COMPETITION

THE SELLING OFF OF AMERICA

Investors from abroad are gobbling up stocks, bonds, real estate, and giant U.S. companies. Foreign holdings total more than $1 trillion and are growing more than $100 billion a year. Don't despair. The friendly invaders are creating new jobs and wealth. ■ *by Jaclyn Fierman*

THE JAPANESE are about to descend on Pearl Harbor again, not to bomb but to build. They will festoon this historic terrain with lagoons, golf courses, swimming pools, tennis courts, and luxury hotels—a billion-dollar vacationland that they hope will rival Waikiki. Set on a stretch of beach just west of the harbor, the resort will employ 6,000 people and add $24 million a year to state taxes. The most ambitious construction project in Hawaii's history, it dwarfs the considerable dabbling the Japanese have done there in the past.

The resort at Oahu's West Beach epitomizes the onslaught of foreign investment in the U.S. Real estate is only part of the action. Offshore investors are also buying up stocks, bonds, Treasury securities, assembly plants, factories, fish, forests, and whole companies, both large and small.

Just six years ago U.S. holdings abroad ex-

PHOTOGRAPH BY WALTER WICK

ceeded the value of foreign-owned assets in the U.S. by more than $100 billion. Today the positions are reversed. Foreign-owned companies are shaking the foundations of the U.S. construction industry, chipping away at domestic semiconductor manufacturers, and colliding with U.S. car producers. U.S. children are riding to school in buses operated by a Canadian company. American firemen depend on hydrants made by an Arab company in Illinois. Foreigners have bought land in practically every state, a piece of virtually every industry, and one-seventh of the federal debt.

Where did this immense foreign buying power come from? Raise your hands, America. The selling of America is, to a large extent, a byproduct of the nation's gargantuan trade deficit. The U.S. has stuffed the world's pockets with the dollars it pays for foreign products. The biggest beneficiary of America's import binge has been Japan. Despite its obsession with U.S. bagels, burgers, and diapers, Japan came out $50 billion ahead in trade with the U.S. last year and will achieve a surplus of $60 billion this year.

If Americans love foreign products, the foreigners, when it comes to assets, love to buy American. That was true even when the dollar was at nosebleed heights, and doubly so now that the dollar has dropped. The U.S. is cheap, a five-and-dime for countries whose currencies have appreciated up to 50% against the dollar in less than two years. Parking money in the bank no longer satisfies many investors. Increasingly they want U.S. stocks, bonds, and Treasury securities —known in the argot of international finance as portfolio investments. They also want bricks and mortar.

IN TOTAL, foreigners owned about $1 trillion of U.S. assets at the end of last year. Foreign governments, which account for about 20% of that, put most of their money into U.S. Treasury securities. The hefty hunk of America held by foreign corporations and institutional and individual investors breaks down this way: $80 billion of Treasury securities, over $200 billion in corporate stocks and bonds, more than $180 billion in direct investments in U.S. companies, and more than $400 billion in bank deposits, agricultural land, and commercial properties.

The U.S. not only welcomes foreign money but courts it. Mayors and governors are bumping into each other in Europe and Asia at trade shows staged to woo foreign investment. Flat Rock, Michigan, seduced Mazda Motor into building an assembly plant there by waiving property taxes for 14 years. The state of Oklahoma has hired the London investment bank of Morgan Grenfell to lure capital from abroad.

And why not? Just as foreign investment by Coca-Cola, Ford, and other multinationals has benefited the rest of the world, capital coming the other way enriches the U.S. Says Lord Lever, a British businessman who served in the cabinets of Prime Ministers Harold Wilson and James Callaghan: "Europe got 20 times more out of American investment after the war than the multinationals did. Every country gains by productive investment."

A further word of comfort to the xenophobes: The U.S. is hardly being colonized. Foreigners own just 1% of U.S. real estate and farmland and claim less than 5% of corporate earnings. And while foreign companies get to repatriate their profits, the wages they pay and the value added in their manufacturing plants bolster America's gross national product.

Jobs are the most compelling reason to cheer about capital immigration. Foreign companies directly employ some three million Americans, or about 3% of the work force, and create jobs for countless more in shops where those workers spend their paychecks. Unsurprisingly, local merchants and politicians are the foreigners' biggest fans. Ever seen an authentic Japanese rock garden? One is in the works in Chattanooga, Tennessee. Looking for real Nuremberger bratwurst? Try Spartanburg, South Carolina.

THE SOUTH, with its anti-union bias and cheap electric power, has long been a magnet for overseas investors and now claims one out of every four foreign jobs. Georgia, says Governor Joe Frank Harris, "has been blessed" with investment by more than 900 foreign companies. Texas counts 600 in Houston alone. New Yorkers, Californians, and Hawaiians are feeling the foreign invasion as overseas construction companies transform their skylines. In Alaska the Japanese control large parts of the fishing and timber industries and sign paychecks for 5% of the work force. High-tech industrial parks, some anchored by foreign companies like NEC Information Systems, have set once-depressed New England villages humming again.

