Changes in the International Flow of U.S. Inward Foreign Direct Investment

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Since World War II, the emergence of a new integrated global system of manufacturing production, trade and direct investment has occurred primarily through techno-economic restructuring, trade and capital investments, and the transnational corporate environment. Although the United States has had a pre-eminent position in the world economy, recently its economic might has been systematically eroded by powerful transnational firms in Europe, Canada and the Pacific Rim. These foreign companies have selectively and increasingly invested in the U.S. economy, which has caused the introduction of new management practices, labor relations and technology. Moreover, foreign firms have become actively involved in politics, culture and other aspects of American community life. To the extent that foreign direct investment (FDI) has resulted in both macro-economic shifts in the U.S. economy and microsociopolitical adjustments in local communities, it is informative to discern which countries have and will continue to exert the greatest share of these impacts. This paper examines changes in the international flow of U.S. inward FDI between 1974–1988.

Since World War II, the emergence of a new integrated global system of manufacturing production, trade and direct investment has occurred primarily through techno-economic restructuring, liberal/protectionist trade and capital investments, and the transnational corporate environment. The world economy now forms a complex arrangement of subsystems operating within broadly hierarchical sets of environments that include the economic, political, technological and sociatal. Real and perceived comparative advantages between regions become part of the information sought in those environments by corporate decision-makers, whose decisions, and the actions consequent upon them, not only shape the specialized functions of each region but, in turn, alter its "investment attractiveness." The changes so effected become sets of environmental feedbacks evoking new responses in the form of

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trade and especially direct investments. Although trade and industrial specialization directly interact, the focus of this paper is on foreign direct investment (FDI); that is, changes in the international flow of FDI may be viewed as both a dynamic force specifying industrial specialization and world trade patterns, and also as an outcome of the functional role of the world regions in the global economy. Changes in the international flow of FDI for the United States are examined to illustrate these trends.

Throughout the twenty-year period immediately following World War II, the United States sponsored a postwar building program involving government (the American Security Treaty, the Marshall Plan and the Bretton Woods Accord) and private industry (outward FDI) that experienced a high level of success. By the late 1960s, Japan and several West European countries began to undertake major FDI (Sekiguchi, 1979; Pfeil, 1985). Increasing globalization enhanced the quantitative and qualitative interaction amongst competing economies. The set of transactional alternatives available from information on options and opportunities obtained from nearly every corner of the globe was increasing at a rapid pace. In an effort to benefit from the ever-expanding and complex global corporate economy, U.S. and foreign firms increased their efforts to expand from their geographic areas of strength into the other major emerging markets worldwide.

Based on international market share theory, firms adopted a strategy that centralized research and product development, marketed a globally-integrated standardized line of products, and utilized local sales organizations to satisfy the tailored needs of specific markets. In this way, both U.S. and foreign transnational corporations selectively engaged in FDI. These investments enhanced ability, flexibility and resourcefulness in supplying the needs of regional markets worldwide with distinct preferences for products and services. Although the world product concept proved to be an efficient strategy, as early as the late 1970s changes in the international economy, capabilities for competitiveness, and sentiments of protectionist trade practices necessitated a re-evaluation of global market expansion and, in turn, the goals of FDI.

With the dissolution of the Bretton Woods Accord in 1971, currency exchange rates on the international market fluctuated greatly. The once-dominant investment position of U.S. firms was increasingly replaced by lower comparative cost opportunities and rapid growth economies worldwide. Production costs became more nearly equal across the major world markets, while cost advantages through the world product concept were more difficult to obtain and no longer sufficient to offset distribution costs. Moreover, a protectionist sentiment has long been characteristic in the international economy and continues to emphasize local production and local value added (Cassing and Husted, 1988). Despite growing culture-to-culture awareness and understanding, nations continue to revere their heritage and politico-

geographic boundaries, recognizing that unique national characteristics of consumers persist and cannot be ignored.

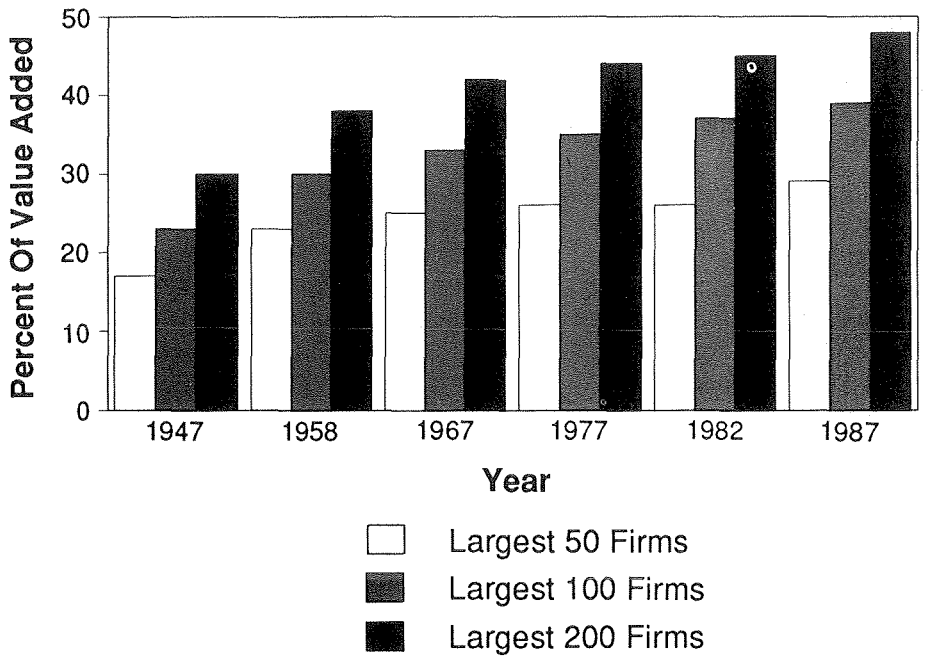
As this new international corporate environment continued to unfold throughout the 1980s, the earlier advantages of centralized production were virtually eliminated, thus requiring a corporation's presence in major world markets. In response, there was, and continues to be, a deluge of foreign investments transacted throughout the global economy characterized by an ever-growing number and capital value of investments, an ever-larger list of investor countries, and—of critical importance to the United States—a reversal in the flow of FDI. While answers have been forthcoming to questions about the determinants of U.S. FDI (Morrow, 1975; Poniacheck, 1986; Glickman and Woodward, 1988; Kahley, 1989a), industries involved (Nellis, 1977; McConnell, 1981; DeWitt, 1987), and spatial economic development issues (McConnell, 1980, 1983; OhUallachain, 1985; Bagchi-Sen and Wheeler, 1990), nationality of investors, particularly the dynamics and changing role of countries investing in the United, States has only begun to be explored (Dicken, 1988; Little, 1988; Tolchin and Tolchin, 1988; Chang, 1989; Glickman and Woodward, 1989; OECD, 1989; Wallace, 1990).

For at least a generation following World War II, the United States was pre-eminent in the world economy. Throughout the past fifteen years, however, its economic might has been systematically eroded and is currently shared with powerful transnational corporations based in Europe, the Pacific Rim and Canada. These foreign companies have selectively and increasingly invested in U.S. manufacturing, real estate, and financial and insurance institutions. This continuing wave of investment has carried with it new management practices, labor relations and technology. Moreover, not only have foreign firms increased their control over more of the American economy, but they have become evermore actively involved in the politics, culture, philanthropy and other aspects of American community life. To the extent that FDI has resulted in both macro-economic shifts in the U.S. economy and microsociopolitical adjustments in its local communities, it is informative and necessary to discern which countries have and will continue to exert the greatest share of these impacts. Within this context, this paper examines changes in the international flow of U.S. inward FDI between 1974-1988. Specifically, the study examines: 1) changes in the number and type of source countries investing in the United States; 2) shifts in the proportion of total inward investment among major and all source countries; and 3) the locational preferences of major source countries.

