Major Sectoral Developments

The following section focuses on major investment transaction trends in the more active industrial sectors during 1985.

Metal Mining (SIC 10) - Foreign direct investment in U.S. metal mining firms, at a low ebb for the past few years, rebounded slightly in 1985. Concerns over political instability abroad, country debt repayment problems and a weakening U.S. dollar were factors that accounted for increased foreign investment in this sector.

In 1985,10 completed transactions were identified; 7 of them had a total value or $124.4 million, a four-fold increase over the 1984 figure.

The largest transaction was the acquisition of Copper Range Co. by Echo Bay Mines Ltd. of Edmonton, Canada for $55 million. Echo Bay Mines, operator of Canada's second largest gold mine, will expand its interests through the purchase of Copper Range which has several gold exploration projects in Nevada as well as copper interests in Michigan.

The second largest transaction was the addition of a new mill at Newmont Mining Corp.'s Carlin gold mine in northeastern Nevada valued at $33.9 million. Newmont Mining is 26.1 percent owned by Consolidated Gold Fields Ltd. of England, itself 29 percent owned by Minorco, a Bermuda-based firm controlled by Anglo-American Corp. of South Africa Ltd.

Canada was the primary source country for investors in the metal mining sector in 1985. Canadian investors accounted for almost half of the transactions (5). In second place were investors from the United Kingdom with 2 transactions. These investments were largely mine expansions (4) or acquisitions (3). Six of the investments were in gold mining projects, while three were in silver and copper mining projects.

Figure 5

Oil and Gas Extraction (SIC 13) - The U.S. oil and gas extraction sector experienced a bleak year in 1985. Weakened by the protracted slump in drilling and falling oil prices, many U.S. oil companies continued to sell off assets, businesses, and equity to maintain financial stability. These factors, combined with lower finding costs and the availability of farmouts, buy-outs, and buy-ins resulting from the oil industry's widespread restructuring, attracted foreign investors to the U.S. oil industry, but not in overwhelming numbers.

The number of foreign direct investment transactions identified remained at about the same level as 1984 with a 67 percent drop in value. In 1985, 65 transactions had 33 values that totalled $2.7 billion.

The largest transaction was Broken Hill Proprietary Co., Ltd.'s (BHP) $745 million acquisition of Monsanto Oil Co., a unit of Monsanto Co. of St. Louis. BHP is an Australian mining and steel company that is 16 percent owned by Bell Group Ltd. that is, in turn, controlled by Australian investor Robert Holmes a Court.