The new foreign investor often is brassier and more belligerent than his predecessor of just ten years ago. Setting the style are men like Sir James Goldsmith, the controversial Anglo-French swashbuckler *continued*

REPORTER ASSOCIATE *Carrie Gottlieb*

Soichiro Honda *of Honda Motor owns this country club with a stirring view of the Arizona Memorial (just to the right of the tall building). The club is a favorite of Japanese tourists.*

DAN BUDNICK—WOODFIN CAMP

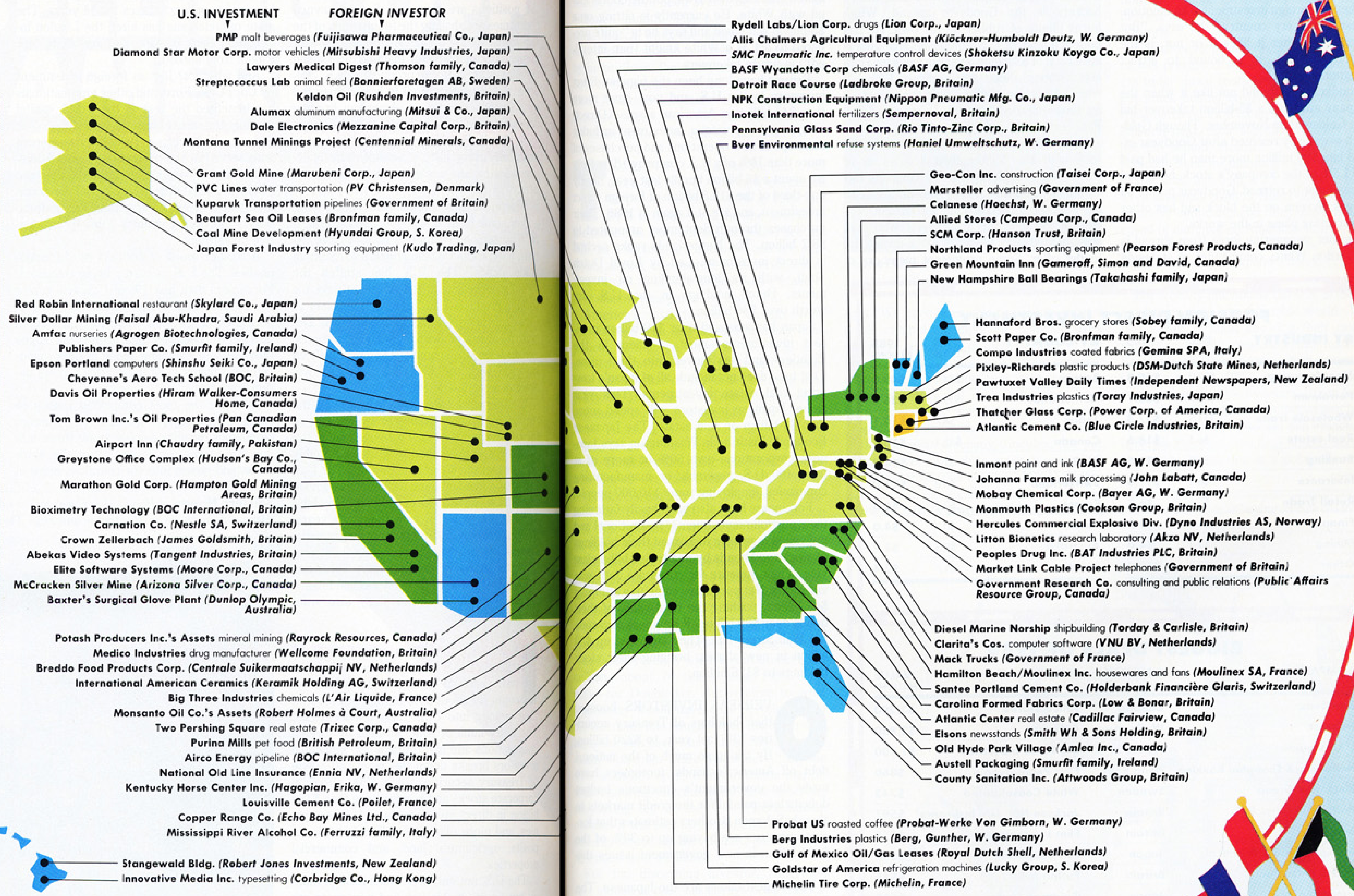
A SAMPLER OF FOREIGN INVESTMENT IN THE U.S.

