

## **Foreign Investment in U.S. Surged in 1994**

by Fred R. Bleakley

The U.S. received more investment from foreign firms than any other country last year, supplanting China as the leading investment destination.

The preliminary findings by the United Nations found that total foreign direct investment both in developed and developing countries hit \$204 billion last year, up from \$193 billion in 1993. Of the total, \$41 billion was invested in the U.S., nearly double the \$21 billion invested in 1993. Direct investment includes acquisitions and the formation of new businesses or plants. It doesn't include the purchase of securities such as stocks or bonds.

Analysts said foreign firms flocked back to the U.S. last year due to the improving economy, the passage of the North American Free Trade Agreement with Canada and Mexico, the loosening of regulations and "the general feeling that, with all the corporate restructuring, this is a more competitive place," says Robert Hormats, vice chairman of Goldman, Sachs (International) & Co.

Economists also noted that the weakness of the dollar against several foreign currencies, especially the mark and the yen, also made it less expensive for some companies to manufacture in the U.S. than to export to the U.S. market. Further, "you look at other countries and most have large fiscal imbalances, more regulatory incumbrances and more inflation," Mr. Hormats said.

Some of the largest deals last year were foreign purchases of U.S. pharmaceutical companies. SmithKline Beecham PLC paid \$2.93 billion for the over-the-counter drug business of Sterling Winthrop Inc., an Eastman Kodak Co.

unit.

This year is likely to show an even larger investment flow into the U.S. Foreign direct investment "is on an uptick," says Richard Eberhart, an official with the international division of the Commerce Department. Already, the pace is ahead of last year's, because many deals announced in 1994 are just closing now. They include the acquisition of Dow Chemical Co. subsidiary Marion Merrell Dow Inc., a Kansas City, Mo., pharmaceutical company, by Hoechst AG for \$7.2 billion, and the 20% acquisition of Sprint Corp. by France Telecom and Deutsche Telekom for \$4.2 billion.

Despite China's fall to No. 2 in foreign direct-investment inflows, the \$34 billion it garnered from around the world was more than 20% ahead of the previous year and more than twice the inflow of 1992. China's new openness to capitalism – and projections that its population will increase by one-third, to 1.6 billion, by 2050 – have served as a magnet to outside direct investment.

Total foreign direct investment in developing countries totaled \$80 billion, twice as much as in 1991 and six times the average between 1982 and 1986. The U.N. dollar figures aren't adjusted for inflation.

Developing countries are "where the action is," said Karl Sauvant, chief of transnational corporation research at the United Nations Conference on Trade and Development in Geneva.

As foreign investors were putting more capital into the U.S., American investors continued to make huge investments outside the

U.S. For the third straight year, U.S. companies were the world's largest investors beyond their own shores, investing \$56 billion around the world compared with \$58 billion in 1993. The U.S. had lost its place as the lead international investor to Japan in the late 1980s, but regained the title in 1992 as U.S. companies poured money into the newly emerging Asian markets, especially China.

Mr. Sauvant says the growth of foreign direct investment to the developing world stems from liberalization of investment laws and advances in telecommunications and transportation that allow companies to manage integrated production world-wide. "They can make parts in different countries, assemble them in another country and then send them elsewhere," Mr. Sauvant says. In addition, as more and more companies set up manufacturing operations abroad, "competition makes you do the same," he says.

Many of the largest corporate investors in Asian countries are from other Asian countries, the U.N. research shows. That is helping to make the area more of a regional powerhouse and give it an increasing share of the world investment flows.

While foreign direct investment in Latin American and Caribbean countries has jumped from an average of about \$6 billion a year in the early 1980s to an estimated \$22.1 billion in 1994, its share of the world total has dipped a bit, to 10.8%. On the other hand, Asian countries (excluding Japan) accounted for 26.5% of the world total, up from 9.8% in the early 1980s.

Executives at U.S. firms say they will continue to prefer Asian investments in the years ahead. In a recent survey of large companies

planning international expansions, Deloitte Touche Tohmatsu International found that 37% cited Asia and 27% cited Western Europe as the markets where they would concentrate.

A study last fall by Ernst & Young International Ltd. found that U.S. companies' investments in Asia and the Pacific region are in the form of joint ventures with Asian companies rather than acquisitions of existing operations. In the rest of the world, however, acquisitions were the favored investment vehicle by U.S. firms. The top industries they favored for investments were chemicals, pharmaceuticals, food, beverage, electronics, electrical and industrial machinery (including computers) the study said.

As for the factors that draw U.S. firms to foreign countries, the Bureau of Business Research at American International College in Springfield, Mass., reported earlier this month that political stability was more important than stability of a country's currency or whether the country holds free general elections. Also, "contrary to popular belief, the wage structure of the country is relatively unimportant," the college found. It rated the availability and skill of the local work force well above wage structure in importance.

According to the U.N.'s latest count, for 1993, the book value of foreign direct investments in 207,000 foreign affiliates by 38,000 parent firms totaled \$2.1 trillion. The affiliates had \$5.8 trillion in sales in 1992, which was \$1.1 trillion more than the world-wide exports.

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