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Commentary

Open doors to China

States must seek direct foreign investment

As a result of the 2008 global financial crisis and the “Great Recession,” states are confronting fierce fiscal challenges. The job market is weak. The possibility of a double-dip recession is becoming more of a harsh reality.
States need to become

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more aggressive in the global marketplace.
What should states do?
Specifically, states need to systematically and aggressively recruit direct investment from foreign firms, especially those based in China.
The establishment of new foreign firms in a state has a major multiplier effect on local employment.
For example, new firms often expand. In addition, as their customers and suppliers, domestic firms grow. These new foreign-owned firms do not need many economic incentives or local tax subsidies to locate into the U.S.; it is in their corporate interests.
Establishing subsidiaries in the U.S. allows foreign multinational corporations to be located in the world’s largest marketplace, avoid U.S. trade restrictions, take advantage of

a cheaper dollar and avoid currency fluctuations.

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The problem is that, whereas states need foreign investments, federal government policies and actions are often barriers to such investments. In addition, public support for these investments and state trade policies are often lacking. Such policies even create popular resistance. Similar resistance occurred in the 1980s, when Japan Inc. invested in a large number of asset classes in the U.S. The attitude continues today, fueled by some of the same foreign anxieties and spurred by newer ones involving cybersecurity, the rise of state-owned enterprises and foreign sovereign wealth funds. The following observations are particularly important with regard to Chinese investment and state economic development in the U.S. today. First, Chinese firms will make between $1 trillion and $2 trillion in direct investments globally over the next 10 years. Outward direct investment from China is growing between 20 percent and 30 percent annually. Chinese corporate investments abroad have increased dramatically, with huge investments recently in Europe and Brazil. China has already invested in 35 of the 50 states, with the largest investments in Texas, New York and Virginia. Second, Chinese operating firms are reorienting their global business strategies to avoid domestic trade restrictions and to more fully participate in the global economy to enhance their corporate transactions. China has been the world's largest target for anti-dumping investigations, primarily in the U.S. and the European Union. As Chinese firms mature, they are clearly interested in developing strategies to overcome trade restrictions, a falling dollar and rising wages in China – as well as to service their own domestic markets and develop newer global markets.

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Third, with its concern for national security, the U.S. federal government has been somewhat hostile toward Chinese investment at times. The federal government has an important role in reviewing foreign takeovers and acquisitions, but it should not become an overly politicized process aimed at parochial domestic interests. Recent legislation requires the Committee on Foreign Investment in the U.S. (CFIUS) to investigate all foreign transactions involving a foreign corporation that is owned by a foreign government. This provision seems to be aimed at China and sets the wrong tone in encouraging foreign investment. Fourth, the traditional U.S. openness toward foreign investment needs to be safeguarded. That is, the U.S. should not only promote investments from our multinational corporations abroad but also welcome such investments from foreign multinationals and sovereign wealth funds from emerging markets, including China. Fifth, although the public and many policymakers do not realize it, states have become major players in international trade and global investment — despite the fact that the U.S. Constitution gives Congress the exclusive right to regulate foreign trade and prohibits states from entering into treaties. The competition for new business takes place at the state level, one corporation at a time.

States that are not aggressive or have regulatory and tax disincentives lose in the global marketplace. Simply put, being competitive in the global marketplace is the answer to the economic and business distress at home.

Attracting Chinese corporations will not likely raise complaints of corporate welfare because they probably will not require expensive state incentives. Similarly, attracting such corporations will preclude the beggar-thy-neighbor complaints that are often heard when one state attracts a firm from another state to relocate.

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In conclusion, I have several suggestions. First, states need to follow an aggressive economic development policy focusing on attracting Chinese and other foreign direct investment. Second, the federal government should not create unnecessary barriers to foreign investment in the name of national security that promote protectionism.

Foreign corporations and sovereign wealth funds have the money and desire to invest in the U.S., which is good for the jobs market in America.

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