From Florida to Vermont to Alaska, from pet food to plastics to pipelines, overseas investors have descended on every state and virtually every industry. The deals listed on the map all date from the Eighties, when foreign investors either started the business or acquired a stake of at least 10%. Foreign holdings of agricultural land are greatest in Maine, where Sir James Goldsmith has 800,000 acres of timber.

PERCENTAGE OF FARMLAND OWNED BY FOREIGNERS

- Less than 0.1%
- 0.1% to 0.9%
- 1.0% to 1.9%
- 2.0% to 10.1%

SOURCE: DEPARTMENT OF AGRICULTURE



JOHN PIRMAN

whose U.S. holdings include 3.5 million acres of timberland and 371 Grand Union supermarkets. "Foreign investment is an emotional issue in every country," he says. "But America, whether it likes it or not, is the only free world. It is bound to attract foreigners."

Goodyear plainly did not like it when the company attracted a $5-billion takeover bid from Goldsmith in November. Though Goldsmith eventually relented after Goodyear offered him $90 million more than he had paid for 11.5% of the company's stock, he forced management to retread. Goodyear put its oil and gas division on the block and has other restructuring plans in the works.

Another swaggering force from abroad is Sir Gordon White, commander of stateside expeditionary troops for Hanson Trust, the British holding company. One of Goldsmith's backers in the Goodyear assault, White burns plenty of rubber on his own. He has bought a bevy of U.S. companies that generate a total of $3 billion a year in sales for Hanson. Among them are Endicott Johnson, where American mothers drag their children for those dreaded "sensible" shoes, and Ball Park franks.

Early this year White made takeover history with the $930-million acquisition of SCM. White tendered for the company but withdrew the offer after a four-month scuffle. Then he turned around and bought control of SCM from arbitragers who had accumulated large blocks of stock during the tender offer. Some prominent members of the takeover community contend the ploy violated U.S. takeover laws, but the courts sided with White. He currently is sitting on a $5-billion war chest and says he is "quite prepared to act as a White knight [pun intended]" in future takeovers.

Britons have long been the biggest direct investors in the U.S. and now have more than $44 billion in American assets. (Direct, as opposed to portfolio, investment includes start-ups of new operations and purchases of more than 10% of a U.S. company.) The British spent a $6-billion bundle last year, nearly one-third of the $19.5 billion of foreign direct investment, and are at it again in 1986. Their purchases through September amounted to $8.7 billion. The Netherlands ranks second in direct investment. Led by Royal Dutch Shell, with its long-standing oil investments, Dutch holdings in the U.S. are worth over $36 billion.

Japan has amassed over $19 billion in direct investments—most of them in the Eighties—and has moved into third place. That total does not include all of Japan's towering real estate investments. This year alone, Japanese investors will spend more than $4 billion on real estate. The Japanese Economic Institute in Washington says Japanese corporations own 50% or more of at least 400 U.S. assembly or manufacturing companies, employing some 110,000 people.

Foreigners have also been busily fattening their portfolio investments. Institutional and individual investors increased their holdings of stocks and bonds by nearly $80 billion last year. Their appetite for corporate debt was voracious: Net purchases came to a stunning $49 billion, pushing the total value of their bonds over $80 billion. Foreigners also rode the Wall Street bull. They snatched up $30 billion in new shares, bringing their stock holdings to $126 billion.

OVERSEAS INVESTORS boosted their holdings of Treasury securities 13% last year, to $220 billion. By taking so much of the national debt off America's hands, foreigners have made the government's enormous budget deficits less painful for the credit markets to absorb. Salomon Brothers estimates that foreign investors are buying up to 30% of the $190 billion in new government issues this year.

The biggest takers are the Japanese. The Security Dealers Association of Japan estimates that Japanese portfolio investments will be worth $45 billion at the end of the year, up from a trifling $300 million just four

FOREIGN DIRECT INVESTMENT

BY INDUSTRY	1980 BILLIONS	1985 BILLIONS
Manufacturing	$33.0	**$60.8**
Petroleum	$12.2	**$28.1**
Wholesale trade	$11.5	**$27.5**
Real estate	$6.1	**$18.6**
Banking	$4.6	**$11.5**
Insurance	$6.1	**$11.0**
Retail Trade	$3.6	**$6.7**
Finance	$1.3	**$4.7**
Mining	$1.3	**$4.0**
Other	$3.2	**$10.0**

BY COUNTRY	1980 BILLIONS	1985 BILLIONS
Britain	$14.1	**$43.8**
Netherlands	$19.1	**$36.1**
Japan	$4.7	**$19.1**
Canada	$12.1	**$16.7**
W. Germany	$7.6	**$14.4**
Switzerland	$5.0	**$11.0**
France	$3.7	**$6.3**
Kuwait	$0.3	**$4.0**
Australia	$0.3	**$2.7**
Sweden	$1.7	**$2.4**

