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# FOREIGN INVESTMENTS CAN BE GOOD FOR U.S.

*Case Studies by George G. B. Griffin*

DEPARTMENT OF STATE A/CDC/SEC

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## The Senior Seminar



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United States Department of State  
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## SUMMARY

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This paper employs five case studies to examine some of the debates surrounding foreign investments in the United States. Overall, it represents an effort to gain a better understanding of the actual impact of those investments. Limited, sometimes speculative conclusions are drawn -- namely that:

- investors are coming for the long term, not "fast bucks;"
- the declining dollar seems to be attracting more of them;
- they aim for depressed areas with available cheap labor;
- personal relationships are key to establishing a business;
- local managers usually get involved in their communities;
- investors and communities are pleased with the benefits;
- most foreign investments increase local employment levels;
- worker skills, quality and productivity usually improve;
- one investment tends to attract others to the same area;
- they could help decrease the overall U.S. trade deficit;
- overall American competitiveness is often enhanced; and ;
- U.S. consumers obtain better, cheaper goods and services.

This indicates that the examined investments were beneficial to the U.S. in several ways. The study also suggests that:

- most foreign firms invest to circumvent trade barriers;
- potential investors are drawn to niches left by US firms;
- they tend to opt for small and medium-scale operations;
- they prefer wholly-owned units to joint ventures;
- while unions are avoided, investors reward workers and make them feel important and wanted for the long run;
- investors find tax breaks and other government inducements attractive, but not primary reasons for investing;
- such investors may convince local governments and Congress to oppose protectionist legislation and trade barriers;
- federal, state and local governments should coordinate foreign investments to avoid dislocations; and
- the Federal Government should insist upon reciprocity of investment opportunities for American firms in countries from which foreign investments come.

George G. B. Griffin

Washington  
March 1987

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## INTRODUCTION

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In this research project I undertook five<sup>1</sup> case studies of three different types of foreign investments. The results led to some necessarily limited conclusions which suggested a broader judgment that such ventures can be quite beneficial in certain respects. They seem to be profitable for the investor, uplifting to the sector of the economy in which they are made, beneficial to the communities in which they are located, and good for the American consumer. On the other hand, there may be problems when American businesses in certain sectors of the economy have virtually left the field to foreign investors.

The case studies discussed here represent the primary types of current foreign investments -- manufacturing, banking and finance, and real estate.<sup>2</sup> The five investors are from areas which have been supplying most of those investments in recent years: Western Europe, the Pacific Rim, and the Middle East.<sup>3</sup> While some may argue that Puerto Rico and the US Virgin Islands are not strictly part of the United States, their people are American citizens. Trade between those islands and the mainland is for all intents and purposes treated as domestic. The three case studies undertaken there were included because relatively little attention has been paid to such investments in most other reviews of this subject.

Foreign and American representatives of each company were interviewed in person. On site interviews were also conducted with a variety of outside knowledgeable persons in each case study. Attempts were made to double check assertions made by the investors, either with others or in company documents. Any errors of fact in the data presented are entirely my own. Time did not permit me to recheck all details. Numerous photographs were made at each investment site, particularly at manufacturing plants. If Seminar time permits, I hope to put together an audio-visual version of this report as well.

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The Japanese are coming, the Germans are coming, the Saudis are coming, everybody is coming to invest in America, say those who view foreign investments as a threat to the United States. It's "The Selling Off of America" says Fortune Magazine.<sup>4</sup> Many critics point to the dramatic decline in the value of the dollar in relation to the yen, noting that cheap dollars make American property a virtual steal for the Japanese and others.

Others point to longer-standing transactions when the dollar was at its peak, and argue that investments should be viewed in the greater context of the overall U.S. economy. They note that BIC, Ciba Geigy, Scott Paper, Seagrams, Shell, and Woolworth's, all foreign owned, have been competing in the American market for decades. They assert that much foreign investment has made U. S. industry more competitive, that it has brought us quality American-made products at reasonable prices (often supplanting imports), and that it sometimes provides goods and services which otherwise would not be available.

Most Americans are not directly familiar with this subject, but they tend to feel strongly about it, especially when it involves countries outside of Canada and Western Europe.<sup>5</sup> The volume of business, media, and congressional attention to selected transactions has sometimes given the public overblown ideas of the flow of investments in any given year. (They in fact decreased in rate and quantity from 1981 to 1986.)<sup>6</sup> Perhaps for that reason, various state governments have tried harder to attract more foreign investments to their economies.

Foreign direct investment in 1986 was estimated to amount to about 4% of U.S. gross private domestic investment for that year.<sup>7</sup> The aggregate of foreign direct investment over the years, some \$210 billion at the end of 1986, amounts to some five percent of our 1985 GNP. But it has had greater impact on more narrow regional and sectoral interests. Thus, Americans can hold two differing opinions on the subject, depending upon whether they are reacting negatively to Japanese investments in general, or whether they are thanking Nissan Motors for the job which enables them to feed their families. This suggests that we need to learn more about foreign direct investments.

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## CASE STUDIES

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### A. MANUFACTURING

Two case studies are outlined in this section. Originally only one was planned, but the enthusiasm of the Government of the Commonwealth of Puerto Rico and the management of Rodenstock induced me to include a second one. Both of these ventures seem to be satisfying the business goals of their foreign investors. (A third manufacturing venture -- also in Puerto Rico -- was suggested, but the management did not agree to let me study its operations. That is regrettable because the venture apparently suffers problems. The inclusion here of such a case study might have made this report better rounded.)

The investors in these two case studies have several things in common:

- they chose their sites because of availability of low cost buildings, easy access to good shipping facilities, a lack of labor unions, and an abundance of cheap labor;
- both sites are located in severely depressed areas of the local economies;
- each had start-up problems with the lack of a trained work force and chronic worker absenteeism;
- language barriers were a problem initially; and
- neither plant is manufacturing the top-of-the-line or latest-model products made in the firm's home factories.

Now Rodenstock boasts German managers who speak Spanish. While Young An's Korean manager is a long-time U. S. resident who speaks good English, he is also learning a bit of the Hopi language. Community leaders have organized evening courses in English for temporary Young An training personnel.

The older of these two ventures (Rodenstock) has three foreign officers on its staff, and Young An plans to retain only one after its initial training and setting up period. At the time of my visit, Rodenstock had an American officer in charge; Young An expects to have such a capability when it is better established.

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# 1. YOUNG AN HAT COMPANY

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## a. Background

This case study involves a Korean manufacturer who has two American and one Korean minority partners (see Figure 1). The primary Korean firm is the Young An<sup>8</sup> Hat Company of Seoul, the world's largest hat manufacturer.<sup>9</sup> In recent years Young An production has surpassed that of such world-famous companies as Stetson and Borsalino.

In 1985, the Young An factories produced over 36 million hats in nearly 1500 styles and types. This included items as diverse as golf caps, baseball caps (most major league baseball and football teams are outfitted with Young An caps) rain hats, roll-up hats, hunting caps, ski hats, police hats, yachting and tennis hats, and Western and safari-style headwear. The firm has closely tracked world fashion trends and offers new designs or greater quantities as the market demands.

Winslow is a desert town of about 9,000 in Navajo County in northeastern Arizona, completely surrounded by the Navajo Nation.<sup>10</sup> It is situated on a major transcontinental highway (I-40) and is an easy drive from popular tourist attractions such as the Grand Canyon, the Painted Desert, the Petrified Forest, and prehistoric Indian ruins and dwellings on the Hopi and Navajo Reservations. However, it has suffered economic decline and population losses for the past 15-20 years.

Hopi tribal leaders and Winslow business and civic boosters worked closely together to attract Young An when they heard of its interest. They were seeking a replacement for a relatively new B.V.D. underwear factory that was closed down in 1974. The resulting unemployment was compounded in 1985 by a major work force cut by the Santa Fe Railroad, the area's largest employer, and the sudden closure of a Coca Cola bottling plant -- which had Winslow's second-largest workforce -- in 1986. Unemployment in Winslow in 1985 was about 12%; in Navajo County about 15%; among Navajos about 46%; and among Hopis almost 50%.<sup>11</sup> In less than a year, Young An has replaced Coca Cola as Winslow's second largest employer after the Santa Fe Railroad.