U.S. FOREIGN DIRECT INVESTMENT

Since 1945, at least two important processes changing the balance between U.S. inward and outward flows of direct investment are identifiable wherein the 1970s may be considered a watershed period. First, within the U.S. corporate economy an ever greater share of the nation's productive capacity has increasingly come under the control of fewer, larger firms. Based on the cost saving incentives of economies of scale and through the practice of horizontal, vertical and diagonal merger/acquisition activity, the share of value added, the proportion of average percentage of sales and the increase in central control over domestic production have become increasingly concentrated in fewer firms (Figure 1, Table 1).

Figure 1: Percent of total value added by leading firms in the U.S. manufacturing sector, 1947-1987.



Source: U.S. Department of Commerce, Bureau of the Census, *Census of Manufacturers,* vol. 1 Subject Statistics, 1972, 1977, 1987.

Table 1: Percent share of value of shipments accounted for by the four largest firms in selected manufacturing industries, 1947–1982.

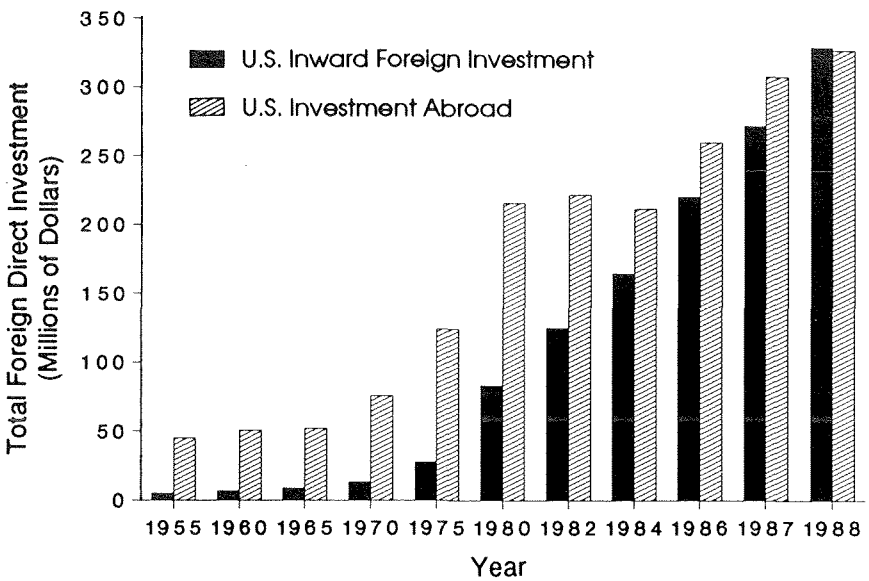
SIC	*Industry*	*1947*	*1963*	*1977*	*1982*	*1987*
2021	Creamery butter	18	11	49	44	46
2041	Flour	29	35	33	40	41
2043	Cereal	68	86	89	86	88
2044	Rice milling	33	44	51	48	50
2051	Bread	16	23	33	34	33
2065	Confectionary	17	15	38	40	42
2067	Chewing gum	70	90	93	95	94
2074	Cottonseed oil mills	43	41	45	51	51
2075	Soybean oil mills	44	50	54	61	64
2082	Malt beverages	21	34	64	77	78
2087	Flavoring extracts	50	62	64	65	64
2131	Chewing/smoking/tobacco	61	58	81	87	85
2254	Knit underwear	21	33	42	46	49
2292	Lace goods	26	27	51	48	47
2351	Millinery	7	9	19	24	26
2646	Pulp goods	86	72	87	93	89
2771	Greeting cards	39	57	77	84	86
2813	Industrial gases	83	72	65	75	72
3142	House slippers	19	20	44	60	64
3171	Women's handbags	7	11	21	30	36
3263	Earthenware	38	57	68	64	65
3275	Gypsum	85	84	79	77	79
3322	Malleable iron	35	46	54	61	63
3333	Primary zinc	53	57	81	77	80
3421	Cutlery	41	66	53	51	50
3624	Carbon/graphite products	87	83	80	76	82
3636	Sewing machines	77	74	83	73	76
3641	Electric lamps	92	92	90	91	91
3692	Primary batteries	76	89	87	89	92
3711	Motor vehicles	–	92	93	92	91
3714	Motor vehicle parts	–	60	62	61	60
3731	Shipbuilding	43	48	43	39	37
3751	Motorcycles	42	56	66	61	62
3822	Environmental controls	–	55	59	57	54
3843	Dental equipment	40	37	33	38	41
3861	Photographic equipment	61	63	72	74	71
3914	Silverware	61	55	51	59	60
3962	Artificial flowers	10	17	38	37	33
3995	Burial caskets	26	20	36	52	47
3996	Hard surface floor cover	80	87	90	99	96

Source: U.S. Department of Commerce, Bureau of the Census, *Census of Manufacturers,* Vol. 1 (1987).

Of the 200 largest firms in the United States, their share of value added increased from 30 percent in 1947 to 44 percent in 1977 and 48 percent in 1987. Moreover, the leading 50 firms experienced an increase in their share of total value added from 17 percent in 1947 to 26 percent in 1977 and 29 percent in 1987. Table 1 measures the proportion of an industry's total sales attributable to its four largest firms. The average percentage of sales accounted for by the four largest firms across all industry categories increased from 44 percent in 1947 to 63 percent in 1977 and to nearly 68 percent in 1987.

The second important way by which U.S. corporations have affected change in the flow of U.S. foreign direct investment has been through the internationalization of their several operations, including administrative, assembly, production and marketing functions (Hamilton and Linge, 1979; Beyers, 1981). The emergence of the U.S. transnational corporation has been tied directly to the ever-changing interconnectedness between the corporation and worldwide revenue-producing and cost-reducing opportunities. Through an enormous and continuous outflow of FDI (1945-1980) U.S. firms achieved a sizeable controlling interest in foreign economies and played an integral role in establishing international trade policy (Figure 2).

Figure 2: U.S. inward and outward foreign investment, 1955-1988.



Source: U.S. Department of Commerce, Bureau of the Census, *Statistical Abstracts of the United States,* 1960, 1980, 1990.

In particular, American firms granted licenses to foreign companies, enabling an industry to use technologies developed by a U.S. company in return for a royalty (Baranson, 1978). Joint production partnerships were negotiated with foreign business involving construction of turnkey facilities, whose ownership and production control would eventually be transferred wholly to the host country (Shapiro and Volk, 1979). Also, U.S. firms were important sources for investment capital in resurrecting foreign economies (Robinson, 1987).