SOURCE: U.S. DEPARTMENT OF COMMERCE

BIGGEST DEALS OF 1986

COMPANY	COUNTRY	TARGET	VALUE MILLIONS
Campeau	Canada	Allied Stores	$3,200
Hoechst	W. Germany	Celanese	$2,850
L'Air Liquide	France	Big Three Industries	$1,100
Hongkong & Shanghai Banking	Hong Kong	First Pennsylvania	$860
Electrolux Group	Sweden	White Consolidated	$743
Prudential Corp. PLC	Britain	Jackson Nat. Life Insurance	$597
Boots	Britain	Flint Laboratories	$555
Dainippon Ink & Chemicals	Japan	Sun Chemical[1]	$550
British Petroleum	Britain	Purina Mills	$545
Sumitomo Bank	Japan	Goldman Sachs[2]	$500

[1]Ink and pigment divisions. [2]12.5% stake.

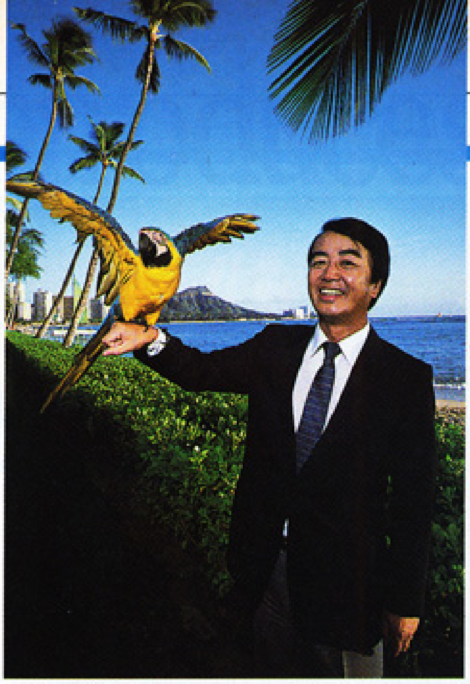
years ago. Japan's net purchases of Treasury securities have been averaging a steamy $8 billion a month. The pace has quickened since March, when the Japanese government eased restrictions on offshore investments by institutions. Pension funds can now send 30% of their assets abroad, up from 10% before. Japanese investors are also grabbing U.S. blue chips. Net stock purchases totaled $2 billion in the first half of this year.

TAX REFORM will make the U.S. even more attractive. The new maximum corporate tax rate—40% in 1987 and 34% in 1988—will be the lowest in the industrial world. Foreigners also see the U.S. as a technology hothouse and are supplying almost one-quarter of America's venture capital to ensure themselves a stake in new discoveries (see box, page 52).

America's attractiveness, though, transcends high-tech and taxes. For many companies, setting up shop in the U.S. is a strategic imperative. The potential customer base makes that of any other country look paltry. In 1983 Laidlaw Transportation Ltd. of Canada, the biggest school bus operator in North America, moved south of the border, where it saw considerably more room to grow. Business has quadrupled and Laidlaw now draws over $400 million—60% of its revenues—from the U.S. Siemens, the Munich electronics giant, poured $750 million into U.S. operations this year to be closer to its biggest customers. Chairman Karlheinz Kaske says his company must have "a slice of the cake in the U.S." to achieve full economies of scale and cover its research-and-development budget.

Bertelsmann, Germany's leading media group, left New York publishing circles speechless recently when it paid almost $500 million—about 70 times fiscal 1986 earnings—for Doubleday. But relative to what Doubleday would have cost Bertelsmann if the Germans had bought when the dollar was high, the purchase was a steal. Says Bertelsmann Chairman Mark Woessner: "Anyone who wants to operate in the media market with enduring success must have a strong supporting leg in the U.S." Bertelsmann reckons it will pick up an extra $1.2 billion in sales by straddling the Atlantic, pushing total revenues over $5 billion.

For the discerning investor, America's vast industrial base has always been chockablock with good buys. Bargains abound, from Texas refineries to Silicon Valley start-ups. Says Hoong Bee Teck, assistant general manager of Singapore's Wearnes Technology: "We have been able to acquire several small computer-component manufacturers and make something of them because of our low overhead." U.S. movie theater owners, discouraged by competition from videocassette recorders and cable television, have been turning out the lights and dumping properties. But Garth Drabinsky, chairman of the Canadian company Cineplex, has put popcorn makers back to work in some 300 cinemas across the country. His U.S. theaters, among the most profitable in the nation, distinguish themselves with more hit movies, bubble gum–free seats, and fresher popcorn.



