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COMMENTARY

Not For Sale to Foreigners

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Congress has been rushing to override the judgment of the interagency Committee on Foreign Investment in the U.S. (CFIUS) to allow a company based in the United Arab Emirates to manage the operations of six American ports. Given the polls and media commentary, it is certainly an understandable political reaction. It is also true that the administration could have explained its reasoning on this (and other issues) more artfully. After five years, many congressmen also have built up frustrations about tin ears in the administration.

The Dubai Ports controversy, therefore, offered members of both parties a great opportunity to send the White House a message. But Congress also sent a message to financial markets and the world at large, one that America may come to regret. Symbolism is important in politics, but the same symbol can be viewed many ways depending on one's perspective. As someone who travels regularly to both Europe and Asia, it is clear to me that the rest of the world is viewing this episode quite unlike the commentators on talk radio.

First, consider the security issue. The public and Congress have been saying that in a post-9/11 world, they don't want Arabs running our ports. As evidence of risk, the fact that two of the 9/11 hijackers carried passports from the UAE, the country that owns the company that will run the ports, is noted. But the UAE also provides the main base to service U.S. warships in the Persian Gulf and Indian Ocean. In fact, the UAE is reported to be the largest servicer of our naval vessels anywhere in the world outside the U.S. In the case of the American Navy, the UAE not only manages the ports, but its citizens staff the concessions that provision the fleet, and UAE nationals provide the port's security. Logically, it is tough to explain overseas how merely making a UAE company the manager of a port where the workers are *still* Americans and security is *still* provided by America is an increase in risk over what we tolerate already.

Democratic leaders in the Senate stated as recently as yesterday that even if all operations were transferred to a U.S. "entity" with no UAE nationals involved directly in port operations, as Sen. John Warner suggested, the mere ownership of the ports company by the UAE was unacceptable. So the standard being established has almost no direct link to operational security. Members of Congress are now asserting that ownership of the company by the UAE is what is at issue, a remarkable stretch.

The UAE isn't any old Arab country. It sits astride the Strait of Hormuz through which a fifth of world oil passes. Iran sits on the other side. A fighter jet or cruise missile would take about two minutes to go from the UAE to Iran. From a global perspective, efforts by the U.S. Congress to alienate the UAE at this time look about as sensible as Russian roulette.

Second, congressional attitudes on the ports raise questions about the sustainability of our global economic leadership. For over 50 years a bipartisan consensus has held that global free trade and the free movement of capital is in our interest. The U.S. was the world's driving force for globalization, whether the president was named Kennedy, Reagan, Clinton or Bush. That leadership has underpinned the greatest rise in living standards the world has seen, the emergence of a global middle class that now numbers well over a billion people, and America's triumph in the Cold War without ever firing a direct shot.

Internationally it was always accepted that Congress would adopt a more parochial posture, but that ultimately executive branch leadership would prevail. That is now in question, given the breadth of congressional sentiment on the ports and the leadership telling the president that they will block the deal with veto-proof majorities. Last week in Tokyo, at a dinner attended by senior Diet members and business leaders, I was asked about the ports. My diplomatic answer, met with nervous laughter, was that although congressional concerns were seriously held, ultimately they would not prevail. That now appears to be wrong. At the same time, a suit brought in London by Americans seeking an injunction to block the sale to Dubai on security grounds was laughed out of court. If this is the reaction in sophisticated pro-American capitals like Tokyo and London, imagine the view in Paris, Moscow and Beijing, not to mention Riyadh or Tehran.

Indeed, some of the more political aspects of this debate can only hurt America's image abroad. Campaign ads are running that are explicitly anti-Arab in their message. These will be noted overseas. It is not Danish cartoonists expressing these views, but would-be leaders of the world's only superpower. Overseas, well outside the current American political context, these ads will be perceived as akin to the anti-Semitic rhetoric of the 1920s or the race-baiting of the 1950s, a fact made even more remarkable given the ethnicity of some of the sponsors.

The third and more immediate area of concern about congressional action is in the financial markets. America has not pushed globalization and the free movement of capital out of an altruistic concern for global development: These are causes from which *America* enjoys enormous benefits. This is particularly true today when the free movement of capital underpins so much of our macroeconomic stability. The U.S. is by far the largest investor in the rest of the world, with $10 trillion of assets overseas. We have pushed other countries to allow our companies to invest overseas because it was in our interest to do so. Our corporate boards did not authorize this scale of investment in order to lose money: Last year they made over $500 billion on these investments -- $1,600 for every person in the U.S. To insist on our ability to invest abroad but resist foreign investments here is untenable.

Even more important is that America is the recipient of a huge amount of foreign inward investment. Last year foreigners increased their investments here by $1.4 trillion. A good portion of this comes from the Middle East for the simple reason that their oil revenues have soared. Does Congress prefer that this money be invested elsewhere to create jobs overseas rather than here? Moreover, absent this capital inflow, interest rates would be far higher and equity prices far lower than what they currently are. If you hang out a "Not For Sale to Foreigners" sign, fewer bidders will mean lower prices.

The response is that foreign investment is fine, except where security is involved, as with the ports. That was also the argument made when China tried to buy the Asian assets of a U.S. oil company. Would it also be the case if one of our less-favored trading partners tried to buy real estate in Manhattan? How could we be assured that they didn't lease space to terrorists? Should foreigners be allowed to own our banks? Might they not sabotage our financial system?

The CFIUS process was created to give an impartial assessment of the risks of each of these types of foreign investments. A given investment only rises to the attention of highest ranking political officials if there is any disagreement within the committee on whether there are substantial risks to our physical or economic security. In this case, none of the agencies involved had any concerns. So the security issue really is purely symbolic, not substantive. But it also symbolizes the chance that Congress could impose its judgment on other foreign investment projects any time an interested party (a losing bidder for example) raises a political fuss. The potential for a politicized breakdown in the global movement of capital is real.

Economic history is not hopeful in this regard. Foreigners are always an easy target. In 1930, Congress legislated against the entry of foreign goods in the form of the Smoot-Hawley tariffs. Other nations retaliated and global trade and capital flows soon collapsed. Although the long-term consequences of Smoot-Hawley were unknown at the time, it is interesting that stories ran in the New York Times about the advances of the pro-tariff forces on the same days as the stock market crashed in late October 1929.

While most of the supporters of the tariff have faded from memory, Sen. Reed Smoot of Utah and Rep. Willis Hawley of Oregon have permanently earned their place in history. So did President Hoover, for not having vetoed the bill, even though he favored lower tariffs. President Bush: Take note.

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