## b. The Investment

Faced with increasing trade barriers, especially in the United States, Young An established two factories outside Korea in 1985 and 1986. The first was set up in Costa Rica, and the second -- last July -- in Winslow. In addition to seeking a way around quota restrictions, there was another reason to open a

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FIGURE 1

# Young An Headwear Corp.



Profile of

## YA-HOPI DIVISION

Foreign investors: 1. Young An Hat Company, Seoul, Korea  
2. Doosan Industrial Co., Seoul, Korea

U.S. investors: 1. Promotional Headwear International, Inc.  
Lenexa, Kansas  
2. Moja Headwear, Inc., Scottsdale, Arizona

Type of business: Manufacturing; headwear (SIC #2253)

Opened: July 15, 1986

Original investment: Foreign: \$405,000  
U. S.: \$45,000

Investor's rationale: To better utilize the existing Young An distribution network in US, and satisfy customers seeking "Made in USA" labels.

Inducements offered: Low (but escalating) initial annual rent.  
Major (\$250,000) refurbishing of building.

Work force: Total -- 125  
Foreign officers -- 1 ; U.S. officers -- 3  
Foreign workers -- 0\*; U.S. workers -- 121  
\*8 Korean temporary training personnel are on site

Gross annual sales: \$260,000 (July-Dec 1986; expect \$3m in 1987)

1986 profits: 0

1986 dividends: 0

1986 remittances to parent firm abroad: 0

1986 exports: 0

Additional investment: Foreign -- \$62,000 worth of equipment  
U. S. -- 0

Local expenditures: Personnel -- \$50,000/month  
Equipment -- \$296,000 initially  
Taxes -- None yet  
Other -- 0

Purchases elsewhere in U.S. -- \$90,000 (machines & hat parts)  
Abroad -- (see below)

Value of imported parts: \$500,000 in 1986 (last 6 months only)

Percentage of final product: 50% initially; less in time

Outlook: Firm expects to become profitable by 1988. If it does, expansion in some form is likely.

Notes: President Baik has promised the Hopi Tribe 25% of YA-Hopi's eventual gross profits (see text).



plant in the U.S. Young An distributors reported that, while its hats were popular with both Americans and Europeans, those customers (and now the Japanese) increasingly are demanding hats bearing "Made in the USA" labels.

Ten per cent of the Winslow investment is shared by two of Young An's top American distributors -- Abe Yeddis, President of Promotional Headwear International, Inc. and Bob Weinstein, the President of Moja Headwear. (Moja means "hat" in Korean.) One of Young An's long time Korean allies, the Doosan Industrial Company, owns another ten percent of the venture.

No other partner is listed in Young An literature, but all consulted agreed that in fact the Hopi Tribe of Northern Arizona is as much a partner as anyone listed as an investor. Indeed, the full name of the Arizona plant -- the YA-Hopi Division of the Young An Headwear Corporation -- reflects that fact.

Hopi tribal leaders and Winslow business and civic boosters enlisted the support of the Babbitt administration in Phoenix and the Arizona congressional delegation in Washington in what they termed a long struggle to obtain approval from the Bureau of Indian Affairs (BIA). (The Hopis needed BIA concurrence to lease the abandoned B.V.D. plant to Young An.) They were weary of the long search for a replacement for B.V.D., and viewed the potential Young An investment as the salvation of the tribe and the town. The Korean firm was equally eager to get its project moving, and often became frustrated at the pace decisions were made at BIA and the Hopi Tribal Council. For its part, the BIA feared a hasty move might bring another financial loss to the Hopis, and still argues that the tribe should have obtained higher rents.

Mr. Yeddis initiated the idea for Young An to establish a plant in the U.S. Mr. Weinstein found the Winslow site and convinced the others it was the best location. (Weinstein is a resident of Arizona, but that may not have been a deciding factor.) Young An President Baik, Sung-Hak initially preferred a West Coast site, as did Winslow manager Han, Doo-Suk, who was then living in Oregon. But they soon realized that labor costs there would make a plant uneconomic. Weinstein negotiated the necessary approvals and start-up costs for Winslow. Mr. Yeddis determined what type of hat to make there. Baik sees the plant as something of an experiment, but is quietly keeping his eye out for other sites in the U. S. if YA-Hopi is successful.

The reopening of the plant has already paid psychological dividends by attracting the notice of other firms seeking a light manufacturing site. Winslow leaders are determined to make the Young An venture a success, expecting it to bring further economic and morale-boosting benefits to the area.

Churches and service organizations have found volunteers to teach English and organize social activities for the Korean training team at the isolated plant. Several people in Winslow commented that, having learned the hard way that an industry can disappear overnight, they are doing everything possible to insure that Young An stays.<sup>12</sup> The new Administration of Governor Mechem has put economic development at the top of its priorities and state government officials indicate that they are prepared to assist such ventures as the need arises.<sup>13</sup>

General Manager Han is philosophical. He is determined to make the venture succeed, but realistic about the hurdles it faces. During a discussion of some of the start-up problems he encountered in Winslow, he commented, "To me, the name of this place says it all. I call it 'win slow.' And I think I will."

#### c. The Plant

The Young An facility is located on Hopi Trust Territory just outside Winslow along Interstate 40 (old US 66) and a main east-west rail line. The 8100 square meter structure was built in the early 1970s by the B.V.D. Corp. for an underwear factory. As noted above, it was abandoned in 1974 for corporate reasons. The new Korean-American investment in the plant -- \$500,000 plus another \$62,000 worth of machinery from Korea -- was relatively small. But that does not include the large amounts spent by the Hopis, the U. S. Bureau of Indian Affairs (BIA), and other local groups to get the plant in shape.

At present, the Winslow plant makes only one type of hat, a baseball style cap in several colors with different emblems on the front. (Mostly professional football team logos.) About 50 percent of the cap parts are imported from Korea, but Young An expects the percentage to drop steadily and dramatically as the Winslow work force learns to make different parts. In time, the firm plans to manufacture a Western-style cowboy hat there. The management expects the plant to be in full production by the end of July 1987.

#### d. The Work Force

The only Korean listed among the 125 permanent staffers at YA-Hopi is the General Manager. (Eight others came temporarily to set up the plant and conduct training courses.) The average age of the workers is just over 25, and most are women and Hopi or Navajo Indians. They comprise 10% of the Winslow work force and contribute about \$70,000 a month to the town's economy.

Organizing and training the work force has brought the most headaches so far to the Young An management. While several of the workers hired in Winslow could operate sewing machines, none had ever before sewed hats. Young An considered two production systems, neither of which has been adopted formally. One, a

Korean-style group system in place since production began, has pleased neither management nor workers. The second, to bring outside piecework in to the factory for assembly, will be begun on an experimental basis in May, 1987. The company expects to continue to experiment until it finds a system that works.<sup>14</sup>

One of Young An's initial hurdles was low productivity, particularly among Indian workers. The firm estimated it as less than that of Young An workers in Costa Rica, and only about 50-60% that of its workers in Korea. There were also problems with recurrent absenteeism, which amounted to 7 to 10 percent a day for the first six months. However, productivity is expected to increase steadily as the work force becomes more experienced.

For their part, some workers think the Koreans are too strict. They complain that their pay is docked if they appear for work a few minutes late, and that rules for taking leave are too tough. Others are taken aback by the Koreans' insistence on quality, and note that the old sewing machines break down often. They add that the plant has only one overworked Korean mechanic who understands little English. Communications problems with Korean women sent to train workers were overcome fairly quickly.