DAN BUDNICK—WOODFIN CAMP

Shuhei Okuda *has no squawks as overseer of Mitsui's $250-million resort on Waikiki.*

The growing protectionist mood in America has prompted some foreign manufacturers to lay down roots before their products get stuck behind costly or insurmountable trade barriers. First came the Japanese automakers; next, their suppliers. Others were not far behind. Goldstar, a South Korean company fined for dumping color televisions in the U.S., has built a TV and microwave-oven assembly plant in Huntsville, Alabama. Japanese semiconductor manufacturers, accused of dumping on American shores, have invested $200 million over the past 18 months to open or expand a dozen U.S. production facilities.

For wealthy individuals the U.S. is the safest haven in an unpredictable world. They rest easier at night knowing their cash is stowed under the great American mattress. Residents of Hong Kong, which reverts to Chinese rule in 1997, have been socking away cash in the U.S. for years. Other Asians agree. Liem Sioe Liong, an Indonesian banker and manufacturer, bought San Francisco's Hibernia Bank (assets: $1.9 billion) because he wanted his money in a politically stable spot. *continued*

Shuwa Corp.'s Shigeru Kobayashi, *a top dog in U.S. real estate, is buying on both coasts.*

CAROLINE PARSONS

Chastened by the collapse in oil prices, Arabs are shunning things liquid. Rather than park their money in the bank—which is largely what OPEC did in the Seventies when it was awash in oil revenues—Arabs now are opting for long-term bonds and cash cows, businesses as dependable and all-American as department stores and health clubs. Typical of the new Arab spirit is Arabian Investment Banking Corp. Services, a Bahrain-based group that includes the ruling families, major banks, and businessmen in the Gulf States. Called Investcorp for short, the four-year-old firm took its first big plunge in the U.S. in 1984 when it bought Tiffany & Co. for $110 million. (It has since sold most of the elegant New York jewelry store to Tiffany management and General Electric Credit Corp.) Its less glamorous investments include Mueller Co., a 129-year-old company in Decatur, Illinois, that is the nation's premier fire hydrant producer. "We look for equity we can sell on the streets of Bahrain as easily as on the streets of New York," says Michael Merritt, the American who is Investcorp's executive director.

ANDY FREEBERG

Sir Gordon White *of Hanson Trust rewrote U.S. takeover rules when he snared SCM.*

Perhaps no investment better embodies the security, stability, and yields that foreign investors covet than U.S. real estate. Translated literally, the Japanese word for real estate means immovable asset. A prized resource throughout the world, prime property is so scarce in Japan that it has become truly immovable—it rarely, if ever, changes hands. Starved for opportunities at home, Shuwa Corp., one of Japan's biggest real estate players, spent $620 million in October for Arco Plaza in Los Angeles and the ABC headquarters in New York. The British also have an appetite for real estate. They own close to $1 billion worth in Washington, D.C., alone, including a big piece of the Watergate complex.

Beknighted Jimmy Goldsmith, *raider by trade, soaks up the sun aboard his yacht in Italy.*

J. DONOSO—SYGMA

The real estate research group at Salomon Brothers estimates that foreigners own $24 billion in developed U.S. property, still a minute share of the $2.3-trillion total but quadruple the level of 1980. Japan's stake, which includes nine of the 12 largest hotels on Waikiki, exceeds $4 billion. These numbers are only ballpark guesses by industry experts, who base their calculations on publicly announced deals and incomplete government data. Actual foreign holdings almost surely are much higher (see box, page 56).

It may surprise American homebuyers, but many foreigners find U.S. property dirt cheap. A square foot of prime midtown Manhattan office space is selling for around $350. A comparable square foot in Tokyo, if you can find one for sale, goes for $4,000. New York commercial real estate has been yielding about 7.5% lately, a shade higher than Treasury bills. Net operating income on many Tokyo buildings runs about 2%. Last year Japanese brokerage firms used the come-on "Let's Become Manhattan Landlords" to sell shares of New York's Rockefeller Center. They reportedly unloaded $175 million worth in one day.

THE JAPANESE want to do more than just own U.S. properties; they want to build them. Last year their construction companies landed close to $2 billion in U.S. contracts, according to the trade publication *International Construction Week.* That was less than 1% of the total, but 18 times the amount in 1982 and more than enough to irk domestic competitors. Part of the reason they are winning contracts is that they can borrow money from Japanese banks at low interest rates and pass the savings along in their bids. They are also sticking their necks out as investors. "Japanese builders are willing to come in with U.S. developers and be their equity partners. That's very unusual," says Jack Shaffer, a director of Sonnenblick-Goldman, a New York mortgage banker that has ushered in much of the foreign real estate money.