The globalization of U.S. capital investment not only solidified the dominating position of the United States in the international economy, but at the same time formed the basis upon which other countries became major competitors for serving world markets. Between 1960 and 1970, foreign capital invested in the United States totalled only $7 billion. Due to several adverse economic events occurring both within the United States and worldwide (1970-1973), the U.S. dollar weakened considerably on the world exchange, thereby encouraging foreign investment in the United States. In 1974, the total value of foreign capital invested in the United States reached $6.9 billion. This annual investment figure, along with the number of foreign investments, continued to increase rapidly. In fact, since 1978, when the U.S. became the world's single largest recipient of foreign investment, there has been an accelerated and unparalleled flight of FDI into the United States. By 1980, the total value of U.S. inward FDI accounted for over 19 percent of the world's total. Between 1979-1983, U.S. inward FDI was three and one-half times greater than the previous five-year period, averaging $12.6 billion annually. Thereafter, the number of completed transactions and their associated capital value increased at a rapid pace, reaching $35.8 billion (1,051 transactions) in 1986 and $58.4 billion (1,084 transactions) in 1988, (Tables 2 and 3). Historically, the manufacturing sector of the U.S. economy has been the leading recipient of foreign investments, averaging nearly 46 percent of total capital invested. Although manufacturing continues to be the most heavily invested sector, other parts of the U.S. economy, including wholesale, real property and services, have exhibited sizeable and growing percentage shares.

Since the mid-1970s the global pattern of foreign investment among developed and developing countries has shifted significantly. The growth in U.S. overseas investment has slowed, while investors worldwide, especially those in Japan and Western Europe, have increasingly targeted the United States for commercial opportunities. Some of the important underlying factors contributing to this investment pattern have been the size, diversity and strength of the U.S. market, a non-restrictive U.S. policy toward inward foreign investment, the devaluation of the dollar, the offer of subsidies and incentives by individual states, and U.S. political and economic stability. At the international level, financial deregulation and vastly improved communi-

Table 2: Number of inward foreign direct investments in the United States by major sector of the economy, 1974–1988.

	1974[1]		1976[1]		1978[1]		1980[1]		1982[2]		1984[2]		1986[2]		1988[2]	
Major sector of economy	#	%	#	%	#	%	#	%	#	%	#	%	#	%	#	%
Agriculture & construction	3	2.7	4	2.2	10	1.5	22	1.8	9	1.0	9	0.9	19	1.8	15	1.4
Mining	5	4.5	6	3.0	21	3.1	54	4.5	71	7.8	79	8.7	51	4.8	44	4.0
Manufacturing	73	66.3	92	51.1	263	41.5	412	37.3	249	27.3	408	45.0	513	48.8	624	57.6
Services	2	1.8	3	1.5	15	2.2	19	1.6	31	3.4	71	7.8	132	12.5	131	12.1
Wholesale trade	7	6.4	12	6.1	70	10.3	77	6.4	107	11.7	103	11.3	110	10.5	108	10.0
Retail trade	6	5.4	10	5.1	26	3.8	53	4.4	42	4.6	78	8.6	70	6.7	52	4.8
Finance	13	11.8	34	17.2	79	11.7	118	9.8	70	7.7	35	3.8	42	4.0	15	1.4
Real property	0	0.0	19	9.6	149	22.0	350	29.2	298	32.6	120	13.2	112	10.6	91	8.4
TOTAL	109		180		663		1105		913		907		1051		1084	

Sources: [1] U.S. Department of Commerce, *Foreign Direct Investment in the United States: Completed Transactions, 1974-1983*, Volume II, Industry Sector, 1985.
[2] U.S. Department of Commerce, *Foreign Direct Investment in the United States, Transactions, 1981-1988.*

Table 3: Capital value of inward foreign direct investment in the United States by major sector of the economy, 1974-1988 ($million).

	1974[1]		1976[1]		1978[1]		1980[1]		1982[2]		1984[2]		1986[2]		1988[2]	
Major sector of economy	$	%	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Agriculture & construc.	65.0	0.93	8.4	0.4	1101.1	3.9	63.5	0.9	0.0	0.0	20.5	0.1	38.3	0.1	228.5	0.4
Mining	393.0	77.70	106.9	7.5	203.4	7.2	1836.7	27.5	0.0	0.0	10179.1	46.1	2516.4	7.0	2188.1	3.7
Manufacturing	118.7	16.00	927.5	51.3	297.6	72.7	4001.4	49.0	730.2	19.6	5752.6	26.0	16491.5	46.5	37024.0	63.4
Services	3.2	0.04	44.5	2.1	319.5	11.3	176.0	2.6	664.8	4.8	872.6	3.9	2696.3	7.5	3712.9	6.3
Wholesale trade	63.1	0.91	214.1	10.1	199.3	7.1	144.5	2.2	162.4	1.2	521.7	2.4	1239.7	3.5	581.9	1.0
Retail trade	29.1	0.42	39.1	1.8	51.4	1.8	997.4	14.9	539.6	3.9	784.5	3.5	5671.3	15.8	9853.2	16.9
Finance	316.4	4.50	414.0	19.3	216.8	7.8	948.5	14.2	1294.4	9.3	1061.7	4.8	1210.4	3.3	916.0	1.6
Real property	0.0	0.00	0.0	0.0	0.0	0.0	0.0	0.0	6079.6	43.7	2889.3	13.1	5942.1	16.6	3282.7	6.6
TOTAL	6988.5		1808.5		4028.1		8168.0		13912.7		22081.0		35806.0		58386.5	

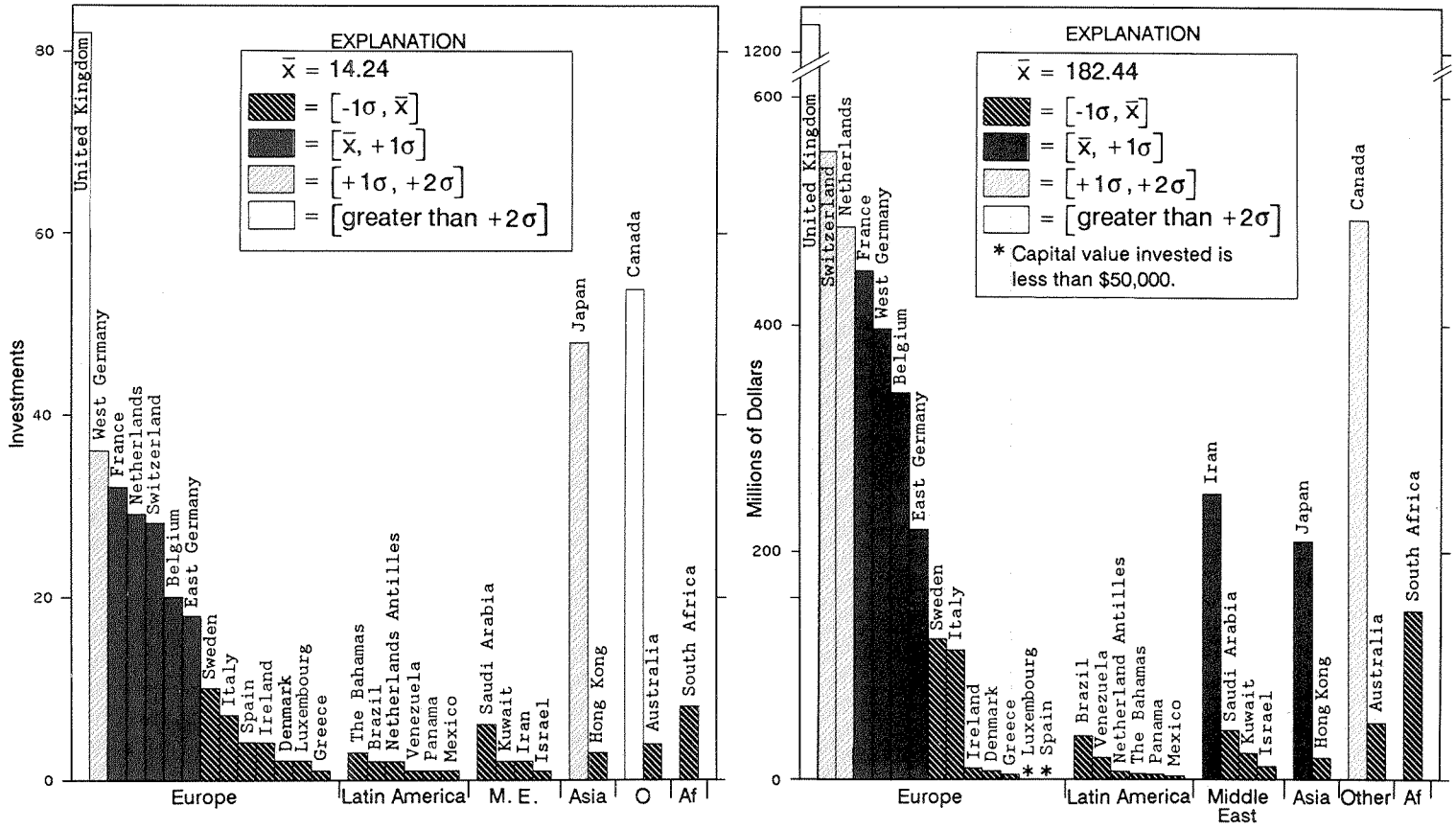
Sources: [1] U.S. Department of Commerce, *Foreign Direct Investment in the United States: Completed Transactions, 1974–1983*, Volume II, Industry Sector, 1985.
[2] U.S. Department of Commerce, *Foreign Direct Investment in the United States, Transactions, 1981–1988.*