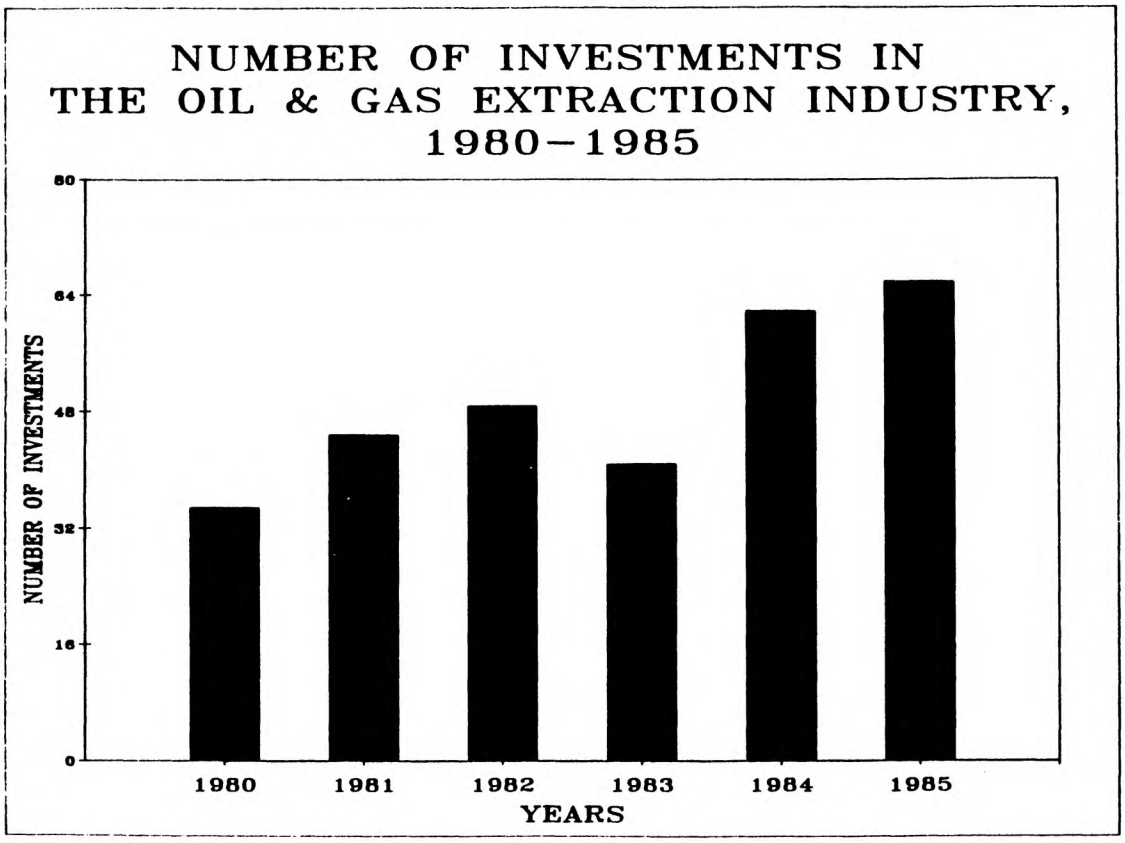
In the second largest transaction, valued at $700 million, Shell Oil Co., the nation's seventh-largest oil company, became a wholly-owned subsidiary of the Royal Dutch Shell Group. This transaction completed a $5.7 billion merger that was launched in January 1984. During that year the Royal Dutch Shell Group raised its holdings to 94.6 percent from 69.4 percent. Royal Dutch Shell, based in the Netherlands and Great Britain, has held the majority of Shell Oil's stock since the Houston, Texas company's founding in 1922. This merger has given the Anglo-Dutch group complete control of Shell's large oil and natural gas reserves and the income they generate.

The principal source countries for investment in this sector remained the same as they have been since 1982, with a slight change in ranking. Investors from the United Kingdom continued to hold first place with 19 transactions, but for the first time in three years Canadian investors with 12 transactions moved ahead of those from the Netherlands which had only 6.

Eight Government-owned or -controlled firms accounted for 20 percent (13) of the transactions. They were: the Government of the United Kingdom through its holdings in Britoil PLC, British Petroleum PLC, and Burmah Oil PLC (8); the Government of Italy through its ownership of ENI (2); the Government of France through holdings in ERAP and Cie. Francaise des Petroles (1); the Government of Kuwait through Kuwait Petroleum Corp. (1); and the Government of West Germany through its holdings in Veba AG (1).

Two-thirds of the transactions in the oil and gas sector were acquisitions (43). New wells (10) and equity increases in operating entities (7) were the next most numerous types of investments.

Figure 6



Food and Kindred Products (SIC 20) - Foreign direct investment in the foods industry changed very little in the total number of transactions for 1984 and 1985. OTIA identified 25 completed transactions for 1985 and 8 values totalling $3.2 billion, while the previous year there were 23 cases recorded with a total known value of $146.9 million for 11 of these.

The dollar value of transactions in the food and kindred products industry experienced a twenty-fold increase over 1984, attributable to the largest foreign direct investment transaction in 1985. The Swiss-based multinational food company, Nestle SA of Vevey, acquired the Carnation Company (Los Angeles, California) for $3.0 billion. Carnation, which is known for its evaporated milk products, manufactures and sells dairy products, pet foods, Contadina tomato products and a variety of packaged prepared foods.