Premier among the new Japanese builders is Kumagai Gumi, the most profitable construction company in Japan. Kumagai Gumi is expected to be the general contractor for the West Beach resort near Pearl Harbor and is also building hotels on Maui and Kauai. In New York City the company is participating in eight projects worth $1 billion with developer William Zeckendorf Jr. The most ambitious is the transformation of the old Madison Square Garden site from a parking lot into $550 million of commercial, retail, and residential space. Says Zeckendorf of his Japanese partners: "Unlike what others may tell you, I find they move quickly, have very specific goals, and are loyal."

ANOTHER GROUNDBREAKER in Hawaii is Halekulani Corp., a construction subsidiary of Japan's giant Mitsui Real Estate Development Co. Its 450-room hotel on Waikiki Beach, a $250-million project, employs 600 people. "Japan has no room for projects of this scale," says Shuhei Okuda, president of Halekulani. The company has another 300-room luxury hotel called Waikiki Parc under construction nearby.

The idea of foreigners buying and building U.S. skyscrapers hasn't seemed to faze Americans. What does rankle—as it does in most countries—is aliens owning farmland. They now own some 12.1 million acres of it in the U.S. Thirty states limit the amount foreigners can buy, and Minnesota forbids foreign ownership altogether. Kentucky still has a seldom enforced century-old law that allows the state to confiscate foreign-owned land unless the buyer becomes a U.S. citizen within eight years. Strictly speaking, Sheikh Hamdan bin Rashid al Maktoum of Dubai, who owns 1,010 acres in the state, will have to sell the land in seven years or become an American commoner.

The Japanese are beginning to arouse the same degree of xenophobia that the Arabs did at the height of OPEC's power. "We have closer cultural and linguistic ties with the English and the Dutch," says Jeffrey Rosensweig, international economist at the Federal Reserve Bank of Atlanta. "Their U.S. investments don't worry us as much as Asian or Arab investments." When a county manager in Virginia was planning a trip abroad to recruit foreign investment, executives of electronics and telecommunications firms in his area asked him to leave Asia off his itinerary. As one international investment banker puts it, "There are foreigners and there are foreigners."

Fujitsu discovered the meaning of that quip in October after announcing its $225-million bid for 80% of Fairchild Semiconductor, a maker of chips used in sophisticated weaponry. No one blinked when Schlumberger, a Netherlands Antilles company, bought Fairchild in 1979, but the government is making Fujitsu sweat while the National

FOREIGN FLIERS ON HIGH-TECH FRONTIERS

■ Foreign investors have become a surprisingly important source of cash for fledgling technology companies in the U.S. Of the $2.3 billion that venture capital funds raised last year, nearly one-quarter came from overseas. The foreigners are not so much interested in the promise of financial gain as they are in the wealth of new technology they hope to reap.

Young U.S. companies, dispirited by flagging support from domestic investors, find the foreign link irresistible. In trading technology for cash, start-ups also gain easy entrée to foreign markets. Their partners can catapult them into the global arena as soon as the start-ups are ready to sell their products.

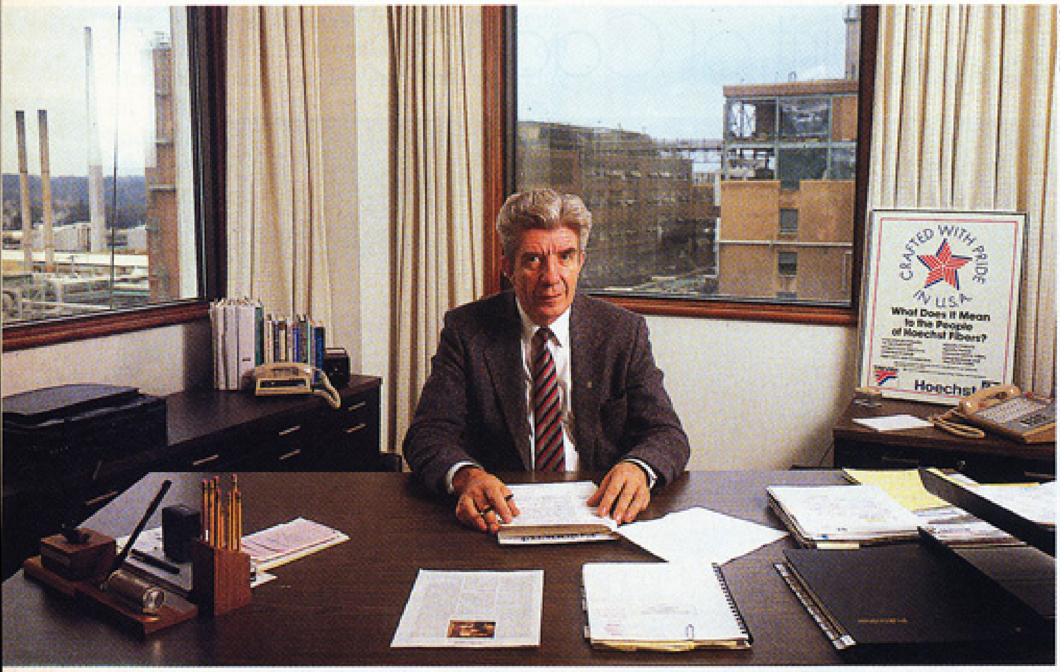
A typical match made in venture heaven: Plant Genetics, a biotechnology company in Davis, California, and Japan's Kirin Brewery Co., one of the largest brewers in the world. Plant Genetics is trying to develop more bountiful and disease-resistant strains of alfalfa, potatoes, and tomatoes. Technicians from both companies work together to produce the seeds in test tubes and petri dishes. They then prepare the seeds for the ground by encasing them in a synthetic gel patented by Plant Genetics.