cations technologies have permitted investors to move into foreign markets. At the same time, transnational corporations have come to view foreign investment as part of a larger strategy to remain competitive globally; for example, hedging against protectionist trade policies, maximizing long-run returns; minimizing risk and uncertainty; and gaining market shares abroad. These features have been especially significant for foreign investment in the United States. By investing into the United States, foreign companies have been able to place their capital in a politically and economically stable environment, secure the use of a worldwide distribution network and product-related services, access a skilled work force and research and development efforts, exploit economies of scale, and circumvent protectionist trade barriers.

Between 1974-1976, only 29 countries were represented by foreign transnationals investing in the United States, of which nearly 50 percent were European (Figure 3). The total number of completed transactions was 413, with a capital value of $5.3 billion. Although the United Kingdom, Canada and Japan were the leading investor nations, accounting for nearly 45 percent of the total number of completed transactions, the United Kingdom, Canada and Switzerland were responsible for over 44 percent of total capital value invested. With the exception of Japan and Canada, the advanced industrial nations of Europe dominated both the number (67 percent) and capital value (74 percent) of foreign investment. This pattern of foreign investment did not correlate with the anticipated international flow of petrodollars from OPEC nations, especially Saudi Arabia and Kuwait. With sudden and dramatic increases in world oil prices, OPEC countries searched for global investment opportunities in an effort to recycle and capitalize on their windfall profits. Within the United States, OPEC transnational companies invested heavily into the energy and real estate sectors. However, OPEC's share of number and capital value of U.S. inward FDI was modest during the mid-1970s accounting for only 2.7 percent and 5.7 percent, respectively.

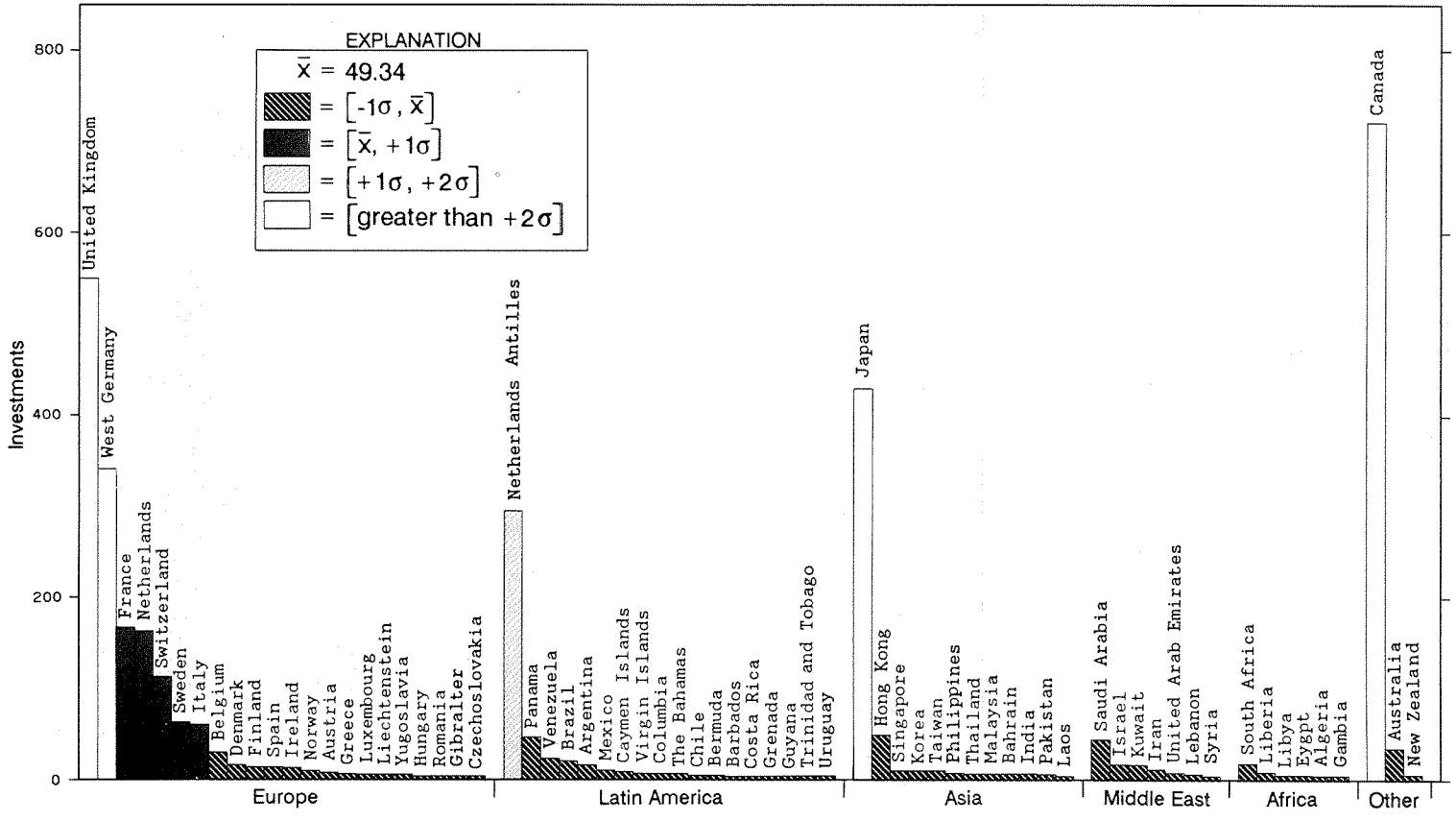
For the period 1980-1986, annual foreign investment to the United States averaged $20 billion compared with $5.7 billion for the 1970s. Although the United Kingdom, Canada and especially Japan were dominant investors, the total number of countries investing in the U.S. economy more than doubled during the same period from 29 to 68 (Figures 4 and 5). Source countries investing in the United States became more evenly spread across Europe (32 percent), Latin America (26 percent) and Asia (18 percent). During the early 1980s, investment in the United States increased several-fold. Between 1980-1982, a total of 3,355 transactions were completed, with a capital value of $52.1 billion. Similarly, between 1983-1985 the number of investments was 2,551, totalling $52.9 billion. Such changes in the investment position of the United States may, in part, be explained by the strong performance of the U.S. economy, the desire on the part of foreign

Figure 3: The number and capital value of foreign investments in the United States by major world region and investor country, 1974-1976.



