Foreign Investment in U.S. Rises, Current-Account Deficit Widens

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By Greg Hitt
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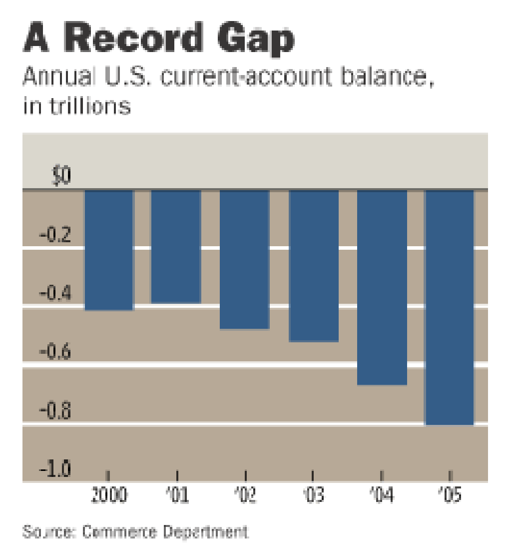
WASHINGTON -- Foreign investors' appetite for U.S. assets remained strong through last year, despite growing domestic unease over the deepening ties of the global economy.



For 2005, foreign direct investment in the U.S., which covers things like buildings and factories, as opposed to stocks and bonds, totaled $128.63 billion, up $21.8 billion from $106.83 billion in 2004, the Commerce Department reported. The 20% increase for the year came despite a slowdown in cross-border capital flows in the fourth quarter, when foreign direct investment slowed to $30.6 billion from $48.38 billion in the previous three months.

Commerce Department officials attributed the year-end slowing to technical factors, in part related to the cross-border ebb and flow of company debt. The narrowing also came amid a broader period of political turbulence that has produced a backlash against some high-profile investments, most recently a plan by a Dubai-controlled company to manage commercial operations at some U.S. ports, and before that a bid by a state-owned Chinese firm for control of a U.S. oil company.

The oil deal, launched by China's Cnooc Ltd., collapsed last summer before it could be closed. Last week, Dubai Ports World managed to finalize its purchase of **Peninsular & Oriental Steam Navigation** Co. of the United Kingdom, but later agreed to shed P&O's U.S. assets amid an uproar in Congress.

Despite the political flare-ups, the strong 2005 inflow of capital from abroad contributed to a broad deterioration in the U.S. current account, the government's widest measure of international trade. The Commerce Department reported the current account, which measures the cross-border flow of investments, as well as goods and services, hit a record deficit of $804.94 billion, 20% wider than the previous record of $668.07 billion.

As a share of U.S. gross domestic product, or the value of all goods and services produced in a nation, the current-account deficit widened to 6.5% in 2005, from 5.7% in 2004.

Many economists fear that such a large deficit, which effectively reflects the gap between what the country consumes and what it produces, is unsustainable over the long run. If foreign investors grow wary of the imbalance and pull back, the U.S. could go through a painful adjustment, many economists warn.

For the moment, however, American eagerness for foreign-made goods -- and foreigners' willingness to finance those purchases -- remain high. The goods deficit, measured as a component of the current account, widened to $781.64 billion from $665.39 billion in 2004.

Write to Greg Hitt at greg.hitt@wsj.com