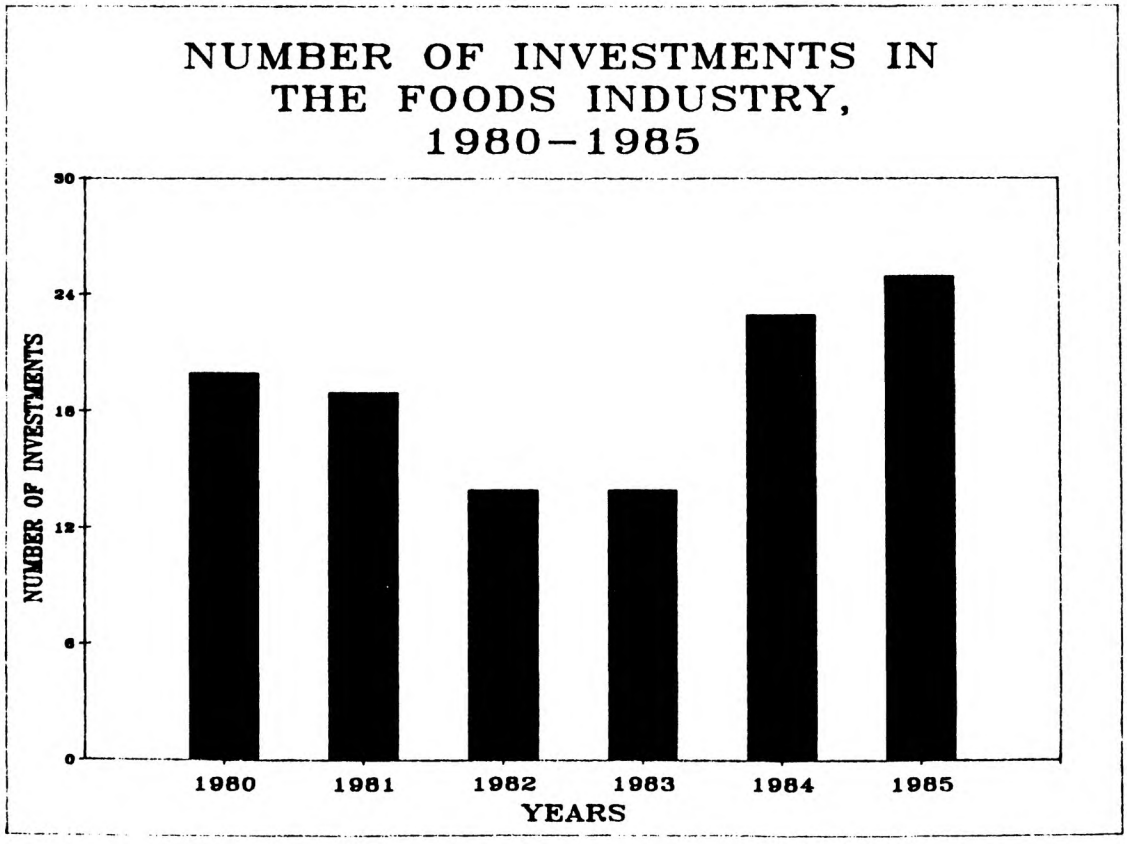
More than half (60 percent) of the transactions in this sector were acquisitions (15), followed by 7 new subsidiaries, divisions, new office or joint ventures and 3 new plants or expansions.

Switzerland and the United Kingdom were the principal source countries accounting for 10 of the 25 completed transactions. Other source countries with 3 investments each were Japan, the Netherlands, and Canada.

Fifteen states attracted foreign investors, with no specific regional concentration. California lead with 5 transactions, and Illinois and Wisconsin had 3 each.

Foreign investments were spread widely across this industry sector, with the roasted coffee manufacturing subsector (SIC 2095) attracting more investments (4) than any other subsector. Nestle SA of Switzerland purchased Hills Brothers Coffee and MJB Company, both of San Francisco, California. Jacobs Suchard, also of Switzerland established a new subsidiary, Jacobs Coffee Inc., in Delavan, Wisconsin. A West German producer of coffee roaster machines, Probat-Werke, opened its first office in Memphis, Tennessee.

Figure 7



Paper and Allied Products (SIC 26) - During much of 1985 producers of paper and allied products suffered the effects of a strong dollar. Export markets shrank while imports (particularly coated papers and uncoated free sheet used for copiers and computer printouts) from Brazil, Mexico, and Scandinavia surged. By mid-year net imports had risen to 9.5 percent of sales, up from 5.2 percent in 1984.

