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Love me, love me not:

America's confused, and sometimes scared, relationship with foreign investors

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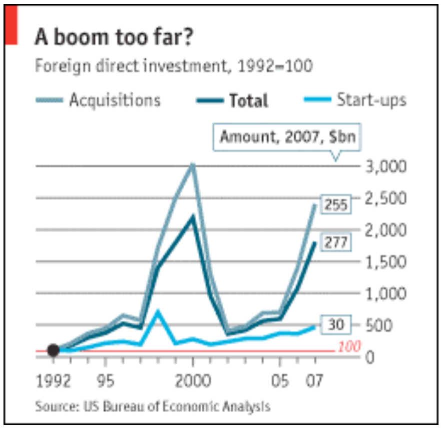
Illustration by Claudio Munoz

EIGHTY-FIVE Alabamians will descend on Britain on July 13th. Despite the timing, they will not be tourists in garish shorts. This group wears pinstriped suits and includes Alabama's governor. Their destination is the Farnborough Air Show. Their goal, in flying overseas, is to convince foreign investors to return the favour.

In America's political lexicon, few words are more poisonous than "outsourcing". Foreign direct investment in America, meanwhile, is politically fraught, as witness the uproar in St Louis, Missouri, over a Belgian brewer's bid for Anheuser-Busch. But behind this debate, foreign investors are being wooed by a growing number of politicians, from Manhattan to Mobile, Alabama. "Globalisation is a reality," explains Sam Jones, Mobile's mayor. "You can sit around and wish that something else was taking place or you can take advantage of globalisation, what we call 'insourcing'."

Foreigner investors went shopping in the United States last year, lured in part by the cheap dollar. Spending to acquire or establish American businesses grew to $276.8 billion in 2007, 67% more than in 2006 and the highest level since the peak in 2000, according to the Bureau of Economic Analysis (BEA). The vast share of this was acquisitions, but spending on existing businesses grew too, up by 29% over 2006. Net FDI, which also includes funding for existing operations, was $204.4 billion, up by 13%. More Americans are getting their pay-cheques from foreign firms: 5.3m in 2006, or 4.5% of the private workforce.

This growth comes despite a host of obstacles. Visa rules remain a deterrent. China's attempt to acquire an American oil company in 2005 and Dubai Ports' bid to operate six big harbours in 2006 were met with panic. Congressmen agonised over security in both cases. But protectionism extends beyond strategic assets—unless you count beer as a national resource.



The Commerce Department insists that America is open for business. In 2007 it launched "Invest in America" to help attract foreign companies and calm those afraid of them. The 33-year-old committee on foreign investment, CFIUS, is also refining its process for examining deals that might threaten security. But Mark O'Connell of OCO Global, a consulting firm, describes the national strategy for FDI as "embryonic".

States are far more aggressive, courting foreign investors through trips abroad and incentives. California, New York and Texas have proved the biggest magnets, topping OCO Global's list of foreign investment in new facilities or expansions from 2003-07. But even Michigan, one of the rustier states, has seen a boost from foreign investors, ranking fourth.

FDI varies wildly from one state to another. In New York foreign investors mainly help to fuel the finance, insurance and information sectors, according to a new report by the Partnership for New York City, a business group. FDI is especially vital in the city itself—foreign majority-owned firms accounted for one in 20 jobs in 2004 and for one-tenth of the city's economy. Though developed countries remain the biggest spenders, recent attention has centred on less traditional sources of capital. Sovereign-wealth funds' recent investment in giants such as Citigroup and Merrill Lynch comprised too small a percentage of ownership to count as FDI by the BEA's definition, but set the city abuzz nonetheless. Middle Eastern investment in property also raised eyebrows. Perhaps most telling, Ground Zero's Freedom Tower, which is meant to embody American patriotism, will house a centre for Chinese firms expanding in America.

At the opposite end of the spectrum, Alabama is luring global firms to feed its manufacturing base. In 1993 Mercedes chose Alabama as the site of an assembly plant. Honda, Toyota and Hyundai followed, and Volkswagen may soon as well—Alabama is one of three finalists for a new project. Mobile had planned to celebrate the coming of a new Airbus factory to assemble air-force tankers on June 20th (though, elsewhere, politicians lamented the choice of a European company over Boeing). When news came that the contract would probably be scrapped because the bidding process was flawed, Mobile had a parade anyway to cheer an Australian shipbuilder, a Singaporean aerospace company and a giant new ThyssenKrupp steel plant, among others.

The danger, of course, is that such projects bring rustbelt problems in future. Neal Wade, Alabama's development chief, is working to diversify and encourage growth in the life sciences. But foreign investment remains at the core of his plans.

Despite states' efforts to lure foreigners, Matt Slaughter, an economist at the Tuck School at Dartmouth who served on George Bush's Council of Economic Advisers, is concerned by "a protectionist drift". He argues that even foreign acquisitions, which politicians hardly court but which account for the bulk of FDI, play a vital role. Some acquisitions may lead to a loss of jobs, but on the whole they make companies more productive, create higher-wage jobs and help pay for the current-account deficit. Ron Blackwell, chief economist for the AFL-CIO, the labour union federation, says his organisation is "less concerned with the source than the nature of investment", and argues that greenfield projects and expansions will do most to buoy the economy in the long term.

In this debate politicians remain muddled. On July 7th Barack Obama said no law barred shareholders from selling Anheuser-Busch to a foreign firm, but that such a deal would be "a shame". Todd Malan, head of the Organisation for International Investment, which represents American subsidiaries, merely sighs. "The current environment", he says, "is characterised by schizophrenia."

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