FOREIGN DIRECT INVESTMENT IN THE U. S.-STRATEGIC PROBLEMS & ISSUES

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Abstract

This paper briefly reviews the nature of foreign direct investment (FDI) in the U. S. and outlines key issues confronting both the U. S. government and foreign-owned firms. Because there is a paucity of literature, further research is suggested.

Introduction

Over the past few years, FDI has increased substantially. Between 1973 and 1979 FDI grew by 160 % to $52.26 billion. FDI, defined by the Dept. of Commerce as 10% or more foreign ownership of any American business, has occurred in all industries and comes significantly from the Netherlands, the UK, Canada, Germany, Japan, Switzerland, and France.

Foreign businesses are attracted to the U. S. because they want diversifications, natural resources, skilled staff, prestige, new technology, political and economic stability, and profit. To achieve the objectives, investors employ various approaches. The Europeans set up U. S. manufacturing subsidiaries or join operations with other U. S. firms; the Japanese set up sales and service facilities in the U. S. and manufacture elsewhere.

The scope and nature of FDI present several strategic problems and issues for both the U. S. government and foreign-owned firms. Some of the FDI issues and problems are briefly examined below to provide guidelines for future research.

American Issue

The basic issues for the U. S. are: Should it encourage or discourage FDI? What policies should it follow? The current U. S. policy is that of nonintervention. This "hands off" policy is based on the premise that free market forces allocate resources better and promote U. S. economic and political interests abroad. There do, however, exist at the state and local levels laws and policies which attract or restrict foreign capital.

Since each $26,000 investment creates one job, many authorities do compete for investments from abroad and offer incentives such as deferred tax plans, training programs, and land at no cost. But, some 30 states have taken measures in response to the demands for strict controls from different groups.

Farmers blame overseas investors for rising land prices. Local communities-e.g.-Florida-complain about the growing presence of foreigners. Unemployed persons and struggling businesses blame foreign competition for their problems. Only the customers, employees and managers of the foreign-owned firms seem not to care about the ownership.

The federal government is aware of the growing criticisms and political pressures. It is also aware of the undesirable consequences of restrictive measures against foreign captial. U. S. government efforts to discourage investments from abroad could result into foreign governmental policies and actions that could hurt the vast U. S. political and economic interests abroad. Thus, the dilemma remains difficult to deal with.

Management Dilemmas

For executives in the U. S. and abroad, foreign ventures present several complex dilemmas, also.

In most acquisition cases, foreign buyers follow the "hands-off" approach for awhile, allowing the acquired firm's management to continue. As the parent company gains more knowledge, it increases its influence. Executives from home are sent to direct U. S. operations and to install managerial practices that underline their ethos, values, and styles. Because foreign and American business philosophies, orientations, commitments, and expectations differ considerably, foreign management approaches are often far apart from American. For example, compensations in Japan are based on temporal (age or seniority) considerations; while in the U. S. they are based on the principles of "equal pay for equal work" and performance merit.

The extension of home management practices may thus represent differences and could cause administrative problems. There could be legal problems, also. Three American executives of C. Itoh (America) have sued their employer, alleging that the parent firm's expatriate employment policies give preferential treatments to its Japanese executives; the suit underscores the legal and political complexity of multinational business. American antitrust laws are unfamiliar legal problems, and force many foreign firms to alter their plans for the U. S. market. U. S. product liability laws, immigration laws, differing product definitions of U. S. customs, delays in government approval, and laws barring foreign business from such projects as defense, are among troublesome legal problems.

Other strategic dilemmas include: consumerism movements, technological differences, relatively high labor turnover in the U. S., a hostile environment facing foreign staff and their families, communication difficulties, and differences in financing methods.

Because of these and other management issues, the parent firm adopts plans that are overcautious, programmed for a slow pace, and too modest. The modest management strategy leads to the commitment of insufficient funds, causing operating problems for the U. S. affiliate. Overall, the strategy fails to take advantages of the available opportunities.

Conclusion

Unfortunately, very little is known on the FDI problems and strategies. Research efforts on the subject are inadequate. Lack of good empirical data necessitates further studies and in-depth analysis. A research study by the author is in progress, however.