Foreign direct investment activity in 1985 remained at the 1984 level - 13 completed transactions were identified in both years. However, in 1985 7 values totaled $754 million, almost quadruple the total value of the previous year. The acquisition of 51.3 percent of Crown Zellerbach Corp. by Anglo-French businessman James Goldsmith for $570 million accounted for 75 percent of the 1985 total value figure. Moreover, this is the largest single transaction recorded in the paper and allied products sector since the establishment of the International Trade Administration's foreign direct investment monitoring program.

The second largest transaction in this sector in 1985 was the acquisition of 80 percent of Publishers Paper Co., a Portland, Oregon-based producer of newsprint, particle-board, and lumber, by Jefferson Smurfit Corp. This Alton, Illinois paper and boxboard firm is 78.5 percent owned by the Smurfit Family through Jefferson Smurfit Group Ltd. of Dublin, Ireland. The transaction was valued at $149.2 million.

As the major foreign investor in this industry in 1985, the Jefferson Smurfit Group gave Ireland the pre-eminent position as leading source country with 6 transactions. The United Kingdom held second place with three transactions that had the highest total value - $581 million. More than half of the investments (8) were acquisitions; others were in the new plants, plant expansions, and joint ventures categories.

Almost 85 percent of the foreign investments completed last year were concentrated in three subsectors: 2621-paper mills (4), 2641-paper coating and glazing (4), and 2649-converted paper and paperboard products (3).

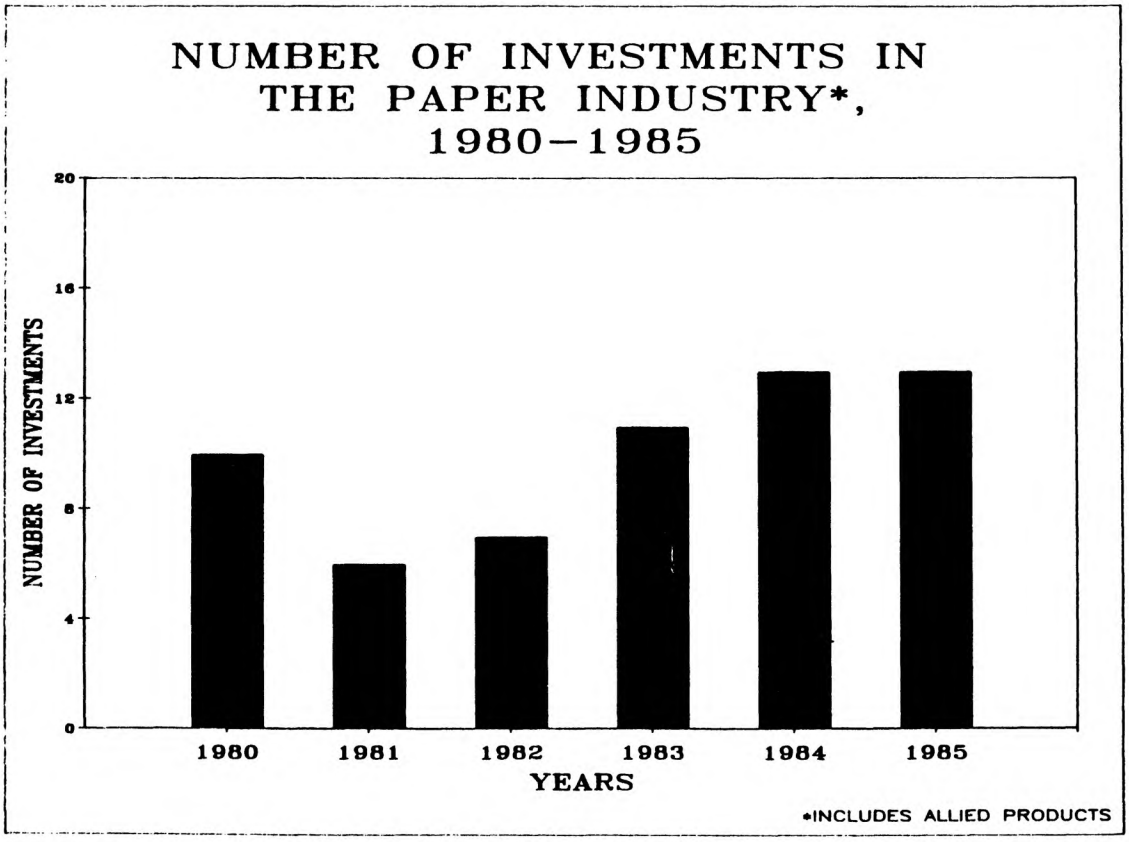
Other interesting developments noted in 1985:

- o China National Packaging Corp., wholly-owned by the Government of the Peoples Republic of China, won the bidding for bankrupt Morris Paper Board Co. in Patterson, New Jersey for $1.7 million. China National Packaging has formed a New Jersey subsidiary, ChinAm Inc., to reopen the mill.