Workers, management and Hopi leaders all are trying to find ways to ease the long commute faced by workers from that tribe. They live on a Reservation 70 miles from Winslow and spend three hours a day on the road. The tribe has bought a new bus for the workers, and is seeking a loan for apartments near the factory so workers can stay during the work week. (Both the Arizona Department of Commerce and the Bureau of Indian Affairs express readiness to help finance the bus and some apartments.)<sup>15</sup>

#### e. The Korean

Because so much has been dramatized (e.g., the movie "Gung Ho") and written about Japanese and other East Asian management styles in recent years, it is worth taking a look at Young An practices. The company's driving force is President Baik, Sung-Hak, who founded it in 1959 at the age of 19.<sup>16</sup> In 28 years, his hard work and business sense have brought his firm to the top of this specialty field.

Mr. Baik opened his first stall in Seoul's Dongdeamun (East Gate) Market, displaying 70 felt hats he bought from the shop where he worked as an assistant. With characteristic energy, he began to make his own hats at home at night. Within a year, he earned enough to move to a larger shop and employ a small staff.

Less than five years later, the Korean Government banned the import of foreign goods and Young An was making and selling hats to local department stores, establishing itself as the primary producer in Korea. In 1967, with the assistance of President

Park, Chung-Hee, and the Korean Overseas Trade Agency (KOTRA), Baik built his first real factory to produce hats for export. In 1969, with financial backing of the large Dōosan Industrial Company, Young An received its first letter of credit to ship hats to the United States.

The hats quickly caught on in the U.S., and Baik built two more factories in 1970 and 1971. Despite a decline in business following the Vietnam War, he invested in two more factories between 1976 and 1978. The "Western" hat produced at Young An Factory No. 5 became hugely popular in the U.S., enabling the company to earn a record-breaking \$10 million in that plant's first year. Despite political upheavals in Korea in 1980 and 1981, Baik took the risk of enlarging Factory No 5, and built Factories No. 6 and 7 and a headquarters office building.

In 1984 when Young An was flush with profits, Baik turned philanthropic with an effort to improve the economic status of needy Koreans while giving them a sense of accomplishment. He created a small village in the countryside to house some of the country's poor, elderly, disabled, and orphans like himself.<sup>17</sup> The village contains four apartment buildings, a medical clinic, a church, and a worker training school. Nearly three hundred of the residents work at nearby Factory No. 8.<sup>18</sup>

f. The Americans

Bob Weinstein and Abe Yeddis have both been associated with Young An and Baik, Sung-Hak for nearly 20 years. Each of them considers Baik as the best of his type in the world. For his part, Mr. Baik relies on them for operational and hat marketing advice in the United States. The results provide a model for others who participate in foreign investment joint ventures in the U.S. A primary element in their success is their close but businesslike human relationships. Mr. Yeddis insists that at age 70 he would like to retire, but adds that he is having such fun that he has not seriously considered it. Mr. Weinstein is quick to point out that Baik is a true philanthropist, but does not dwell on the subject, preferring to discuss business. The interactions of the three men underscore the adage that personal ties are key to successful business relations, especially among foreigners. These men are friendly and supportive, but engage intensely on details of company management.<sup>19</sup>

For their part, Hopi leaders note that tribal prophecies ("Life Plan" or katsi-votavi)<sup>20</sup> indicate that the government support the tribe has enjoyed will dwindle and vanish in time. They predict that this will help the Hopi people to become self-sufficient. This interpretation of the prophecies has presented the Hopis with something of a dilemma, which is expressed partly along age lines. On the one hand, Tribal Councils consistently vote to integrate Hopis into the mainstream of American life.

On the other, the elders and other leaders want Hopis to retain their tribal identity, language, and values. The relatively young Chairman of the tribe is dedicated to getting his people off "U.S. Government welfare." He hopes that the vaunted Korean work ethic will rub off on the workers at Young An, commenting that "For the first time some Hopis have faced, understood, and accepted the standard business concept of risk taking."<sup>21</sup> (He and others also note another aspect of the burgeoning ties among the Hopis and the Koreans -- they look remarkably alike, almost indistinguishable in a crowd. Beyond that, as friendships have developed each side is finding increasing evidence of ancient cultural, historical and perhaps even religious ties.)

## 2. RODENSTOCK CORPORATION



### a. Background

Optische Werke G. Rodenstock is a 112-year-old, privately owned German eyeglass frame manufacturer, with headquarters in Munich. In 1986 it was the second-largest such company in West Germany, and the 10th largest in the world. In its centenary year in 1975, the firm was enticed to Puerto Rico by a Yauco businessman who had already entered into business with other German firms. The investment was made through the company's Swiss subsidiary, Rodenstock, AG. The firm's primary interest in establishing a manufacturing capability in Puerto Rico was to service its existing market in the United States and avoid foreseen import barriers. (See Figure 2)

Rodenstock found the Yauco manufacturing site in the island Commonwealth particularly attractive since it offered duty free access to the U. S. market, significant tax exemptions, and low setting-up costs. Puerto Rico has the highest income per capita in Latin America, but only about 37% of that in the mainland United States.<sup>22</sup> The island was an economic backwater when it was ceded to the U. S. in 1898 after the Spanish-American War, and was known as the "poorhouse of the Caribbean" until after World War II.

In 1948, the Puerto Rican Legislature enacted the Industrial Tax Act, which exempts industrial development income from taxes, in an effort to entice American industry to put up plants in the island which would produce jobs and raise living standards. The Act, as amended, was known as "Operation Bootstrap." It brought Puerto Rico over two decades of sustained growth.<sup>23</sup> A new Tax Incentives Act was passed by the Legislature in February 1987 to try to attract fresh industrial capital.<sup>24</sup> (The island became a Commonwealth in 1952.)

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FIGURE 2

Profile of **RODENSTOCK CORPORATION**

Foreign investor: Rodenstock, A.G. of Switzerland (on behalf of Optische Werke G. Rodenstock of Germany)

U.S. investor: None

Type of business: Manufacturing; eyeglass frames (SIC #30 )

Opened: January 1975

Original investment: Foreign: \$1.5 million  
U. S.: --0

Additional investment: Foreign -- \$3.5 million  
U. S. -- 0

Investor's rationale: To penetrate US market from duty free, low cost site.

Inducements offered: 100% tax exemptions for 19 years from 1977  
Low interest rate FOMENTO building loan  
Partial PRG subsidies of worker salaries

Work force: Total -- 218  
Foreign officers -- 3; U.S. officers -- 2  
Foreign workers -- 0; U.S. workers -- 213

[NOTE: All figures below are approximate for 1986]

Gross annual sales: \$8 million  
Profits: \$1.2 million  
Dividends: 0  
Remittances to parent firm abroad: 0  
Exports: \$2 million

Local expenditures: Personnel -- \$2.5 million  
Equipment -- 0  
Taxes -- 0  
Other -- \$  
Purchases elsewhere in U.S. -- \$2 million  
Abroad -- \$2 million

Value of imported parts: \$2 million/year  
Percentage of final product: 10%

Outlook: The firm plans a plant expansion in 1987, importing new machinery worth \$1.5 million.

Notes: Rodenstock's nearly \$2.5 million local expenditures amounted to \$100 per capita, or about \$500 for each household in Yauco in 1986.

Much effort has been expended by the Economic Development Administration of Puerto Rico (more commonly known as "Fomento," its Spanish name) in fostering Commonwealth industrial growth. However, the Puerto Rican industrial economy has been stagnant since the oil crisis of 1973-74, in large part because imported oil is the primary source of fuel for its electric power plants. Although per capita incomes have risen only slightly over the years, industrial wages have increased steadily (from 28.7% of mainland wages in 1953 to 54% in 1985) raising production costs and slowing the entry of new industrial plants. All this has resulted in pockets of high (over 20%) unemployment, especially in the southwestern corner of the island where the Rodenstock facility is located. (An eyesore on the main highway near Yauco is an idle oil refinery; its closure in 1974 was a primary cause of that unemployment.) This made the eyeglass frame plant all the more welcome in 1975.

b. The Investment

The original Rodenstock factory in Yauco was in a building provided by Fomento. However, it was destroyed by a hurricane in September 1975, barely five months after it began production. Rodenstock brought in \$3.5 million to build a new structure on the other side of town, which now houses the plant. The 34,000 square foot building is completely air conditioned to protect computers, machinery, and workers from the high outside heat. It is the largest of six industrial facilities in Yauco (two of which operate only part-time).