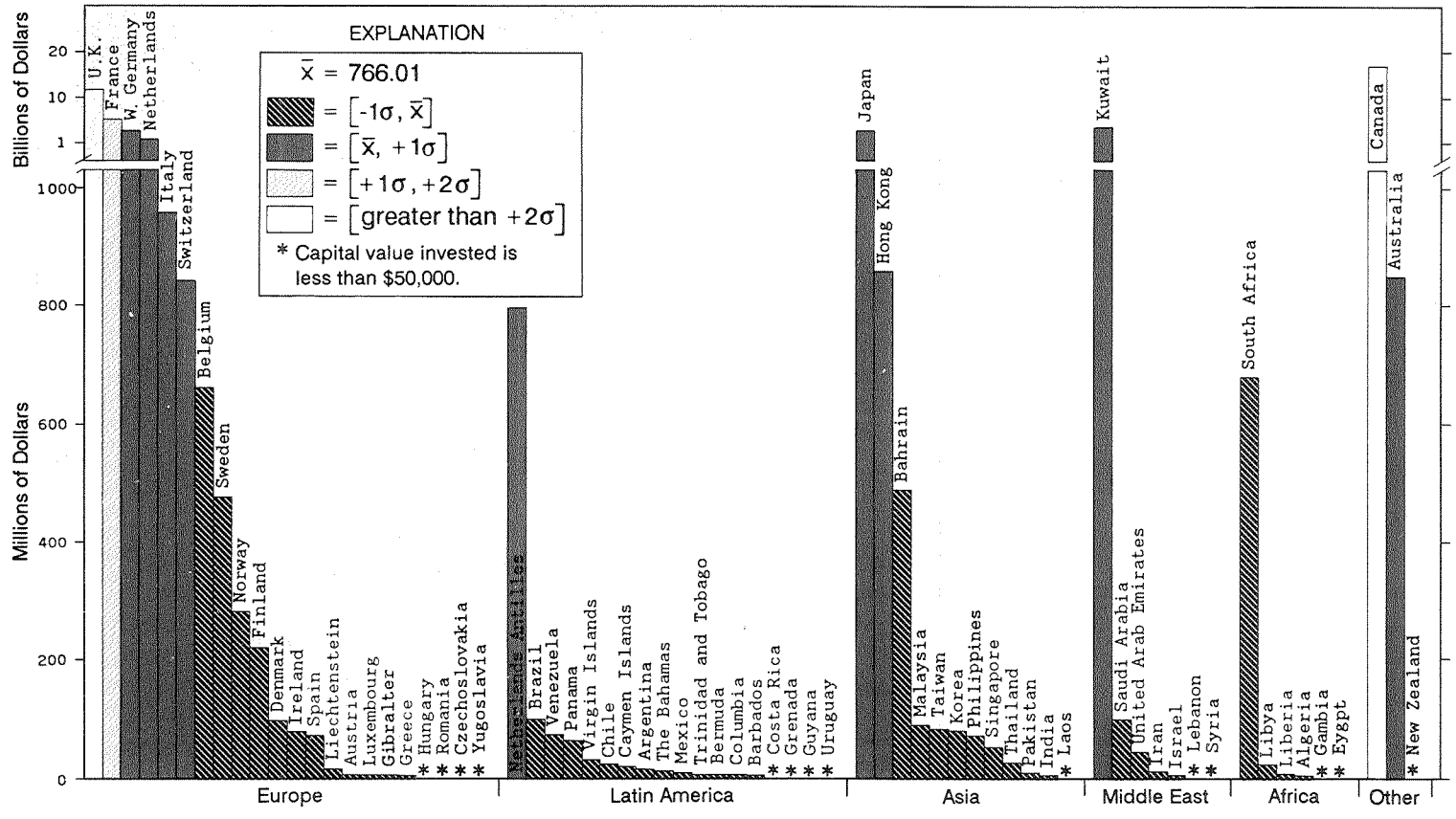
Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States: Completed Transactions, 1974-1983,* vol. 1 (1985).

Figure 4: Number of foreign investments in the United States by major world region and investor country, 1980-1982.



Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States,* 1980, 1981, 1982 Transactions.

Figure 5: Capital value of foreign investments in the United States by major world region and investor country, 1980-1982.



Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States*, 1980, 1981, 1982 Transactions.

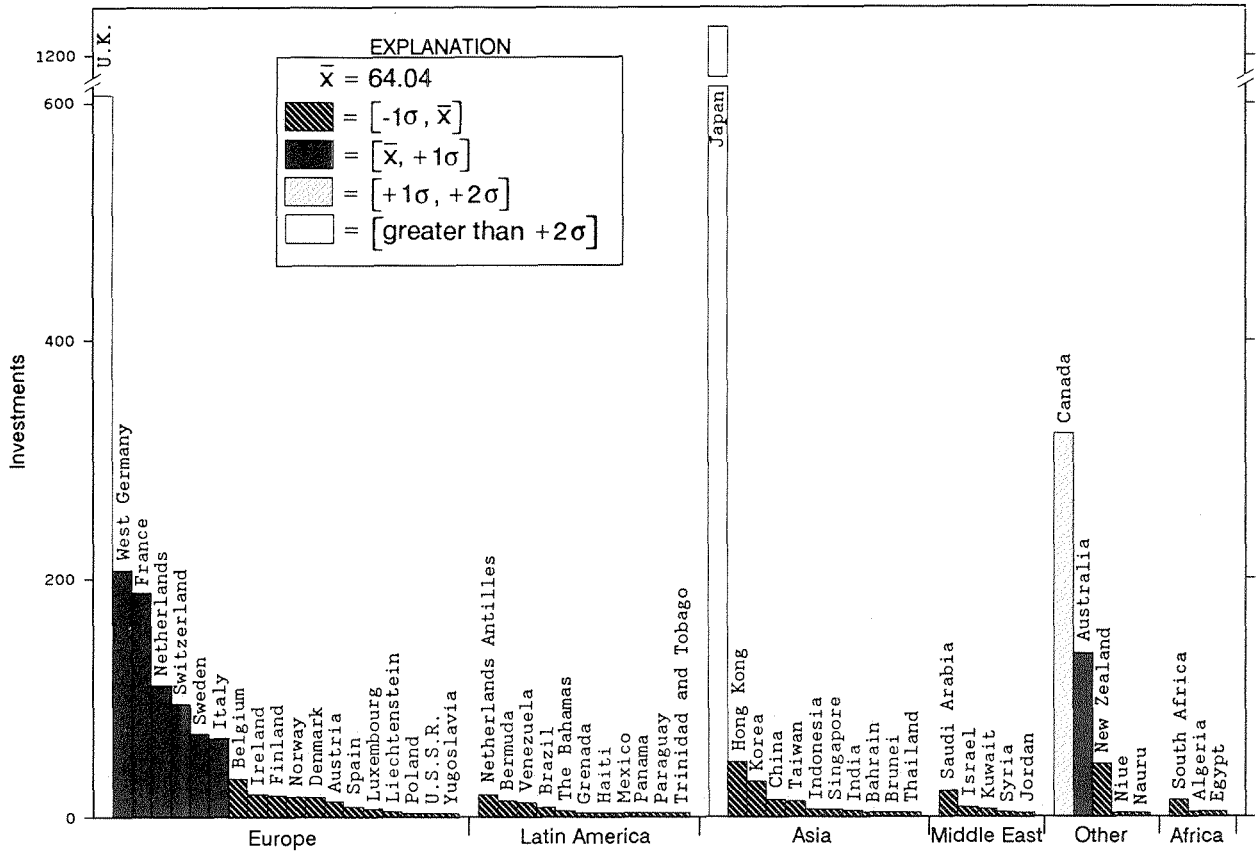
transnationals to benefit from new technologies being developed, and the substantial financial flows between the United States and offshore banking centers, particularly those in the Netherlands Antilles. European firms, including those of the United Kingdom, West Germany, France and the Netherlands benefitted from a weak dollar and the wave of industrial restructuring as several U.S. corporations became subject to merger and acquisition.