Kirin, which hopes to exploit the technology, invested $3 million for 3% of the company and a stake in its discoveries. Says Chief Financial Officer Robert DeDominic: "If we cannot get the chance to exploit this leading technology except with foreign money, we may as well take advantage of it. American companies have been slow to recognize the long-term possibilities of this research."

Foreign investors are also giving U.S. technology companies time to bring their ideas to fruition—something they need as much as cash. Says G. Steven Burrill, head of the high-technology consulting group at the accounting firm of Arthur Young: "American investors need earnings trends quarter to quarter. The Japanese are much more patient." Going abroad used to be a last resort for many U.S. entrepreneurs. Increasingly foreign money is becoming the capital of choice.

Kirin Brewery *supplied capital for synthetic seed research in California.*

JOHN HARDING



TERRY PARKE

Paul Foerster *of Hoechst Fibers is wild about the wage rates in Spartanburg, South Carolina.*

Security Council reviews the deal. "We're in a major competitive position with Japan," says Paul Freedenberg, an assistant secretary at the Commerce Department, which is reviewing the proposal. "We want to be careful."

Freedenberg should perhaps consider other things Fujitsu is bringing to the table, including new management skills. After studying more than 150 Japanese-owned companies in the U.S., Martin Starr of the Columbia business school found that their absentee rates were lower and product quality higher than at comparable American-owned companies. Half the Japanese-owned operations had defect rates of less than 0.5%. U.S.-owned factories generally have to chuck or repair between 3% and 5% of their output. Says Starr: "Japanese managers in the U.S. foster team spirit in the workers by linking incentives to group productivity."

IN THE SOUTH and Northeast, foreign investment has helped diversify and revive dying oil and mill towns. Spartanburg, South Carolina, whose survival 20 years ago was dependent on textiles and agriculture, is busy turning peach farms into industrial parks. Typical tenants: Alcoa Fujikura, a fiber-optics joint venture, and SEW Eurodrive, a West German maker of conveyor-belt drive systems.

Spartanburg has so many German and Swiss companies that locals have dubbed the stretch of Interstate 85 that runs through town the Autobahn. Some 7,000 Spartans, as the natives are called, now work for 60 foreign companies that have invested $1 billion there. What foreigners find especially attractive is the town's cheap labor. "People here are willing to do a day's work for a day's pay," says Paul Foerster, executive vice president of operations at Spartanburg's Hoechst Fibers, a subsidiary of the German chemical giant, which plans to acquire Celanese for $2.85 billion.

While usually irreproachable, foreign investment can occasionally get so exploitative that it drains rather than creates capital. One egregious example is the fish-processing industry in Alaska. For most of the year a fleet of some 100 ships crowds Alaska's waters 50 miles offshore. The boats, over 300 feet long and six stories high, are floating factories that process Alaska's abundant supplies of pollock, cod, and other bottom fish. The flags they fly are foreign, mostly Japanese. Working aboard the ships are foreign nationals who pay no U.S. taxes. Alaska even loses out on sales of food and fuel. Foreign tankers resupply the ships in high-seas rendezvous.

The floating factories are equipped with processing lines that gut and skin the fish and with desalination plants that produce fresh water to wash them. The boats can turn five tons of fish worth $600 into one ton of a gloppy paste used to make surimi, a crabmeat substitute. Surimi sells for $3,000 a ton. Each ship can churn out 80 tons of paste a day.

Alaska has just begun to haul the processing industry onshore. State officials persuaded Nippon Suisan Kaisha and Taiyo Fisheries to invest in surimi plants at Dutch Harbor in the Aleutian Islands. The Nippon Suisan plant is wholly owned by the Japanese, and the Taiyo plant is a joint venture with Wards Cove, a Seattle company. Onshore revenues are minnowish compared with those offshore, but they buoy the economy and morale of Dutch Harbor. "They pay property

Kumagai Gumi's *Richard Katano, left, and Hiro Saito have eight pieces of the Manhattan rock.*

ANDY FREEBERG

taxes," says Mayor Paul Fuhs. "They pay state taxes. They have 40 employees who spend money here."