The factory produces eyeglass frames, mostly plastic, in some 50 styles, at the rate of 3,800 a day, or about 900,000 a year. Production is labor-intensive, although there are a few machines -- some computer-controlled -- which perform certain intermediate functions. Most raw materials (large laminated plastic sheets, acetate and other chemicals, and wood chips for polishing) come from U.S. mainland suppliers. Imported parts amount to about 10% of the final product. Hinges, screws, nuts and wire inserts come from Spain and Austria; thin metal decor comes from Germany.

Production orders are now coordinated in Germany, but that function is likely to be shifted to the staff in Yauco soon. Although production quotas probably will continue to be set in Germany, the parent firm appears to exercise minimal control of day to day plant operations. The German President of the Puerto Rican firm returns to company headquarters in Munich about once a year. Owner Rolf Rodenstock has visited the facility only two or three times since it opened, although technical and auditing personnel from Germany check by twice a year.

In 1986, Rodenstock Puerto Rico boasted gross annual sales of about \$8 million, producing a profit of \$1.2 million, all of

which was plowed back into the Yauco facility. The management plans an expansion in 1987, bringing in new machinery valued at \$1.5 million to increase production by about 35 percent. (The new machinery will perform multiple functions now done by hand, so it is unlikely to increase employment). Moreover management asserts that a predicted move by Congress to raise minimum wages could reduce employment as well as profits.

The plant exports about \$2 million worth of frames a year, mostly to Britain, Canada, Finland, France, Germany, Norway, and South Africa, with smaller amounts going to two or three Asian countries. The company spends about \$7 million a year in Puerto Rico and the rest of the United States, primarily for salaries and raw materials. The parent firm in Germany owns outright the two exclusive distributors for Rodenstock in the United States. Rodenstock USA, Inc. in Danbury, Connecticut, distributes 60%, and Felix M. Mendelson Co. in Los Angeles handles the remainder.

Both the investor and the citizens of Yauco are pleased with the plant's progress. While there were communications problems initially because only one member of the German start-up team spoke Spanish,<sup>25</sup> the three Germans there now use the language. Problems with the antiquated local telephone system were cleared up also. Company officials say the parent firm in Germany is generally pleased with its investment. The only complaint they note is minor, concerning intermittent quality control problems.

But the main source of satisfaction about the investment for Yaucanos is Rodenstock's continuing ability to operate on a full production schedule. They obviously want to maintain the inflow of the estimated \$100 a year for each man, woman and child that Rodenstock operations channel into the community. Many local students from low income families are also delighted to have the free eyeglass frames the firm distributes each year through the Department of Education.

Rodenstock factory workers express general satisfaction with their working conditions, noting particularly that the full air conditioning system makes work pleasant during the extremely hot summers. One worker seemed to think that the German production manager was pushing him too hard, but others are pleased that he speaks Spanish with them. Several sources indicated that there was interest a few years ago in creating a union at the plant. But they and others say that notion dropped out of conversations when the Dupont Plaza Hotel fire in San Juan on New Year's Eve was said to have been set by union activists.

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## B. BANKING

This Section also includes two case studies since the Puerto Rican Government arranged for interviews at a Canadian and two Spanish banks in Hato Rey. (Hato Rey means King Ranch, and is a section of San Juan also referred to as the "Golden Mile" for its concentration of bank skyscrapers.) A study of the Canadian bank investment was not undertaken since it is 75 years old.

The Spanish banks were attracted to Puerto Rico by what they saw as a one-time inexpensive opportunity to penetrate the U. S. market. For what amounted to fractions of earlier values, they bought American banks suffering reverses from the Puerto Rican recession caused by the oil crisis of 1973-74. Each of them entered into trilateral agreements with the FDIC and the bank it took over, retaining hundreds of local stockholders on the books as minority (less than 1 percent) partners. Each already had established a small wholesale branch in New York, but neither of those was engaged in commercial banking. Although not mentioned as a primary rationale for either bank, the fact that Spanish is the language of the island made it more attractive to them.

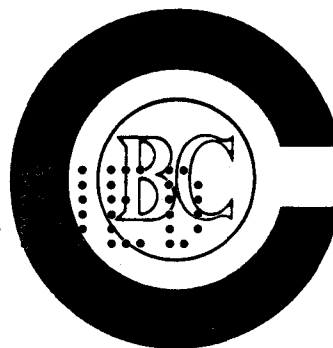
Each bank now has 23 branches in Puerto Rico. Both have a little trepidation about "unfettered" future competition with "non-bank" institutions, but each is optimistic about its future in Puerto Rico and the mainland United States. Those feelings are undoubtedly enhanced by the attitude of the Puerto Rican Government, which is actively promoting trade with Spain, and encouraging the establishment of more banks in the island as a way to attract more industry and diversify investments. (One of Fomento's three overseas offices is in Madrid.) Puerto Rican bankers and government officials alike foresee further United States Government efforts to assist the Commonwealth's economy. Large Puerto Rican banks such as those in this case study which benefit from the use of Section 936 funds,<sup>26</sup> are trying to position themselves to take advantage of any such opportunity.

The Spanish banks have already added significantly to white collar employment in Puerto Rico. They are well positioned to do even more for the lagging island economy. Their aggressive postures indicate that they are making plans which will do that as they enhance their own profits. It is less clear that they will use the Puerto Rican launch pad to expand further into the United States or elsewhere in the Caribbean, but each bank has certainly studied such ideas. Much will depend upon the success of President Reagan's Caribbean Basin Initiative (CBI), changes in tax laws being considered by Congress, and the future health of the American economy in general.

DECEMBER

1. Banco Central

DELOS



a. Background

Banco Central, S.A., is the largest bank in Spain. In 1986 it was estimated to be the 56th largest in the world (in some rankings ahead of most American banks, including BankAmerica, First Interstate Bancorp, and Chemical New York).<sup>27</sup> Its total assets in 1985 amounted to nearly \$29 billion, with cash flows recorded for that year of over \$377 million. Incorporated in 1919 in Madrid, the bank group has grown to encompass over 2,800 operating offices, of which 135 are in 23 other countries. The group, including subsidiaries, employs well over 25,000 people around the world. Of over 1,000 bank employees outside Spain, 610 are in Puerto Rico. The bank established its own branches in Miami, New York and San Francisco several years ago, and set up affiliate banks in New York and San Juan in the 1970s.<sup>28</sup>

In 1977, the bank was approached by the president of Banco Economias Puerto Rico, which was in financial difficulty. He suggested a takeover which could salvage Banco Economias assets and personnel while offering Banco Central an inexpensive entry into the U. S. market. Banco Central accepted the proposal and, under a trilateral contract with Banco Economias and the FDIC, assumed majority ownership and management. Some 575 Americans remain minority (0.83%) shareholders of Banco Central.<sup>29</sup>

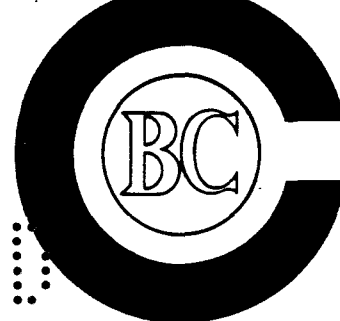
Banco Economias was founded in 1881 as la Caja de Ahorros of San German, a town in the hills of southwestern Puerto Rico that was the second urban center (after San Juan) established on the island by Spaniards.<sup>30</sup> La Caja eventually became Banco de Economias y Prestamos, with a dozen branches around the island which remain today as part of the Banco Central chain.

b. The Investment

In considering the Banco Economias offer in 1977, the Banco Central, S.A., saw a golden opportunity to break into the large U. S. market. Banco Central had a wholesale branch in New York, but had not attempted to set up commercial banking operations in the United States. With Spain's entry into the European Common Market deemed likely at some time in the future, it was thought necessary to establish a presence in the U. S. The proffered distress sale of Banco Economias presented an inexpensive way to accomplish that objective. Banco Central paid \$10 million for the Economias facilities in 1977, and added another \$33 million to its original investment in two transactions in 1979 and 1982. (See Figure 3 -- American stockholders have not increased their shares.)<sup>31</sup>

DELOS

FIGURE 3



Profile of Banco Central Corp

Foreign investor: El Banco Central S.A., Madrid, Spain

U.S. investor: About 600 Puerto Rican stockholders

Type of business: Banking (SIC #602 )

Opened: September 1977

Original investment: Foreign: \$10 million  
U. S.: \$500,000 (original shares of Banco Economias)

Additional investment: Foreign: \$33 million  
U. S.: 0

Investor's rationale: To penetrate U.S. market. Banco Central was approached by President of failing Banco Economias.

