149,848	34,595	23%
1978	168,081	40,831	24%

As the table shows, foreign direct investment in the United States increased by \$22,547 million between 1973 (\$18,284 million) and 1978 (\$40,831 million). This means an increase of 123 percentage points.

The U.S. position of investment in foreign countries improved by only 62 percent between 1973 and 1975, an increase in dollars of \$64,406 million. In 1973, the United States had invested \$85,391 million more in

foreign countries than foreign countries had invested in the United States. This difference increased to \$127,250 million in 1978, an increase of 49 percent in favor of the United States between 1973 and 1978. In 1978, foreign investments in the United States totaled only 24 percent of the same year's U.S. investments in other countries.

Direct Investment Donor Countries

By country of foreign parent, ownership in the U.S. is "highly concentrated." In 1978, eight countries had positions exceeding \$1.8 billion, and together accounted for nearly 90 percent of the total. The Netherlands, the heaviest investor in the United States, accounted for nearly 24 percent of the total; followed by the United Kingdom and Canada, each accounting for more than 15 percent. Each of the remaining countries in order of size of position — Germany, Switzerland, the Netherlands Antilles, Japan and France — accounted for 5 to 8 percent. The 13 members of the Organization of Petroleum Exporting Countries together accounted for less than 1 percent of the total. Their positions were primarily in real estate and manufacturing.⁴ The Netherlands and the United Kingdom accounted for the largest total addition to foreign direct investment in 1978.

In 1979 roundup of the 100 largest foreign-owned companies in the United States also shows a high concentration of ownership. The United Kingdom accounts for 25 companies, Canada for 16, Germany for 15, France for 10, the Netherlands for 9, Switzerland for 7 and Japan for 5. None of the 100 largest foreign-owned companies is owned by OPEC countries. The 101st company in the list, Sam P. Wallace, a \$257 million sales construction company, is owned by a private Saudi Arabian investor.⁵

Many of the companies listed in the table of the 100 largest foreign-owned have been active in the states a long time: Shell since 1912, Nestle since 1912, or Lever Brothers since 1897.

Areas of Concentration of Foreign Direct Investment

A closer look at foreign "concentration" in specific manufacturing industries indicates that the word "concentration" hardly applies. According to a 1976 study by the U.S. Department of Commerce, only about 2 percent of U.S. manufacturing can be regarded as foreign-controlled. At the broadest single industry level — defined in such terms as food industry, automotive industry, chemical industry — the amount of foreign control with the exception of petroleum refining rises to no more than 6 percent.

The interests of foreign investors are relatively strong only in the following industries:⁷

- petroleum refining
- metals
- forest products
- food processing
- chemicals
- machinery and electrical products
- automotive
- construction
- retail trade

In the energy field, foreign-owned firms accounted for an estimated 13 percent of total U.S. "refinery" capacity, 10 percent of total gasoline sales, 7 percent of petroleum production, and 4 percent of natural gas production.

Two fields of growing interest for European investors are metals and chemicals. The European investors' relatively decreasing labor costs, the availability of primary energy (coal), and the possibility of introducing new production technologies will make further investment attractive.

Since 1971, machinery and electrical products manufacturing companies have increasingly sought locations in the United States. This came after the dollar had first been devalued and foreign production in these specific fields had slowed. Foreign-owned manufacturers hold, nevertheless, mentionable market shares only in the fields of farm machinery and consumer electronics.

Traditionally, foreign participation in the U.S. "automobile industry" has been primarily through imports. This has changed slightly since Volkswagen of Germany and Volvo of Sweden operate assembly plants in the United States. Japanese and Italian investments of this type may follow. Even foreign truck production can be anticipated in the United States in the near future with Mercedes Benz still looking for a location and MAN — another West German truck manufacturer — having gone through some trouble to find a suitable American partner.⁸ Volkswagen is going to locate a second plant in Sterling Heights near Detroit, with beginning operations in 1982 totaling about twice the capacity of the existing plant in New Stanton, Pennsylvania.⁹

Foreign industries in food processing account for less than 6 percent of total industry shipments. Nevertheless, there are some familiar names in this field, like Seagram, Lever Brothers, Nestle, Lipton or Cadbury — businesses which hold strong single positions in their areas of activity.

Still mentionable but already relatively weak is the position of forest products — predominantly Japanese owned — which account for 2 to 3 percent of this industry's production. Equally insignificant is the foreign position in construction.

Although foreign-owned department stores account for only 2 percent of U.S. "retail trade," much of the activity from abroad has gone on in this field during the last 5 years, with foreign investors acquiring several well-known U.S. retailers.

As in manufacturing, foreign capital is far from playing a dominant role in agriculture and in banking. According to the aforementioned 1976 U.S. Department of Commerce study, for the nation as a whole there is no strong basis for a concern about foreign ownership of agricultural land and other real estate.¹⁰ Only about \$0.9 billion, or 2 percent of the direct foreign investment position for 1978, was in real estate.¹¹ Other sources, however, reveal that the extent of foreign investment in U.S. realty is growing and possibly much greater. German and Dutch investors in particular seem to be tempted by investments in shopping centers, office buildings, housing projects and farmland.¹² It is rumored that Germans now own 40,000 square miles of the best farmland in the United States.¹³ American real estate companies observe that, opposed to former hit-or-miss operations, flows of funds in the real estate sector are more institutionalized and stabilized today.¹³

At present, foreign banking is also insignificant, with a handful of banks operating in only nine states.¹⁶ But there seem to be excellent opportunities for further foreign investments in this field. A recent study of the Fed on foreign acquisitions of U.S. banks shows that foreigners still own only 80 of the more than 14,000 U.S. banks. In many of these 80 cases, foreign investment was very much favored by the Fed as it added financial stability to "problem banks."¹⁷

