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Guest Comment

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Foreign Direct Investment: Under Assault

New congressional legislation threatens our future prosperity and security.

By Stuart Anderson

Before making any economic proposals, policymakers should always find out what they're doing in France — and then do the opposite. France, suffering from unemployment rates of 9 percent or more, "protects" its economy from foreign investment by invoking national and economic security in order to block acquisitions in "strategic" sectors (including yogurt and casinos). The U.S. controversy over the aborted Dubai Ports World deal had a similar ring: As national security concerns were raised, some members of Congress proposed measures that would undermine the enormous economic benefits Americans receive from foreign investment.

A recent study by the National Foundation for American Policy shows that majority-owned U.S. affiliates of foreign companies employ 5.2 million American workers, or 4.7 percent of total U.S. private-sector employment. The average annual salary for those workers is $60,000 — 34 percent more than the average compensation of all U.S. firms. Roughly 40 percent of these jobs are in manufacturing, four times the national average.

The study, co-authored by Johns Hopkins University scholars Daniel S. Hamilton and Joseph P. Quinlan, warns that restricting or inhibiting foreign investment could result in "higher interest rates, higher mortgage rates, higher inflation, less innovation, fewer jobs, lower wages, and lower stock prices."

Our elected officials should take note.

Today, new legislation on foreign investment has passed House and Senate committees and awaits floor action. Though more than a half dozen bills on the topic have been introduced, the key bills are H.R. 5337, sponsored by Rep. Roy Blunt (R., Mo.), and S. 3549, sponsored by senators Richard Shelby (R., Ala.) and Paul Sarbanes (D., Md.).

The Shelby-Sarbanes bill is problematic. It seeks to change the Committee on Foreign Investment in the United States (CFIUS) — a body of representatives from federal agencies that review foreign acquisitions of U.S. companies for national security implications — and would require that representatives, senators, and governors be notified of foreign investments under review by CFIUS. These reviews are now confidential, and the new rule will only prompt domestic investors to seek to gain in the political arena what they lose in the competitive marketplace. In a year when Congress has come under increased scrutiny for internal corruption, the Shelby-Sarbanes bill would create numerous instances for at least the appearance of corruption.

In addition, the Senate legislation would push review of foreign investment beyond the existing 30-day period, in effect tilting the playing field toward domestic investors by creating a separate timeline for foreign investors. If you were selling your car or house to two potential buyers and one told you it likely would be an extra 30 days before he could complete the sale, which buyer would you choose?

U.S. companies, shareholders, and entrepreneurs unable to obtain fair market value for their assets will lose out if the Senate bill becomes law. Moreover, other countries will likely impose similar restrictions on U.S. firms and individuals seeking to invest overseas.

A reasonable regulatory environment has been crucial in driving inflows of U.S. foreign direct investment, but a recent escalation of protectionist sentiment in the U.S. threatens to deter these inflows. Look at what has happened in the regulatory aftermath of the corporate accounting scandals: As numerous commentators and business executives have pointed out, the onerous requirements of Sarbanes-Oxley have resulted in a higher proportion of initial public offerings (IPOs) taking place outside the United States. In other words, this is no time to scare off foreign investors.

Creating new restrictions on foreign investment under a broad definition of “critical infrastructure” would both harm job creation and undermine national security, since foreign investment in these sectors has both increased R&D and spurred additional competition and innovation.

If America develops a reputation as a less-welcoming place for investment, money that would have fueled the U.S. economy will flow to other nations. Simply put, this will have an adverse impact on our ability to compete globally and to create jobs at home. If Congress fundamentally changes the rules governing foreign investment in the U.S., the effects will reverberate across the nation and around the world, damaging both U.S. prosperity and security.

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