Inducements offered: None

Work force: Total -- 610  
Foreign officers -- 1; U.S. officers 100  
Foreign workers -- ; U.S. workers 509

Gross annual income: \$106 million  
1986 profits: \$13.6 million  
1986 dividends: -  
1986 remittances to parent firm abroad: 0  
1986 exports: 0

1986 Local expenditures: Personnel -- \$12.3 million  
Equipment -- \$2.8 million  
Taxes -- \$1.8 million  
Other -- \$11.2 million  
Purchases elsewhere in U.S. -- (included in above)  
Abroad -- 0

Value of imported parts: 0  
Percentage of final product: --

Outlook: Plan to concentrate on increasing commercial lending. Cautiously considering opening further branches in PR. If CBI succeeds, may expand elsewhere in Caribbean.

Notes: Bank prefers to do business in Spanish-speaking areas of U.S. Sees increasing competition from savings and loan and non-bank competitors.

It took Banco Central five or six years to put its new acquisition on a solid financial footing... It only began to make profits after that time, though operations and branches all over Puerto Rico were constantly expanded in a drive to raise income. (It now boasts 23 branches around the Commonwealth.) Its most profitable year to date was 1985, when the bank netted well over \$19 million. Last year, profits amounted to \$13.6 million. As new branches were opened, the bank increased its staff from 380 in 1977 to 610 today. Despite a decline in earnings in 1986, it paid out an additional \$1.7 million, mostly in personnel costs. Altogether in 1986, the bank pumped over \$28 million into the Puerto Rican economy.<sup>32</sup>

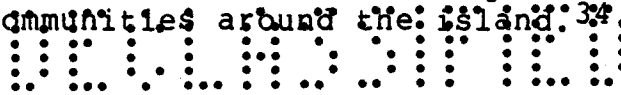
In the immediate future, Banco Central plans to concentrate on increasing commercial lending to enhance profitability. The management is a bit cautious about further expanding the bank's physical presence, either in Puerto Rico or elsewhere in the Hemisphere. Tentative interest has been expressed in further expansion in the Caribbean area, with the caveat that such a move would depend heavily upon the success of CBI (the Caribbean Basin Initiative). No particular eagerness was noted to expand the bank's operations to the U. S. mainland. Echoing some other bankers, Banco Central's leaders foresaw (and were apprehensive about) growing competition from savings and loan institutions and so-called non-bank banks.<sup>33</sup>

Banco Central Puerto Rico reports back to the international division of the parent bank in Madrid. President Antonio Campos is the only Spaniard at the Hato Rey bank; all other officers are American. The bank is virtually autonomous, though Campos does make working visits to Madrid every quarter. Headquarters officers are rarely seen in Puerto Rico, a phenomenon the bank representatives in Hato Rey interpreted as indicating that the investor is pleased with their progress.

There is no organized labor in the banking sector in Puerto Rico, and neither management nor workers expect pressure to form a union. Banco Central headquarters in Hato Rey is a relatively new, well-appointed building, and employees at all levels seem happy with working conditions, with some crediting the Spanish takeover with providing them jobs. Several boasted that keeping the Puerto Rican staff demonstrated that they could compete with other major banks when provided with financial backing and sound management.

As do most such institutions, Banco Central supports a broad and active public relations program. Senior officers from the Hato Rey headquarters and branch managers around the island work hard to integrate themselves into their communities. They make regular contributions to local schools for sports and musical activities, and organize annual campaigns for the United Fund.

A special \$100,000 cash donation was made to one community after a recent landslide disaster. The bank also sponsors musical contests and operas in communities around the island.<sup>34</sup>



2. Banco Santander



Banco  
Santander Puerto Rico

a. Background

The Banco de Santander was founded in the Spanish city of that name in 1857. Last year its name was simplified to Banco Santander, SA. It was rated the fifth-largest bank in Spain in 1986. It is a part of the consolidated Banco Santander Group, which in Spain comprises five banks, 37 finance companies, six service firms, and 26 instrumentality companies. Abroad, the Group consists of eight banking subsidiaries, including Banco Santander Puerto Rico, and ten finance companies. It has had branches in the Western Hemisphere for over 20 years, beginning in Argentina. A sub-branch has been in Miami for several years. In 1986, the Group earned profits of \$167 million and claimed worldwide assets of nearly \$19 billion. Investments abroad in 1986 totaled \$139.2 million, and the Group's net foreign equity was calculated at \$201.5 million.<sup>35</sup>

b. The Investment

In 1976, after hearing of distress sales of certain banks in Puerto Rico, reviewing the needs of its business clients there, and completing a careful study of Spanish trade with the island, Banco Santander bought the small First National Bank of Puerto Rico for less than \$5 million. (See Figure 4.) Two years later when its first transaction appeared successful, the bank bought one-third of the assets of Banco Credito y Ahorro Ponceño for \$16.5 million. The latter purchase included 16 branch banks now part of Banco Santander's chain of 23 around the island. Banco Santander owns 98.9 percent of those assets; the remainder being shares owned by the original First National and Banco Credito stockholders. The bank expects to complete its new headquarters building in Hato Rey by mid-1987.<sup>36</sup>

The bank offers most standard banking services, including commercial, industrial and agricultural loans, and financing of automobile loans, credit cards, mortgages, and leasing. By the end of 1986, it had amassed total assets of over \$1.3 billion, and charted a yearly profit of \$17.7 million. The bank has paid dividends for the past two years, and in 1986 remitted around \$5 million to the parent firm in Spain.<sup>37</sup> Banco Santander Puerto Rico President Benito Cantalapiedra Quevedo is proud of the fact that his bank has attracted over \$200 million worth of deposits through the group's affiliates in Latin America, and



FIGURE 4



Profile of Banco Santander Puerto Rico

Foreign investor: Banco Santander Group, Madrid, Spain

U.S. investor: Stockholders in original First National Bank of Puerto Rico and Banco Credito y Ahorro Ponceno, who now own about 1.1% of Banco Santander PR

Type of business: Banking (SIC #602 )

Opened: 1976

Original investment: Foreign: \$3-5 million  
U. S.: Stocks held in 1st National Bank

Additional investment: Foreign: \$16.5 million  
U. S.: 0

Investor's rationale: Opportunity to expand business in North America and increase bilateral trade

Inducements offered: None

Work force: Total -- 574  
Foreign officers -- 6; U.S. officers 80  
Foreign workers -- ; U.S. workers 488

Gross annual income: \$103.9 million  
1986 profits: \$17.7 million  
1986 dividends: \$6.6 million  
1986 remittances to parent firm abroad: \$5 million  
1986 exports: 0

Local expenditures: Personnel -- \$13.2 million  
Equipment -- \$1.7 million  
Taxes -- \$1.8 million  
Other -- \$10 million  
Purchases elsewhere in U.S. -- (included in above)  
Abroad -- 0

Value of imported parts: 0  
Percentage of final product: --

Outlook: Optimistic. Assume PR economy will continue to grow. New headquarters building under construction. Will explore opportunities in Spanish-speaking areas of US.