- The Potlatch Corp. rejected a cash offer from First City Financial Corp. Ltd., controlled by the Belzberg family of Canada, to buy all Potlatch shares at $45 per share. The San Francisco-based forest products company purchased approximately 1.1 million shares, or 7.1 percent of its common stock for $43 per share, or a total of $46.7 million to end the hostile takeover bid. Profits for the Canadian investors amounted to about $9.7 million.

- Scott Paper Co. of Philadelphia purchased the 24.9 percent of its common stock that Brascan Ltd., a Toronto Investment concern controlled by Peter and Edward Bronfman, had acquired. The transaction was valued at $578-$590 million.

Figure 8



Printing and Publishing (SIC 27) - Foreign investors' interest in the U.S. printing and publishing market continued at a strong pace in 1985. The Office of Trade and Investment Analysis identified 29 completed transactions with 7 values totalling $332.3 million, a record level for both transactions and value figures in the 1980-85 period.

European and Canadian publishers are venturing into the United States in greater numbers. This surge of interest is a reflection of the size and wealth of the U.S. publishing industry which offers economic opportunity not available elsewhere. In 1985 acquisitions accounted for 86 percent of the transactions in the publishing industry as investors bought several U.S. trade and technical information journals (11) and newspapers (7).

The two largest transactions were both in the periodicals and book publishing subsectors. The first was the acquisition of the W.F. Hall Printing Co. by Kreuger-Ringier Inc., an equal joint venture between W.A. Kreuger of Scottsdale, Arizona and Ringier AG of Zurich, Switzerland. W.F. Hall, a unit of Mobil Corp., publishes books and periodicals. Ringier is a subsidiary of Fuer Presseerzeunisse AG, a Zurich-based printer and publisher of books and periodicals. The transaction was valued at $112.5 million.

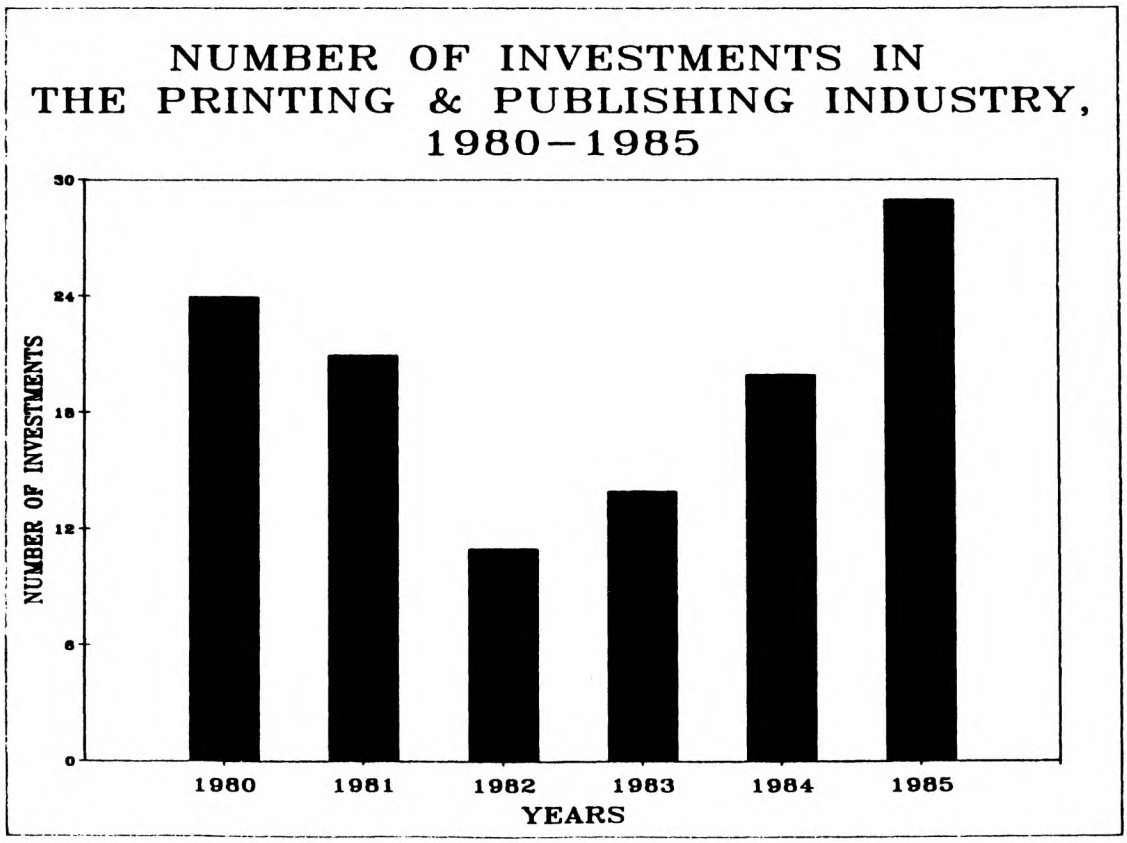
The second largest transaction was the $90 million acquisition of R.R. Bowker Co., a New York publisher of books and periodicals, from Xerox Corp. by Reed Holdings Inc. of Boston. Reed Holdings is a subsidiary of Reed International PLC, a British paper, packaging and publishing company.