Unlike their European counterparts, Japanese transnationals were only a limited presence in the U.S. economy until 1980. By 1986, the stock of Japanese investment had risen to 11 percent of total U.S. inward investments. Although Japan's increased level of investment was facilitated by the size of the U.S. market and its new technologies, the single-most important factor specific to Japanese direct investment was the actual and potential protectionist trade barriers to imports from Japan (Chang, 1989). As a result, the U.S. annual share of Japanese direct investment has averaged nearly 50 percent since 1981. These investments have been especially concentrated in manufacturing, real estate, wholesale and finance.

Despite this rapid growth, the number of U.S. citizens employed by Japanese-owned firms was considerably less than the number working for transnational corporations based in European nations. The United Kingdom has always been the leading foreign employer of the U.S. labor force. According to Howenstine (1988), British transnationals employed over one-half million U.S. workers, while German-based firms employed over 300,000 in 1986. By comparison, slightly over 200,000 U.S. laborers were employed by Japanese-owned companies. Other sources of U.S. inward FDI during the mid-1980s were modest; Latin America transnationals, for example, accounted for 4.5 percent of total foreign-based employment. Excluding Panama, the Netherlands Antilles, Bermuda and Canada, the share of foreign-based employment from the Western Hemisphere was less than 1 percent. Finally, the share of all Pacific Rim nations, excluding Japan, was slightly over 1 percent, while Australia, New Zealand and South Africa combined for 3 percent.

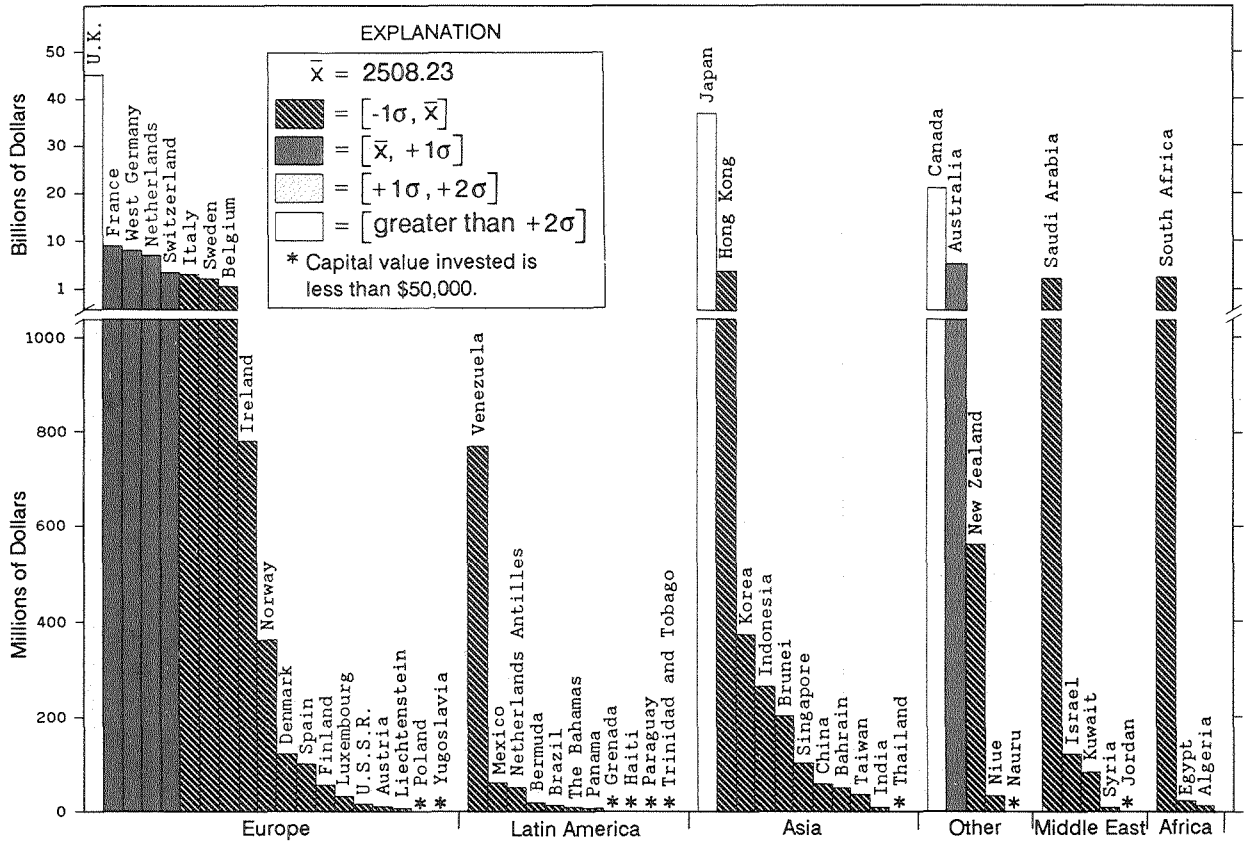
Notwithstanding that both the number of investor countries and the U.S. FDI share in the location of these countries across major world regions increased dramatically during 1980-1986, Japan, the United Kingdom and Canada remained the dominant source countries, averaging a combined 51 percent and 62 percent of total number and capital value of investments, respectively. Although this pattern of foreign investment may support the belief that global industrial power governs the flow of direct investment to the United States and that major trading partners are leading sources of direct investment (Glickman and Woodward, 1989), it has been characteristic only of western industrialized countries.

Figure 6: Number of foreign investments in the United States by major world region and investor country, 1986-1988.



Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States,* 1986, 1987, 1988 Transactions.

Figure 7: Capital value of foreign investments in the United States by major world region and investor country, 1986-1988.



Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States,* 1986, 1987, 1988 transactions.

Since 1986, the level of foreign investment has continued to grow apace. Between 1986-1988, the number of investments increased to 3,458 (35.6 percent), totalling $151.5 billion (191.2 percent), as compared to the previous three-year period. Again, Japan, the United Kingdom and Canada combined for nearly two-thirds of all investments, although the share of capital value was more evenly spread between European industrialized nations (50 percent) and newly industrializing nations in Asia, Latin America and the Middle East (32 percent) (Figures 6 and 7). Several factors accounted for both the growth and dispersion of inward foreign investment throughout this three-year period. First, the value of the dollar continued to decline against other major currencies, not only making it less expensive to acquire or establish a U.S. business, but also broadening the range of potentially attractive target firms. Second, many U.S. corporations restructured their organizations, thereby making available for acquisition many subsidiaries and divisions that were unable to contribute to new corporate goals. Third, the Tax Reform Act of 1986 led to increased foreign investment activity as U.S. firms attempted to avoid the higher capital gains tax effective 1987. Finally, large trade surpluses accumulated by Japan and European countries created a vast pool of foreign-owned, dollar-denominated assets available for direct investment in the United States.