Notes: 15th most productive bank in US in 1986, measured by "efficiency ratio" of noninterest expense to net income.

over a dozen new investments from Spain.<sup>38</sup> His staff is also proud that the bank was listed as the 15th most productive in the United States in 1985.<sup>39</sup>

In its headquarters and 23 branches Banco Santander Puerto Rico employs 574 people, only six of whom are Spanish (including Cantalapiedra). Most of them are employees who probably would have lost their jobs had Santander not invested in the original Puerto Rican banks. President Cantalapiedra has been working at Santander for nearly 30 years, and describes the extent of home office supervision as "not much," presumably reflecting his own status with his superiors. He and officers of the parent firm visit each other an average of once a year.

The management is making plans to open three new branches in Puerto Rico in the coming year, and hopes to increase its total number of branches at that annual rate in future years. It is also exploring similar opportunities in Spanish-speaking parts of the mainland United States, though it is a bit apprehensive about expected competition from non-bank banks.

In the same manner as their competitors described above, the officers of Banco Santander Puerto Rico work closely with their community civic organizations in efforts to enhance the image of their bank. Senior headquarters officers serve on the island's Board of Public Works, and others have helped the Commonwealth Government develop low-cost housing projects and programs to aid the needy. The bank makes annual donations to local charities and donates computer time to Catholic schools and Puerto Rican courts of law.

DECLASSIFIED

C. TOURISM/REAL ESTATE

Initially, a case study of foreign investment in American real estate was envisioned for this section, but circumstances precluded the inclusion of a pure real estate case study. The first case study started for this project was abandoned because of the possibility of a perceived conflict of interest. (I had bought some property in the venture.) A second was dropped when representatives of the foreign firm declined to provide the data necessary to complete the study. A third, despite its inclusion in the Commerce Department publication Foreign Direct Investment in the United States, turned out to be an investment made by an American. The case study outlined below was included since, in addition to its primary focus on tourism, the firm plans to make at least one real estate acquisition in the United States.



*"Actually, I'm just down here on business."*

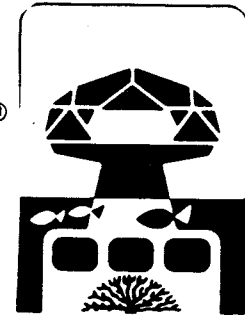
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DRAWINGS: Henry Martin

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# 1. CORAL WORLD®



## a. Background

This Israeli venture (see Figure 5) is now the most popular tourist attraction in the U. S. Virgin Islands, a territory in which that is now the single most important industry. It is the largest foreign investment in the Islands, except for the old West Indies Company. (The latter is a Danish trading company which antedates the transfer of the Islands to the United States in 1917. Thus, it is really an arm of an old colonial company, rather than a foreign investment.)

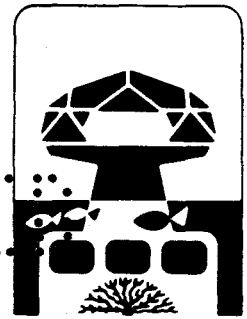
Although the U. S. Virgin Islands have benefitted in minor ways from the exclusion of American tourists from Cuba following the Castro revolution, they have also suffered from periods of economic decline. St. Thomas now boasts a relatively low (5-6%) unemployment rate, but its economy was jolted in recent years by the closure of the U. S. Navy submarine base and the collapse of several industries on nearby St. Croix. For several reasons, living costs on St. Thomas are the highest in the Caribbean. Real estate prices there for example rival those in Washington, and residents sometimes have to supplement inadequate city water supplies on the relatively arid island by buying very expensive water (about \$90 for 1,000 gallons) from a desalinization plant. Moreover, most of the island's food, except for limited catches of fish, is imported at high cost. In an effort to cope, many of the local residents hold more than one job (often as many as three) during the tourist seasons.<sup>40</sup>

To attack the unemployment problem, the U. S. Virgin Islands Government in the early 1960s decided to expand greatly public sector employment. This has fit the mood of the Islands' black workers in particular, who resist agricultural and menial labor that remind them of the conditions of their slave ancestors. Thus, today there are no St. Thomas farmers or field workers, and very few menial laborers or mechanics.<sup>41</sup>

The St. Thomas/St. Johns Chamber of Commerce presently is pursuing a broad effort to work with the Territorial Government to improve technical training and to establish a clearing house for available jobs.<sup>42</sup> For its part, the new Administration of Governor Farrelly has made it clear that the encouragement of economic growth and progress is at the top of its agenda. This includes a renewed effort to attract outside investment, especially from foreign countries.<sup>43</sup>

DEVELOPMENT

FIGURE 5



# CORAL WORLD

## Profile of Coral World (V.I.), Inc.

Foreign investor: Task International, Ltd., Eilat, Israel

U.S. investor: AMPAL-American-Israel Corp., New York

Type of business: Services (tourism); possible real estate

Opened: December 27, 1977

Original investment: Foreign: about \$3 million (see NOTES)

U. S.:

Additional investment: Foreign -- \$

U. S. -- 0

Investor's rationale: Ideal site (rich in coral, heavy tourist traffic) to follow up successful original enterprise in Israel.

Inducements offered: 10-year tax exemptions

Work force: Total -- 53

Foreign officers -- 1; U.S. officers -- 1

Foreign workers -- 0; U.S. workers -- 37\*

\*14 workers are permanent resident aliens from neighboring islands.

Gross annual sales: about \$4 million

1986 profits: \$

1986 dividends: \$

1986 remittances to parent firm abroad: 0

1986 exports: 0

Local expenditures: Personnel -- \$

Equipment -- \$

Taxes -- About \$400,000 (?)

Other -- \$

Purchases elsewhere in U.S. -- \$

Abroad -- \$

Value of imported parts: 0

Percentage of final product: --

Outlook: Positive. Firm plans another Coral World in Hawaii.

Notes: The company considers these financial details proprietary information, but was willing to indicate that the total investment -- foreign and US -- was approximately the amount shown.

b. The Investment

Coral World last year attracted over 900,000 visitors, or about a quarter of all tourists in the U. S. Virgin Islands. It is almost 10 years old, but became profitable only in the past two years, after amortizing start-up costs.<sup>44</sup> In that time, the investment has had major beneficial effects on other kinds of employment on St. Thomas, and it has assisted economies of some neighboring islands as well. Coral World's direct hire work force is relatively small -- 53 people -- but the spinoff effect of the enterprise has been even greater for associated tourist and other service industries. This has triggered minor but growing shifts of workers out of government jobs to the private sector, where they believe more money can be made.<sup>45</sup>

Coral World has encouraged this trend by offering on-the-job training to a small number of people. (While it can hire a few of those trained, most of them go to work for other companies.) The company did this because they found it almost impossible to locate St. Thomasonians with the skills necessary to work at the marine life facility. There were no resident college graduates in marine biology, and very few people who could meet the firm's standards as mechanics (or even accountants and secretaries). Since most residents are unskilled except in clerical work, the newly perceived job opportunities have created a strong demand for educational and job training programs which might help them become qualified.<sup>46</sup>

The St. Thomas facility is modeled after the original Coral World at Eilat, which over the past twelve years has become the largest tourist attraction in Israel. It is the brainchild of Israeli businessman Morris Kahn and the exhibits were designed by marine biologist David Friedman.<sup>47</sup> Both of them maintain active daily supervision of the entire chain. This one is also monitored by the AMPAL-American-Israeli Corporation in New York.

The 50 percent U. S. investment in Coral World was made by International Underwater Observatories, Inc., incorporated in Delaware. International Underwater Observatories is a wholly-owned subsidiary of AMPAL-American Israel, incorporated in 1942 in New York. It in turn is a subsidiary of the Bank Hapoalim of Israel, but also has American stockholders. (The Israel Trade Union Movement controls sixty-two percent of the Bank.) Morris Kahn's fifty percent foreign investment in Coral World was made in the name of his company called Task International, Ltd.<sup>48</sup>

Coral World in St. Thomas is almost 10 years old. It grew profitable about two years ago after amortizing start-up costs. The parent firm is about to open a third Coral World in Nassau (with an underwater hotel), and plans further expansions in the United States, including a new facility on the island of Maui in Hawaii.<sup>49</sup>

.....