A very recent development is the increasing number of foreign investments and foreign takeovers in the publishing industry — a development which is expected to gain much momentum in the 1980's.¹⁸

Foreign Portfolio Investments

A government survey on foreign portfolio investment in the United States, conducted by the Treasury Department, showed that foreign portfolio investment in the United States amounted to \$67 billion at the end of 1974. This was nearly 200 percent higher than foreign direct investment, which was \$22.5 billion in 1974. About \$25 billion was in stocks, \$16 billion in corporate bonds, and nearly \$26 billion in U.S. government bonds and notes. Five countries — Switzerland, the United Kingdom, Canada, the Netherlands, and France — accounted for nearly 75 percent of total foreign stock holdings.¹⁹ A statement by a member of the Fed's Board of Governors testifying before the U.S. House of Representatives indicated an enormous quantum jump in the amount of foreign portfolio investments; from \$45 billion at the end of 1970 to nearly \$300 billion by the end of March 1979, an increase of 567 percent.²⁰

The share of OPEC countries in this growth has been substantial. While the OPEC countries' increase in dollar denominated assets accounted for only about one-fifth of the total increase for the period, their overall monetary reserves rose from less than \$5 billion in 1979 to \$53 billion at the end of March 1979, an increase of 960 percent, with by far the greatest amount accruing to OPEC countries located in the Middle East. Moreover, the OPEC countries' holdings reached a peak in 1977 and declined temporarily during 1978 as their surplus diminished.²¹

Conclusion

It is not the purpose of this paper to find a final answer to the question of whether foreign investment in the United States is favorable or not. But it is certainly possible to say that there is no threat to the U.S. economy as a whole or to any major U.S. industry.

On the other hand, foreign investment creates a lot of beneficial effects for an economy. Foreign direct investment also adds highly qualified managerial and technological manpower to the host economy. Additionally, foreign investment will encourage the bilateral transfer of technology and induce increased competition, which tends to have many positive effects like price reductions or improvements of technologies. Foreign investment in the United States "can make for gains in overall U.S. production, productivity and employment."²²

The challenge issued by foreign direct investors, in a macrosense, has been mastered very well by American companies. Income on total direct

investment was \$4 billion in 1978;²³ \$300 million less than Exxon's '79 profits, which of course reflect the increases in oil prices.²⁴ The U.S. income from its direct investment abroad for 1978 was \$25.7 billion or 543% more than the total income from foreign direct investment in the U.S.²⁵

A further rise in foreign investment in the United States can also be attributed to a growth in internationalization of production and trade, which would certainly eliminate many foreign animosities concerning American engagements and interests in the international market.

In the writer's opinion, foreign investments in the United States will certainly increase, because the mature but gigantic American market remains the most attractive, challenging and exciting field of dedication for every entrepreneur in the world.

Footnotes

¹"Where foreign interests are in U.S. Industry." *Commerce America*, Vol. 1, No. 17, August 30, 1976, pp. 10-12.

²"Foreign direct investment in the U.S." *Survey of Current Business*, Vol. 56, August 1976, pp. 39+.

³"Foreign direct investment in the U.S." *Survey of Current Business*, Vol. 38, August 1978, pp. 39+.

⁴"Foreign direct investment in the U.S." *Survey of Current Business*, Vol. 59, August 1979, pp. 38+.

⁵*Ibid*; and "U.S. direct investment abroad in 1975." *Survey of Current Business*, Vol. 56, August 1976, pp. 40-60.

⁶"U.S. direct investment abroad in 1977." *Survey of Current Business*, Vol. 58, August 1978, pp. 16-39.

⁷"U.S. direct investment abroad in 1978." *Survey of Current Business*, Vol. 59, August 1979, pp. 15-37.

⁸"Foreign direct investment in the U.S.," 1979.

⁹"New targets and familiar faces." *Forbes*, July 7, 1980, pp. 90-99.

¹⁰"Where foreign interests are in the U.S. Industry," p. 10.

¹¹*Ibid.*, pp. 10-12.

¹²"The European into U.S. truck sales." *Business Week*, No. 2579, April 2, 1979, p. 34.

¹³"Volkswagen of America." *Business Week*, No. 2532, April 14, 1980, pp. 88-90.

¹⁴See: "Foreign direct investment in the U.S.," 1976, 1978, 1979.

¹⁵See Also: "Investment from abroad." *Commerce America*, Vol. 1, No. 10, May 10, 1976, pp. 4-6.

¹⁶"Foreign direct investment in the U.S.," 1979.

¹⁷"U.S. realty continues to tempt foreigners." *Business Week*, October 1, 1979, pp. 51-54.

¹⁴"Drang nach U.S.A." *Forbes*, July 17, 1980, pp. 82-86.

¹⁵"U.S. realty continues to tempt foreigners," p. 51.

¹⁶Lees, Francis A. *Foreign banking and investment in the United States*. New York, 1976, pp. 12-13.

¹⁷Statement to Congress. *Federal Reserve Bulletin*, No. 65, August 1979, pp. 627-630.

¹⁸Panelists: "Panelists predict increased foreign investment," *Publisher's Weekly*, No. 215, July 2, 1979, p. 20.

¹⁹"Investment from abroad," p. 5.

²⁰Statement to Congress. *Federal Reserve Bulletin*, No. 65, August 1979, pp. 523-527.

²¹*Ibid.*

²²*Foreign investment in the United States*. The Conference Board, Inc., New York, 1976.

²³"Foreign direct investment," 1979, p. 38.

²⁴"An oil giant's dilemma. *Business Week*, No. 2651, August 25, 1980, p. 60.

²⁵"U.S. direct investment abroad in 1978," p. 15.

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