If we have convinced you by now that foreign investment is a great thing for America, let us add a caveat for mayors and governors: Look all these gift horses in the mouth. Don't give away more than you are going to get. You may even need—horrors—an MBA on your staff to run the numbers for you. Some areas seem so desperate for business that they will give away virtually anything to foreign or domestic corporations.

Consider the deal Toyota got to build an \$800-million plant on the outskirts of Georgetown, Kentucky. When it begins churning out Camrys in 1988, Toyota will employ 3,000 people, add \$24.4 million to bank deposits, and boost retail sales by \$32.7 million a year. But at what price? The state promised Toyota 1,500 acres of free land, \$47 million in new roads, and \$65 million in employee training programs. Georgetown is stuck paying for new policemen and firemen and a sewer system to handle the 120 tons of waste Toyota will generate every day. The tab could run \$8 million a year. Georgetown's current budget is only \$2 million. "Let's just say the solons of Georgetown are not the most sophisticated financial minds around," sniffs Montgomery Securities auto analyst Ronald Glantz. (For more on Toyota, see Corporate Performance.)

As long as the U.S. sells itself intelligently, foreign investment is a windfall for the nation. When foreigners set up companies in the U.S., they increase not only output and employment but also the tax base, and that cuts down on the nation's budget deficit.

Granted, the U.S. gross national product would be higher if Americans owned all the production facilities on U.S. soil. If foreign investment were not replacing U.S. investment—if domestic auto producers, for example, were competitive enough to satisfy U.S. consumers—the country would be that much richer. But with General Motors laying off 29,000 workers in Michigan, Ohio, Missouri, and Illinois, the U.S. should roll out the red carpet for the seven Japanese manufacturers investing here.

A foreign-owned factory that hums around the clock is far preferable to an American-owned one that is shuttered. "I don't give a damn who owns my industries as long as they are successful," says British statesman Lord Lever. The U.S. shouldn't care either as long as the fire hydrants don't leak, the school buses run on time, and the cinema seats stay bubble gum free. F

THE QUIET BILLIONS UNCLE SAM CAN'T TRACK

■ No one knows the exact dimensions of foreign investment in the U.S. A dozen federal agencies—including the Commerce Department, the SEC, the IRS, and the CIA—collect data on the subject. But they keep most of the information confidential and make no attempt to coordinate their findings. The numbers that get published are usually in aggregate form, revealing neither the buyer's name nor the actual investment. The result is a hodgepodge of statistics that "only God comprehends and the rest of us struggle with," says an economist at the Commerce Department's Bureau of Economic Analysis.

U.S. disclosure requirements, while numerous and sometimes onerous, allow untold amounts of foreign investment to slip through the cracks. The most glaring example of the government's inability to track capital flows is the "statistical discrepancy" entry at the bottom of the balance-of-payments data. That number, representing undocumented dollars that apparently flow into the U.S., now averages an astonishing \$25 billion a year.

ANDY FREEBERG

Corazon Aquino *says Ferdinand Marcos owns the Crown Building, a Manhattan jewel.*

Economists are universally stumped by the number but agree that at least a portion of it represents flight capital. Most of the money smuggled into the U.S. gets deposited in banks, but some is spent on real estate and other assets. The statistical discrepancy probably includes, for instance, some of the \$5 billion that Philippine President Corazon Aquino accuses Ferdinand Marcos of stealing to buy such baubles as the Manhattan skyscraper pictured here.

Property ownership in general is a big question mark. All those Latin American–owned condominiums in Florida, for instance, don't show up in the numbers because the government collects data only on commercial properties. The Foreign Agricultural Investment Disclosure Act of 1978 requires foreign purchasers of U.S. farm and ranch land to register with the Department of Agriculture. But investors can easily remain anonymous—and often do—by hiding behind dummy corporations. Says Texas Congressman John Bryant, who has introduced legislation to tighten disclosure requirements: "We often can't tell whether a foreign investor is a legitimate business, a hostile nation, a drug trafficker, or a tax evader."

Critics of Bryant's bill contend that closer scrutiny of the money coming into the U.S. would cost too much and discourage the inflow of foreign capital. But chances are that legitimate money would continue coming however exacting the disclosure laws. "As an investment banker, I'm opposed to any regulations that might make it harder for me to earn money," says Lewis Ranieri, 39, who in January will become co-vice chairman of Salomon Brothers. "But as a citizen of the U.S., I have to say this country's policymakers should know how much of our resources are in the hands of non-Americans."