### c. The Facility

Coral World is located on Coki Point, a promontory on the northeast coast of St. Thomas, adjacent to a beach most popular with many local people. (The arrival of Coral World reportedly created some initial resentment among beachgoers who viewed the facility as an encroachment. Since then, however, it has become an extremely popular attraction among Virgin Islanders.)<sup>50</sup> The cylindrical observatory sits on a coral reef about 50 feet off shore, and is reached by a foot bridge. The location was chosen because it overlooked the highest concentration of marine life anywhere in the Islands and had good road access. (The latter is important because all tourists arrive on the opposite side of the island. However, in the years since Coral World was opened, St. Thomas traffic has mushroomed, and road maintenance has not kept pace with it.)

David Friedman is the aquatic designer and marine curator of the Coral World chain. He has claimed to have increased the concentration of marine life around Coki Point with "underwater gardening" techniques which are environmentally attractive. He transferred live coral from other Virgin Islands locations to the site, placing them around the observatory at the same depth and under the same sun and water current conditions. The coral has continued to grow, attracting growing numbers of a variety of marine species which ordinarily would not frequent the same area. Because it is near the shore and protected by reefs from large waves and currents, water around the observatory remains clear for viewing. Friedman has predicted that Coral World will eventually create a large reef, "within the next 500 years."<sup>51</sup>

In addition to bringing economic benefits to St. Thomas, Coral World has earned accolades for its continuing involvement in other facets of the island's life. For example, management invites science classes from local schools each week for lessons by the resident curator, a marine biologist, who offers "hands on" knowledge of Coral World's marine life. (Well over 5,000 students a year are introduced to undersea life in this manner.) The company also provides special memberships to local residents for \$12 a year, and offers space for evening social events among the ever-present colorful fish. Several company personnel are regularly involved in a variety of island community service and other organizations.

In March 1984 the firm was voted the island's "Outstanding Business" by the St. Johns-St. Thomas Chamber of Commerce. In presenting the award, the Chamber President praised Coral World for its long record of community service and called the company an outstanding corporate citizen.<sup>52</sup>

DECEASED

## CONCLUSIONS

These case studies seem to demonstrate that certain foreign investments in the United States are beneficial -- at least in limited ways. They are generally profitable for the investor, after an initial settling-in period. Their infusions of fresh capital seem to be uplifting to that sector of the economy in which they are made, at least in the non-manufacturing sectors. Every venture studied was immediately beneficial -- financially and psychologically -- to the community in which it was located. The results are clearly good for the American consumers of their goods and services.

It was evident that each of the investors had made a prior decision to enter the American market for the long term. The concept of structuring themselves to earn some "fast bucks" was rejected by each of them. While this suggests that more firms should take business decisions with the long run future in mind, it may simply be standard procedure for those contemplating new investments abroad. The process itself may daunt some firms moving in this direction, though the current rate of Japanese investment in several sectors of the American economy seems to indicate otherwise.

The decline in the relative value of the U. S. dollar seems to have attracted more potential investors to the United States, where property and operating costs suddenly have become cheap to those whose own currencies became expensive. While this was not the prime consideration to the investors in these case studies, each of them described it as a major factor in current decision making by clients, colleagues and competitors. They thought it could be an important motivation for their own future moves.

Each of the investments studied was made in an economically depressed area, presumably to try to keep start-up costs low and minimize risk. While cheap labor was readily available in each location, only the Spanish banks found workers already skilled in their business. None of the ventures has a labor union, and it was clear that the absence of unions was a leading attraction for the sites chosen.

Personal relationships were key to each investor in starting these ventures. This was particularly true in the case of Young An in Arizona, where it seems doubtful that the investment would have happened in the absence of the individual ties described in the case study. Getting to know business partners is a standard procedure in most of the world; it was cited by each investor as a reason for rejecting other businesslike Americans who sought participation in their ventures.

All the investors seemed to be sensitive to the possibility that their ventures might be viewed as alien intruders. Thus, each insures that local managers practice good public relations assiduously. In addition to offering giveaways and public tours of facilities, local managers become deeply involved in their communities. This usually means that close ties are maintained to schools, churches, service organizations, and civic leaders, in addition to the usual memberships in chambers of commerce.

The investors and the citizens of the communities into which they moved generally are pleased with the benefits which flowed from these investments. While case studies cannot demonstrate that this rather intangible factor will accompany every foreign investment to the United States, they do suggest that careful implementation of the investments will produce good results.

Most of the foreign investments studied here have increased general employment in the areas where they located. While this was not immediately apparent in the cases of the Spanish banks in Puerto Rico, it seems obvious now that many employees of the original banks would have been jobless in the absence of the new foreign investments.

All of the foreign investments under review improved worker skills, quality and productivity. This was demonstrated even in the cases of the Spanish banks, where much of the work force has remained the same.

A most important benefit, certainly for the citizens of the economically depressed areas where these foreign investments are situated, is the magnetic force they generate. Each of them, including the six month old Korean hat factory in Arizona, has attracted other investors to the same area.

Foreign investments can help decrease the overall U.S. trade deficit. This is particularly true in manufacturing where items produced in the U. S. replace identical or similar imports. The banks finance exports and attract more investments. Coral World captures dollars tourists probably would spend in non-U.S. parts of the Caribbean.

Overall American competitiveness may have been enhanced by the investors in these case studies. This may seem something of an exaggeration in light of the relatively small size of these investments, but there is evidence that they have had at least a minor impact, collectively and even individually.

All this indicates that the examined investments have been beneficial for the United States in several ways. Consumers may obtain these products from a domestic source. Prices are likely to be below those paid to previous suppliers. Some services now offered were not available previously.

The studies also suggest that most foreign investors aim to circumvent trade barriers, either real, perceived or expected.

It is clear that many potential investors are drawn to the niches left by American firms, no matter how poor the market may seem. This is true whether Americans withdraw because they see no market (Young An Hats), are forced out by financial reverses (Spanish banks), doubt that they can compete with cheap foreign imports (Rodenstock), or fail to perceive an opportunity (Coral World). This may create problems when American firms completely abandon the field to foreign investors.

Although headlines are focussed on major deals such as the Kuwaiti purchase of Santa Fe Oil, the splashy exploits of Adnan Khashoggi, and the multi-million dollar investments of dozens of Canadian, European, and Japanese firms, most foreign investors tend to opt for small and medium-size operations. They usually prefer wholly-owned units to joint ventures.

While investors of this size will try to avoid unions, they may come with other personnel management ideas. They often have systems to reward workers for enhanced performance, usually in ways that increase production. Even traditional Europeans try to make workers feel important and wanted for the long run.

Tax breaks and other state and local government inducements attract investors, but they were not the prime deciding factors for the investors studied here. Most of them weighed proffered inducements, and Young An admitted shopping competitive offers from several locales, but it ended up accepting none. No firm based a final decision to invest on inducements, but Rodenstock chose Puerto Rico over other locations for that reason.

Foreigners who have multiple investments often chose sites on political grounds. They probably calculate (correctly) that local political leaders can be valuable and sympathetic allies in opposing protectionist legislation and trade barriers.

Although the investors mentioned relatively few start-up problems with these projects, it seems advisable that federal, state and local governments develop a system to better monitor foreign investments in this country. Without trying to control the form and substance of individual ventures, they could help avoid dislocations by advising potential investors of foreseen difficulties before final decisions are made.

One complaint heard repeatedly during the research for this study was about restrictions on American firms wishing to invest abroad as foreigners do in the United States. Even if it means stalling foreign investments which seem likely to be beneficial, the U.S. Government should demand reciprocal opportunities for American firms in countries from which foreign investments come.

