The Rockefeller Effect:
How Foreign Owned Entities Can Acquire U.S.-based Assets in Harmony with Domestic Public Opinion

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As the effects of the Great Recession and political gridlock in Washington continue to leave the economy floundering, the time has come to re-assess the role of Foreign Direct Investment (FDI) in the U.S. as a way to reignite growth both domestically and internationally. FDI in the U.S. will become a job salvation engine, as well as a job creation one. Foreign owned firms pay more, are more productive and more efficient than their domestically own counter parts. A Congressional Research Service report dated Feb 1, 2011 stated:

> "Foreign owned firms paid wages on average that were 14% higher than all US manufacturing firms, had 40% higher productivity per worker, and 50% greater output per worker than the average of comparable U.S. owned manufacturing plants"

Seems straight forward, right? Mutually beneficial, no? Americans should be welcoming FDI with open arms, and foreign owned companies should be flooding America with new jobs and new facilities. The math is perfectly clear. What's the catch? American public opinion.

Throughout recent history, the purchases of U.S. assets by foreign investors have run into controversy and opposition, which have served to scuttle several lucrative and mutually beneficial transactions. Such large and public purchases have millions of dollars in associated costs that lie outside of the purchase prices. Attorney and accounting fees alone can run into the hundreds of thousands if not millions of dollars. These costs, along with management consulting and investment banking commissions, are sunk costs that cannot be recouped, even when a deal is called off.

In many cases, these deals could have been presented in far more effective ways had the parties invested in a coordinated messaging and communications campaign to coincide with their financial tenders. This minor expenditure can serve as the sugar in the medicine of FDI.

The historical example of the Japanese is particularly telling. Known as the "Rockefeller Effect," a wave of negative publicity toward foreign suitors of U.S. assets severely weakened the efficacy of Japanese FDI in the U.S.

In the 1980s, Japanese investment in the U.S. was met with significant hostility. An effort by the Japanese electronics company Fujitsu to acquire Fairchild Semiconductor

Corporation even led to the U.S. enacting national security laws governing acquisitions in order to nix the deal.

In late 1989, against this unwelcoming background, the Japanese real estate company Mitsubishi Estate Co. bought the Rockefeller Center, a U.S. National Historic Landmark, for $846 million. This was a "trophy purchase" for the emboldened Japanese investors at that time. This high-profile purchase alarmed the public that the Japanese were out to dominate the American economy. *The New York Times* wrote six stories in the days after the announcement, with headlines ranging from "Japanese buy New York Cachet with Deal for Rockefeller Center" to "Japan Buys the Center of New York" to "Foreign Inroads Aside, Manhattan is Still American."

Indeed, polling conducted at the time of the purchase offered ominous evidence as to the ultimate fate of the Japanese investment: anti-Japanese sentiment was rising sharply amongst an American public, which deemed the purchase to be insensitive. The ongoing inability to offer a more positive portrayal of the deal to a skeptical general population, alongside the economic downturn of the early 1990s, forced Mitsubishi to walk away from a $2 billion investment in 1995, with the property languishing in bankruptcy.

During the 2000s, the emergence of Middle Eastern sovereign wealth funds set the stage for another high profile instance of the "Rockefeller Effect", with similar consequences.

In February 2006, the stockholders of Peninsular and Oriental Steam Navigation Company (P&O), a British firm, agreed to the sale of that company to Dubai Ports World (DPW), a holding company owned by the Government of Dubai. As part of the sale, DPW would assume the leases of P&O to manage major U.S. port facilities in New York, New Jersey, Philadelphia, Baltimore, New Orleans, and Miami, as well as operations in 16 other ports. The defeat of the DPW transaction was the result of a groundswell of American popular opinion that completely overwhelmed whatever sound commercial logic may have underpinned the original deal.

In hindsight, it certainly seems alarmingly remiss for both sides of this transaction to not have sufficiently considered the "Rockefeller Effect" when the proposed acquisition was first submitted to the U.S. Government for approval. A poll tested approach to strategic communications would have raised several red flags much earlier in the process and could well have allowed DPW to package the deal entirely differently in order to produce a more successful outcome.

With the global economy in its current perilous state, many of the Middle Eastern based funds have reduced their activities. Chinese investment funds, however, remain flush with cash and continue to boast the world's largest foreign exchange reserves. It is vitally important for these funds to consider the powerful role they now play in providing FDI in the U.S., while also addressing the "Rockefeller Effect", which history shows has been a powerful determinant of successful FDI in the U.S.

A recent study, commissioned by the Asia Society in New York and the Woodrow Wilson International Center for Scholars in Washington, forecasts that over the next decade, China could invest as much as $2 trillion in overseas companies, plants or property, money that could help reinvigorate growth in the U.S. and Europe. However, the report also warns that the U.S. risks missing out on a large share of the Chinese investment boom because of politics, a growing rivalry between the two nations and deep-seated perceptions that Chinese investments are unwelcome in America. Once again, it is essential for Chinese investors to consider the "Rockefeller Effect" when planning their next allocations of capital.

The potential problem for Beijing is that Chinese companies are not always welcomed overseas — not only because China wields enormous economic clout, but also because state-owned giants are believed to be subsidized by the state and possibly working in the interest of the Chinese Government.

Senator Jack Reed, Democrat of Rhode Island, encapsulated much of the bipartisan concerns in Congress about Chinese FDI in the U.S. when he recently told Reuters, "Many of these companies are so closely intertwined with the government of China that it is hard to see where the company stops and the country begins, and vice versa."

Regulators and politicians have blocked or delayed a series of Chinese FDI attempts in recent years, and it is easy to see the impact of the "Rockefeller Effect" on each attempt.

In 2005, one of China's giant oil companies, CNOOC, dropped its bid to acquire the American oil giant Unocal after a Congressional investigation into the purchase. More recently, the Chinese telecommunications giant Huawei has repeatedly been rebuffed from making deals in the U.S. over national security concerns.

In 2010, the Anshan Iron and Steel Group, a Chinese company seeking to build a steel factory in Mississippi, had to fight fierce political opposition in that state, including fears the project would result in job losses and threaten national security.

Gao Xiqing, the president of China Investment Corporation (CIC), China's sovereign wealth fund, has repeatedly spoken of his frustration that CIC's attempts at investing in the U.S. have run into political opposition. In 2008, he said, "Fortunately, there are more than 200 countries in the world. And fortunately, there are many countries who are happy with us."

With the global economy of 2011 remaining in such a fragile state, the U.S. and China clearly need each other. The U.S. has advanced technologies and a highly skilled workforce, many of whom have been suffering from non-existent domestic job growth, and China has the capital American businesses so desperately seek to sustain and grow. Sovereignty issues seem to take on greater importance during stressed economic times such as these, which makes it even more important for potential investors to prepare the ground prior to any significant FDI attempts.

In order to avoid falling foul to the "Rockefeller Effect" in future, it is essential for any foreign investors looking to allocate capital in the U.S. to consider the powerful impact of public opinion on the ultimate success of every venture. Each target in the U.S. has its own set of public opinion risks, which a carefully constructed, evidence-based communications strategy can help to mitigate. If the strategy is not executed correctly, we have seen how quickly a deal, which may look profitable on the balance sheet, swiftly sheds value once the "Rockefeller Effect" is unleashed.

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