In sum, while the number and diversity of foreign countries investing in the United States have increased significantly since 1974, the proportion of the number and capital value of investments has become increasingly concentrated in the same few countries (Japan, the United Kingdom, Canada and West Germany) (Table 4). An index of concentration, C, is calculated by dividing the standard deviation, σ, for both the number and capital value of investments by the total number of source countries, N, for each of the three-year time periods under consideration. If the value of C increases over the time periods, then the proportion of the number and capital value of foreign investments becomes evermore concentrated in fewer investor countries. Alternatively, if the value C decreases, this reflects a greater parity in the contributing role of investor countries. While the number of source countries investing in the U.S. economy has increased between 1974-1988, Table 4 indicates that both the number of transactions, especially of capital value invested, have become increasingly concentrated in a few investor countries. Leading source countries that have consistently dominated both number of investments and capital invested and whose combined share of total foreign investment has steadily increased include Japan, the United Kingdom, Canada and West Germany (Table 5).

Table 4: Index of concentration for number and capital value of foreign investments by time period.

	Completed transactions					*Capital value invested*				
Time Period	Number	X	σ	N	C	($million)	X	σ	N	C
1980–1982	3,355	49.34	127.4	68	1.8728	52,088.6	766.01	2,606.7	68	38.3338
1986–1988	3,458	64.04	193.1	54	3.5756	151,482.2	2,805.23	8,241.6	54	152.6217

Source: Compiled by author: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States: Completed Transactions, 1974–1983* and *Foreign Direct Investment in the United States, 1980–1988 Transactions.*

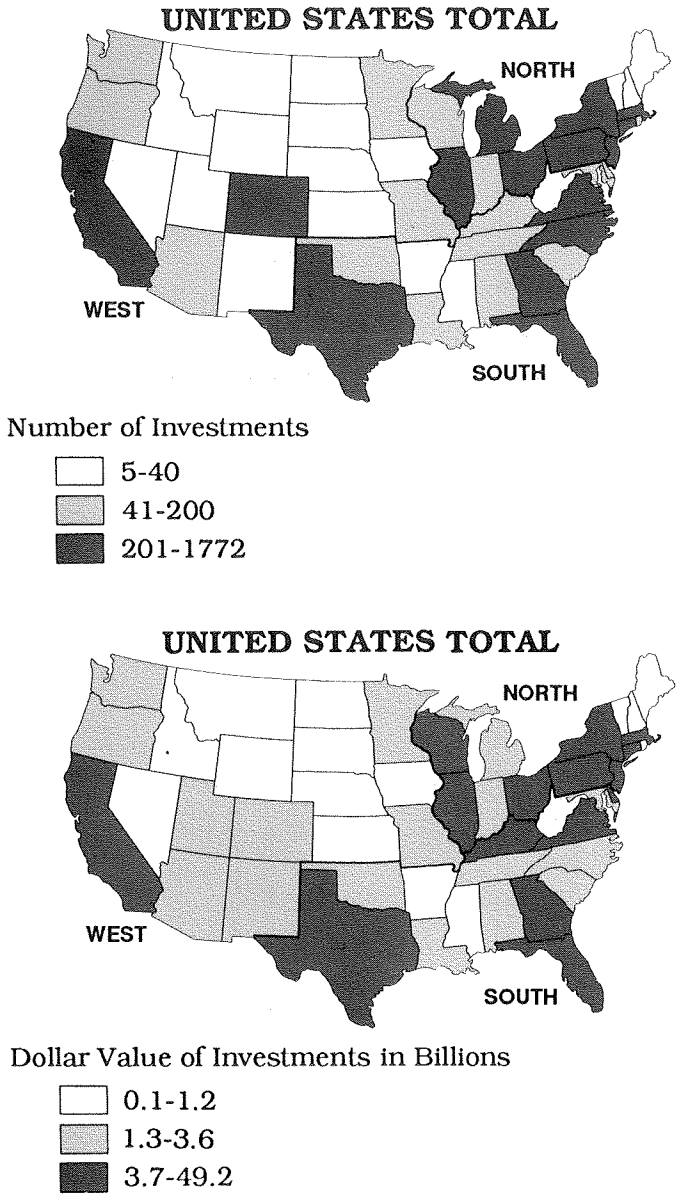
Table 5: Index of concentration for number and capital value of foreign investments by time period.

	Completed transactions					*Capital invested*				
Time Period	Japan	United Kingdom	Canada	West Germany	Total	Japan	United Kingdom	Canada	Germany	Total
1974–1976	11.6	19.9	13.1	8.7	53.3	4.0	23.8	9.2	7.5	44.5
1980–1982	12.8	16.4	21.5	10.2	60.9	5.8	22.0	34.2	5.3	67.3
1986–1988	36.5	18.5	9.3	6.1	70.4	24.7	29.3	14.3	5.4	73.7

The total represents the combined percentage only for the countries of Japan, the United Kingdom, Canada and West Germany.

Source: Compiled by author: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States: Completed Transactions, 1974–1983* and *Foreign Direct Investment in the United States, 1980–1988 Transactions.*

Figure 8: The location of the number and capital value of U.S. inward FDI by major region and state, 1974-1988.



Source: U.S. Department of Commerce, International Trade Administration, Foreign Direct Investment in the United States: Completed Transactions, 1974-1983 and Foreign Direct Investment in the United States, 1980-1988 Transactions.

SPATIAL PATTERN OF U.S. INWARD FDI

Since 1974, U.S. inward FDI illustrates that although investments (both number and capital value) are predominantly located throughout the nation's Industrial Heartland, other regional preferences, albeit more modest, are also apparent (Figure 8) (McConnell, 1980; OhUallachain, 1985). Between 1974-1983, the U.S. Manufacturing Belt attracted over 65 percent of all foreign investment, resulting in a regional imbalance in the geographic distribution of FDI. Subsequently, there have been important and sizable regional shifts in the locations selected by foreign transnationals (Table 6). Most notably, the Far West and Southeast have become increasingly preferred locations for foreign investment in general and the major source countries in particular (Figure 9).

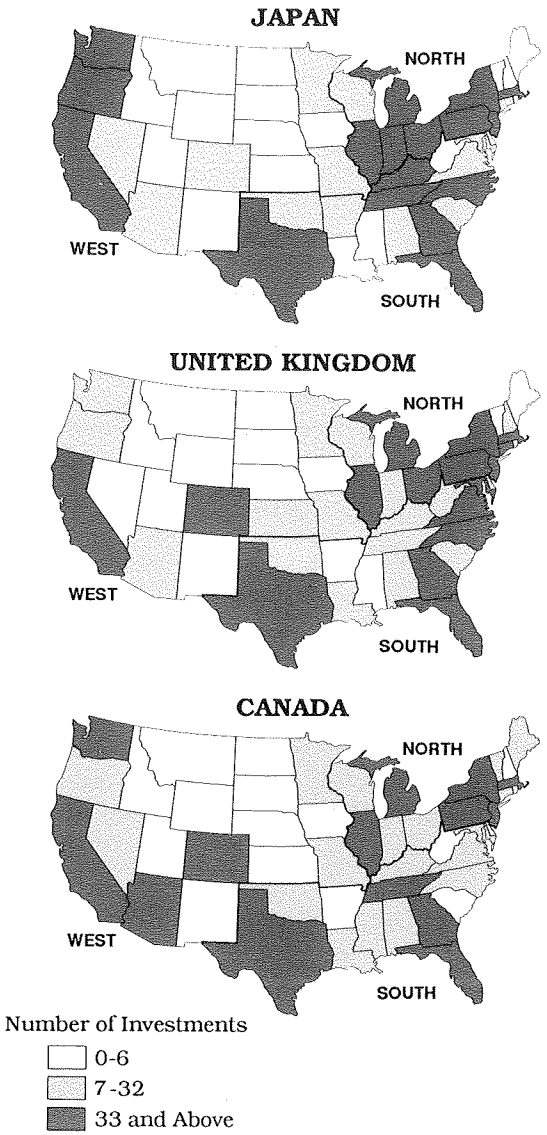
Table 6: Number and percent change of foreign direct investment by major region, 1979–1987.