FOOTNOTES

1. Originally, I proposed to undertake only 3 case studies. However, the Government of the Commonwealth of Puerto Rico was so forthcoming in its assistance and introductions that I decided to include the information I gathered from two extra interviews arranged for me on the island.
2. The foreign investment in Coral World does not yet involve the purchase of real estate, but that possibility remains a prospect.
3. While Canadian investments would also be appropriate, consideration of one did not prove to be feasible.
4. Fortune, December 22, 1986, p. 44
5. Ibid, p. 52
6. Various Commerce Department publications (see Bibliography). Incomplete 1986 figures indicate a drastic rise that year.
7. Survey of Current Business, U.S. Department of Commerce, February 1987.
8. In Korean, young an literally means "forever satisfied;" a more idiomatic translation would be "steady."
9. Nearly 40 million hats a year. See Young An 1987 brochure.
10. The Navajo Nation is the giant Navajo Indian Reservation, so large that some consider it a full-fledged state.
11. Source: Arizona 1987 Economic Profile, Arizona Department of Commerce
12. Interviews with several sources (see Appendix I), 2/10-11/87
13. See Arizona -- 1987 Economic Profile, Arizona Department of Commerce
14. Interview with General Manager Han, February 10, 1987
15. Interviews with several sources in Phoenix 2/11/87 (see Appendix II)
16. "Young An Hat Company," (brochure, undated)
17. For a fascinating story of another facet of Baik's life, see "Search for Billy," June 1986 Reader's Digest



18. "Young An Hat Company" op. cit.
19. Observations in Phoenix, February 9, 1987.
20. See Crossroads of Cultural Change, Report of the Second Hopi Mental Health Conference, Hopi Health Department, 1983.
21. Interview with Hopi Chairman Ivan Sydney, 2/11/87
22. a. Que Pasa, February 1987, Tourism Co. of Puerto Rico, and  
b. "An Analysis of the President's Tax Proposal...", 9/30/85 by Stewart and Lane (see bibliography for full title)
23. Stewart and Lane, op. cit., p. 15
24. Unofficial Translation of "Substitute to House Bill 910," February 1987, Escrutinio Legislativo, Inc.
25. Only about 15% of Yauco residents have a working knowledge of English.
26. Section 936 of the U. S. Internal Revenue Code provides a 100% credit against Federal taxes on dividends received in Puerto Rico
27. "The Euromoney Market Capitalization Rankings -- 1986," undated stock exchange publication.
28. 1985 Annual Report, Banco Central, S. A., Madrid
29. Interview with Banco Central Corp. Executive Vice President Angel Blanco Bottey, February 26, 1987
30. "Que Pasa," February 1987
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45. Interviews with several people in St. Thomas. See Appendix I
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49. Keren, Op. Cit.
50. Bennett, Op. Cit.
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APPENDIX I

SOURCES/INTERVIEWS

- Mr. Baik, Sung Hak, President, Young An Hat Company, Seoul, Korea
- Mr. Clifford Balenquah, Chief Administrative Officer, Hopi Tribe, Kykotsmovi, Arizona
- Mr. Chris Bell, Desk Officer for Spain, U.S. Department of State, Washington, DC
- Mr. Thomas Bennett, Executive Director, St. Johns-St. Thomas Chamber of Commerce, U.S. Virgin Islands
- Mr. Richard Blake, Maintenance Manager, Coral World, St. Thomas, U.S. Virgin Islands
- Mr. Angel Blanco Bottey, Executive Vice President, Banco Central Corporation, Hato Rey, Puerto Rico
- Mr. Benito Cantalapiedra, President, Banco Santander, Hato Rey, Puerto Rico
- Mr. Arturo Carrion, Director, Puerto Rico Bankers Association, Hato Rey, Puerto Rico
- Mr. Lou Ceballos, Manager, Chamber of Commerce, Winslow, Arizona
- Mr. Antonio Colorado, FOMENTO Administrator, San Juan, P. R.
- Mr. Frank Comito, Director, Chamber of Commerce, St. Croix, USVI
- Mr. Eric Dawson, Commissioner-Designate of Commerce, St. Thomas
- Honorable Bill Elzey, Mayor of Winslow, Arizona
- Mr. Donald Fry, District Director, US&FCS, U.S. Department of Commerce, Phoenix, Arizona
- Ms. Penny Feuerzig, Managing Editor, The Daily News, St. Thomas
- Mr. Jim Gagnon, Economic Officer, Korea Desk, U.S. Department of State, Washington, DC
- Mr. James Gilbert, Bureau of Indian Affairs, U.S. Interior Department, Phoenix, Arizona
- Mr. Scott Goddin, Korea Desk Officer, U.S. Department of Commerce, Washington, DC
- Mr. Han, Doo Suk, General Manager, Young An Headwear Corp., Ya-Hopi Division, Winslow, Arizona
- Mr. Werner Hasenberg, ITA/TD/DTIA, U.S. Department of Commerce, Washington, DC
- Ms. Deborah Heathcotte, Trade Promotion Specialist, Arizona Department of Commerce, Phoenix, Arizona
- Mr. Robert Jones, Director, Realty Office, Bureau of Indian Affairs, U.S. Interior Department, Phoenix, Arizona
- Mr. Richard Keeling, Attorney, St. Croix, U. S. Virgin Islands
- Mr. Shmuel Keren, General Manager, Coral World, St. Thomas, USVI
- Ms. Judith Kleinman, Federal Reserve Board, Washington, DC
- Mr. David Kunkel, INR/EC, U.S. Department of State, Washington
- Mr. Ralph Lange, Vice President, Sartorius Inc, Yauco, PR
- Mr. Allen J. Lenz, ITA/TD/TIA, U.S. Department of Commerce, Washington, DC
- Honorable Samuel Lewis, former U.S. Ambassador to Israel, WashDC

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Ms. Georgia Metzger, former Mayor of Winslow, Arizona  
 Mr. Richard Miller, V.I. Economic Desk Officer, U.S. Interior  
 Department, Washington, DC  
 Mr. Richard Moore, Chief Economist, Department of Commerce,  
 St. Thomas, U. S. Virgin Islands  
 Ms. Bernice Navakuku, Personnel Director, Ya-Hopi Division,  
 Young An Headwear Co., Winslow, Arizona  
 Mr. Antonio Oliver, Vice President, Rodenstock Corporation,  
 Yauco, Puerto Rico  
 Mr. Pablo Pardo, Senior Vice President, Banco Santander, Hato  
 Rey, Puerto Rico  
 Mr. Juan Perez Villarini, Treasurer, Rodenstock Corporation,  
 Yauco, Puerto Rico  
 Mr. Shlomo Recht, Vice President, AMPAL-American-Israel Corp.,  
 New York, NY  
 Ms. Lillian Robbins, Comptroller, Coral World, St. Thomas, U.S.  
 Virgin Islands  
 Mr. Mike Russo, News Editor, Winslow Mail, Winslow, Arizona  
 Ms. Pat Schroeder, Community Development Specialist, Arizona  
 Department of Commerce, Phoenix, Arizona  
 Dr. Leonard Shapiro, Director, Service Industries and Special  
 Projects, Economic Development Administration, Hato Rey, PR  
 Dr. John Stewart, Economic Consultant, FOMENTO, Hato Rey, P.R.  
 Honorable Ivan Sydney, Chairman, Hopi Tribe, Kykotsmovi, Arizona  
 Mr. Larry Theriot, ITA/US&FCS/CBI, U.S. Department of Commerce,  
 Washington, DC  
 Mr. Enrique Vilella, District Director, US&FCS, U.S. Department  
 of Commerce, San Juan, Puerto Rico  
 Ms. Joan Waddleton, EB/IFO/OIA, U.S. Department of State,  
 Washington, DC  
 Mr. Bob Weinstein, President, MOJA Headwear Inc., Scottsdale, AZ  
 Mr. Abe Yeddis, President, Promotional Headwear International  
 Inc., Lenexa, KS

PLUS several employees at all the investment sites whose names  
 I failed to get, or who preferred to remain anonymous.

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