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## U.S. Draws Greater Foreign Investment

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Foreign investments in the U.S. dwarfed American investments abroad by the biggest margin on record last year, leaving the U.S. economy more vulnerable to external shocks but also suggesting the nation remains a magnet for foreign funds after the financial crisis.

America's "international investment position" in 2012--how much the value of foreign investments in the U.S. exceeded U.S. investments abroad--jumped to \$4.7 trillion in the middle of last year before falling to \$4.4 trillion by year's end, up from \$4.0 trillion at the end of 2011, the Commerce Department said in a report Tuesday that provided quarterly data for the first time.

The \$4.7 trillion gap in the second and third quarter of 2012 was the biggest since the government began tracking in 1976, according to the data released Tuesday.

The report suggests foreign investors and companies are playing a much bigger role in U.S. financial markets and the economy. That worries some observers, since it makes the U.S. economy more vulnerable to sharp turns in the global environment. Yet it also suggests America remains a beacon for foreign investment.

"The U.S. is still the largest market in the world and despite some of our dysfunction, by comparison, we look like a pretty good investment," said Nancy McLernon, chief executive of the Organization for International Investment, a Washington-based group representing major foreign investors in the U.S.

Foreign investment in the U.S. has been dwarfing U.S. investment abroad for some time. In the first half of the 1990s, America's "investment position" was nearly zero, meaning Americans owned about as many foreign assets as foreigners owned U.S. assets. In the late 1990s, however, foreign ownership of U.S. assets began expanding faster than U.S. investments--a trend that deepened after the 2008 financial crisis.

Dependence on foreign investment can make the U.S. economy and currency more vulnerable to external financial shocks if global investors and companies suddenly yank their money away--or even threaten to. China, for example, is the largest foreign holder of U.S. government debt. That provides the U.S. government with a steady source of cheap financing, allowing it to maintain relatively heavy debts, but also could give China leverage.

Still, a pickup in foreign investment is also good news for the economy since it can boost U.S. stock prices and real-estate values, fueling Americans' wealth.

The U.S. has attracted a total of \$3.1 trillion in "foreign direct investment" as of the end of last year, the highest on record, the report showed. Foreign direct investment includes purchases of things like U.S. firms and real estate but not more short-term bets like U.S. corporate bonds and Treasury securities. America's "investment position" also tends to fluctuate with the prices of stocks, bonds and derivatives, and currency values. Last year's increasing gap, for example, was caused largely by a decline in the value of U.S.-owned financial derivatives. The Commerce Department will provide more detail in June.

Japan's Aisin Seiki Co. (7259.TO) is among those firms plowing more cash into the U.S. The firm, which makes auto parts and saw \$30 billion in revenue last year, is expanding a facility in Fowlerville, Mich., it uses to test parts later sold to big auto makers. All told, the facility will represent a \$120 million investment in Michigan. Aisin also has built three manufacturing facilities in the U.S. in the last decade and is looking for workers, including in Michigan. "There is lots of room for expansion," said John Koenig, president of Aisin World Corp. of America.

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