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# Thornberg and Wallace: Foreign direct investment is good for U.S., California

**By Christopher Thornberg and Lorna Wallace - Special to The Bee**
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Is America for sale? The falling dollar has made U.S. assets look cheap to foreign investors in recent months, creating a new wave of foreign direct investment. Much of this capital is coming from the newest centers of global wealth, namely China and the Middle East. Recent examples? The California Public Employees' Retirement System pulled out of Los Angeles' downtown Bunker Hill development project only to be replaced by a $75 million Dubai-based Istithmar investment, and the China Investment Corp. snapped up a $5 billion stake in Morgan Stanley.

Post 9/11 consciousness and a growing awareness of Asia's booming economic strength are at the core of a backlash from those who view the new foreign direct investment as a threat to U.S. security and sovereignty – and as an opening to unwanted foreign government interference with U.S. business operations. Who could forget the uproar over the Dubai Ports World P&O acquisition in 2006?

But the reality is that foreign direct investment has long been a positive force of long-run growth for the United States – and in the short-run, it is providing immediate and much-needed relief to the current economic crisis by creating jobs and shoring up much-battered credit markets.

Foreign investment is distinguished from other investments largely by the degree of control exerted by the foreign owners and can include ownership of hard assets such as buildings, or the purchase of a large interest in an existing business. By its nature, this kind of investing tends to represent long-term relationships that generate local jobs.

California is America's No. 1 foreign direct investment location. At 18.3 percent, the United Kingdom has the highest country share of foreign investment in California, followed closely by Japan, Switzerland, France, Germany, the Netherlands and Canada, according to the Federal Bureau of Economic Analysis.

Some of the world's best-known non-U.S. companies have substantial facilities in California: ING (Netherlands), UBS and Nestle (Switzerland), Maersk (United Kingdom), Sony and Union Bank (Japan) and News Corp. (Australia). Foreign-owned firms employ more than a half-million California workers, according to 2005 statistics. And these nations were viewed with the same degree of trepidation in their day as today's new investors.

In the short-run, with U.S. firms feeling the pinch of the economic downturn and scaling back on hiring, and even laying workers off, this new wave of foreign investment can serve as one source of new jobs to help stabilize U.S. labor markets. With hundreds of billions in losses and the hangover caused by years of lax standards, U.S. financial markets are pulling back sharply on lending. Many otherwise healthy firms needing capital infusions to expand or simply continue operations have been left in a lurch – and foreign investment has provided them with a critical solution.

Furthermore, foreign capital is playing a direct role in stabilizing our tottering financial system. If not for the billions in foreign funds that have been directly invested into our banking system, many firms would have had to sell off more assets to try to maintain their legally obligated reserve levels. These fire sales can depress asset prices even further and create waves of Bear Stearns-type bank runs. While it remains to be seen if these bets will ultimately pay off for foreign investors – given the depth of the rot – it is clear that the situation would be much worse today in the absence of foreign direct investment.

Finally, foreign investment is in many ways a function of our own internal imbalances. The U.S. consumer has been on a spending binge over the past few years – a fact reflected in our $600 billion to $800 billion annual trade deficit. To offset this gap, foreign investors must be willing to buy some U.S. assets, whether on paper or directly. With a wobbly stock market and dysfunctional bond markets scaring away investors, foreign investment is actually continuing to fund our excessive spending habits. As weak as the dollar is, it would be considerably weaker if foreign investments were not pouring into the United States.

Oil at $200 a barrel, anyone?

So is there a real trade-off between the benefits of increased foreign direct investment and American security or control? Perhaps in the minds of some. But firms that operate in the United States have to abide by a very stringent set of rules regardless of where the owners live. And foreign investors who want a real return are liable to find that playing by the rules in the United States is profitable in the long run. Remember that the United States is home to hundreds of trillions of dollars of real wealth – the vast majority of which is owned by Americans.

Foreign direct investment cannot solve all of the economic problems facing our city, state or nation. But the infusion of foreign capital is a crucial source of stability in uncertain times. Let's not allow rhetoric and hyperbole to stand in the way of the very real short- and long-run benefits foreign investment provides to California and the nation.

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