Major Region	*North*	*% change*	*South*	*% change*	*West*	*% change*
1979–1980	728		481		369	
1981–1982	655	–10.0	410	–14.8	323	–12.5
1983–1984	611	–6.7	402	–2.0	340	–5.3
1985–1986	749	+22.6	513	+27.6	498	+46.5
1986–1987	924	+23.4	632	+23.2	627	+25.9

There exists a strong correlation between the investment patterns illustrated by the three leading investor countries and the investment pattern depicted by all source countries. Not only have Japan, the United Kingdom and Canada accounted for over 52 percent of total FDI (1974-1988), but their investments have formed the basis for "attracting in" other FDI to the same localities. In support of regional economic development theory, where fast-growth, lead firms create a locational attraction for related and ancillary functions, pioneering foreign firms have removed, or at least reduced, social and structural barriers within a given community, thereby easing the way for additional foreign investment.

Whereas there exists general agreement between the investment patterns of the leading source countries and U.S. total FDI, there are important regional similarities and differences between the major investor countries. While all three countries have avoided the Interior Plains and Rocky Mountain regions, Japan has emphasized the Midwest, Far West and, to a lesser degree, the Southeast; the United Kingdom has preferred the Northeast and

Figure 9: Location of foreign investments by leading source countries by major region and state, 1974-1988.



Source: U.S. Department of Commerce, International Trade Administration, *Foreign Direct Investment in the United States: Completed Transactions, 1974-1983* and *Foreign Direct Investment in the United States,* 1980-1988 transactions.

the Atlantic Seaboard; while Canada's investments are more equally spread across the North, South and Far West. To a large extent, the basis for these regional preferences is a function of supply/demand relationships, market potential, labor costs and availability, and state and local incentives. Market potential, labor costs and locational incentives have all combined to increasingly promote the general investment attractiveness of nearly every state in the Southeast and Far West regions more than any other region in the United States.

Throughout the 1980s, both the Far West and especially the Southeast experienced growth in their regional and local markets (e.g., higher per capita income, proportional increase in middle-class population, and a greater emphasis on an industrial, as opposed to rural-based, economy), as well as greater levels in accessibilty to the entire U.S. market and international markets (e.g., the integration of major urban centers into the national and global urban system, the construction of infrastructure in the form of transport and communication systems, and the formalization of institutional programs) (Kahley, 1989b; Sullivan and Avery, 1989). In addition, the preferred combination of labor by foreign firms has increasingly become available in these regions due to changes in migration, unionization and other socioeconomic-demographic patterns. Finally, nearly all states in the Southeast and Far West have developed very competitive and successful incentive programs to lure foreign investment.

However, when supply/demand relationships are considered, different regions and states are preferred by the major source countries. For example, Japanese transnational corporations have concentrated their U.S. investments in basic industries (e.g., automobile and steel) and in the high-tech and real estate sectors. Japanese firms, more than British and Canadian firms, have retained corporate management, high value added production, and research and development functions within their own country, often searching for locations to invest in lower wage, automated assembly facilities. Reich and Mankin (1986) suggest that the Japanese reserve for themselves the part of the value added chain that pays the highest wages and offers the greatest opportunity for controlling the next generation of products and product technology. While Japan's presence in the U.S. economy is formidable, the number of U.S. citizens employed by British and Canadian firms is nearly three times larger. Emphasizing labor-intensive investments combined with an over two-century historical link, British transnationals have invested predominantly in "colonial" America. Printing and publishing, food production and the garment industry have been Britain's major investments. Finally, because Canada has invested primarily in resources (including metals and timber), its investment pattern is characteristically more widespread and tied to the localization of particular resources.

CONCLUSION

It appears that throughout its history the United States has operated under essentially a laissez faire approach to foreign investment on the premise that free capital flow maximizes economic efficiency. During the 1950s and 1960s, foreign investment was largely unidirectional. For every dollar foreign companies invested into the U.S., American multinationals invested four to five dollars overseas. Since the early 1970s, however, sizeable shifts in the flow of capital investments have occurred whereby foreign transnationals competing in the global economy have increasingly invested into the United States.

In 1971, total foreign investment in the United States reached $14 billion; in 1980, $83 billion; and by the end of 1988, $329 billion—a twenty-three fold increase since 1971 and a 21 percent growth in 1988 alone. By contrast, U.S. direct investment abroad rose from $83 billion in 1971 to $215 billion in 1980 and to $327 billion in 1988, growing at only 6 percent in 1988. With the continuation of a climbing national trade deficit accompanied by a growing international sentiment toward "balanced" trade, the attraction of U.S. inward FDI is likely to increase and continue to outpace U.S. investment abroad.

Evidence in support of this trend was noticeable as early as 1983 and has grown apace thereafter. The number of completed transactions and the capital value of these investments have increased by 39 percent and 461 percent, respectively. Moreover, the number of source countries investing in the United States has more than doubled. Notwithstanding these significant increases, the findings of this study indicate that the contributing share of U.S. inward foreign investment (number and capital value of completed transactions) has become increasingly concentrated in the same few countries since 1974 (in particular the United Kingdom, Japan, Canada and West Germany), and that the locational preference practiced by these major source countries has consistently targeted select regions and states within the United States.

Combining for over 70 percent and 73 percent of total number and capital value of foreign investments (1986-1988), these four countries have consistently dominated the "buying off" of the U.S. economy. It appears that much of the recent public debate over these and other countries investing into the United States stems from the concentration of their investments in particular economic sectors and localities. For example, nearly 20 percent of total banking assets in the U.S. are held by foreign banks, foreign transnationals control over 12 percent of the U.S. manufacturing base (though slightly less than 2 percent of its farmland), and foreign interests own 25-30 percent of chemical industry assets and over one-half of the consumer electronics and cement industries (Glickman and Woodward, 1989). Foreign companies are

also making major inroads in real property, insurance and wholesale trade. While the traditional Industrial Heartland has received a disproportionate share of foreign investments, increasingly there is a tendency toward regional parity across the United States, although at the state level foreign investment remains highly localized.

These divergent spatial trends suggest that while regional economies are becoming less differentiated relative to foreign investment level and therefore more equally integrated into the international community, the opposite is true for local and community economies at the state level. With virtually little change since 1974, foreign direct investment has targeted the same few states. While these "internationalized" states (e.g., California, New York, Florida, Texas, Illinois, New Jersey and Georgia) continue to become more integrated into the global economy, at the same time their local economies continue to face the social, political and economic impacts which stem from an increased presence of foreign companies and foreign corporate decision-makers. These impacts become especially significant when it is recognized that: 1) the vast share of U.S. inward FDI represents purchases of existing assets through mergers and acquisitions, as opposed to joint ventures or partnerships; and, 2) of the nearly 10,000 transnational firms worldwide, only 500 control 80 percent of the world's foreign-owned affiliates. Importantly, this may result in the direct transfer of control of a community's assets along with the implied transfer of political and economic power and increasingly place the viability of local economies under the jurisdiction of a select few foreign decision-makers.

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