As in 1984, investors from Canada and the United Kingdom accounted for about two-thirds of the printing and publishing investments. Canada had the largest number of transactions - 13, while the United Kingdom had the highest transaction value figure - $130 million, and the second largest number of transactions - 5.

The most prominent investor in 1985 was Canadian publisher Kenneth Thomson, owner of almost 100 daily and weekly newspapers in the United States. Last year he added 9 U.S. properties - 5 periodicals and 4 newspapers - to his holdings.

Another prominent investor, Australian publisher Rupert Murdoch, active in U.S. publishing and media circles for the last two decades through News Corp., his Australian publishing and media conglomerate, was not included in OTIA's 1985 listing of foreign investors because he became an American citizen in September 1985. However, one transaction that concerns a Murdoch company is listed. It is News America Publishing Inc.'s joint venture with Hachette of France to publish the American edition of Elle magazine. Hachette is owned by Daniel Filipacchi, a French publisher who has one-fourth of the French magazine market.

Figure 9



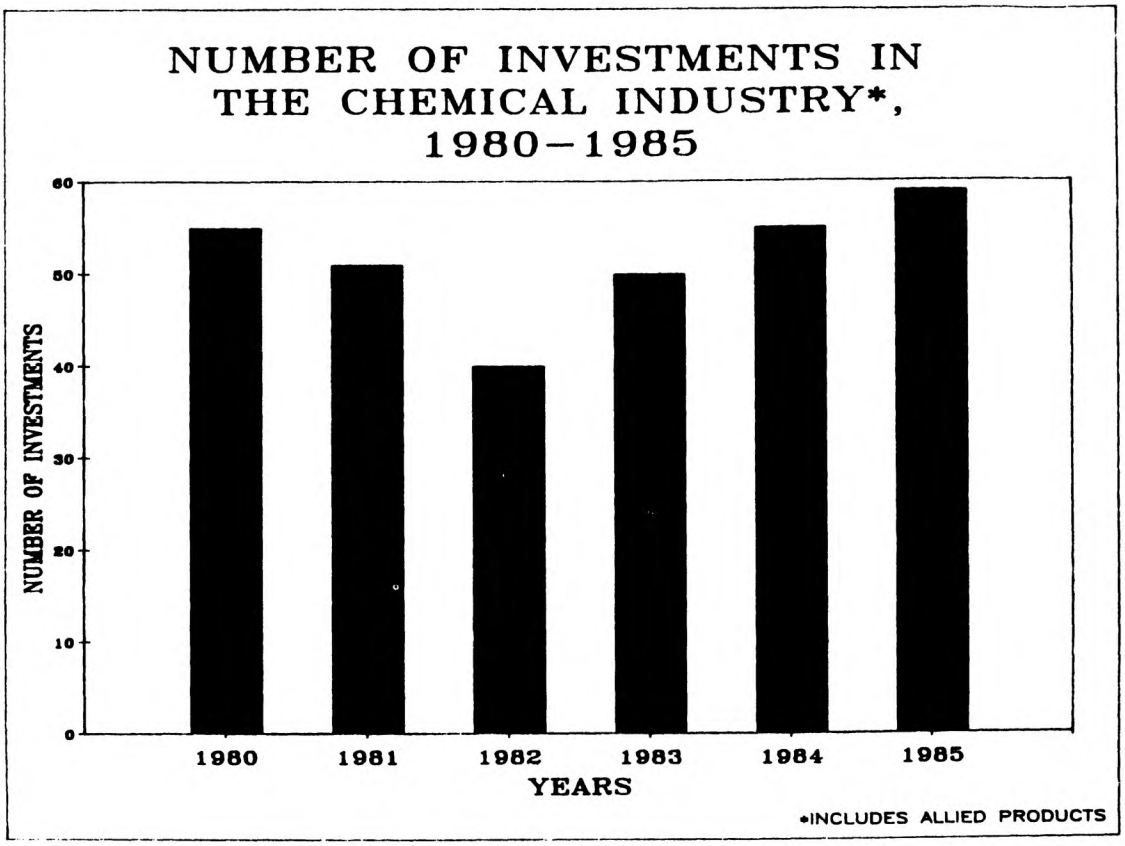
Chemicals and Allied Products (SIC 28) - During 1985, the number of foreign direct investments in the chemicals and allied products industry continued its upward climb with five-fold increase in the dollar value known. OTIA identified 59 transactions with values for 25 totalling more than $2.7 billion. Investors acquired specialty chemical companies at premium prices to strengthen existing businesses, and to compete in the global marketplace.

There were six transactions with values of more than $100 million each. BASF, West Germany, acquired United Technologies' Inmont Corp. for $1 billion and the Celanese Corp.'s structural composite division for $135 million. Imperial Chemical, of Great Britain, acquired the Beatrice Company's chemical division that specializes in high performance composites used in the aerospace industry for $750 million, and Sandoz Ltd., Switzerland, acquired Martin Marietta's Master Builders, a manufacturer of specialty chemicals used in the construction industry, for $190 million. A Danish company acquired a Virginia fertilizer manufacturer for $113 million and a Finnish company, controlled by the Finnish Government, acquired American Cyanamid's titanium division for an estimated $100 million. Finally, British conglomerate, Hanson Trust initiated a hostile $975 million takeover attempt of the SCM Corporation, a diversified manufacturer of chemical products, previously noted for its production of office equipment. At year-end about 25 percent of the company had been acquired while litigation was continuing as SCM countered to avoid the takeover.

Over 54 percent of the investments were acquisition/mergers as investors acquired 32 existing facilities. They also established 13 new ones and expanded 11 plants in 22 states with New Jersey hosting 10 transactions, New York 8, Texas 7 and North Carolina 5. No other state had more than 3 transactions.

German, British and Swiss investors played a predominate role as they accounted for 61 percent of the number of transactions and over 98 percent of the value known. Most were concentrated in speciality chemical and pharmaceutical products. Japanese investment in this industry was minimal during 1985, while there was a noticeable increase in their financial support of research and development in U.S. university labs.

Figure 10



Petroleum Refining and Related Industries (SIC 29) - Taking advantage of the continuing shakeout in the U.S. domestic refining industry, foreign crude oil producers and oil traders acquired oil refineries all over the United States in 1985. Battered by falling crude oil prices, a rising tide of oil product imports, and sluggish consumer demand, U.S. refiners saw profit margins shrink further last year as they continued to sell off unwanted refineries to foreign producers interested in protecting or increasing their market shares of the world's largest gasoline and petroleum products market.

In 1985 OTIA identified 8 transactions in the petroleum refining and related products sector. Four of them had a value of $896.6 million, up 53 percent over 1984's total value figure. Investors from Canada, the Netherlands, and the United Kingdom accounted for two-thirds of the transactions (6 equally divided).

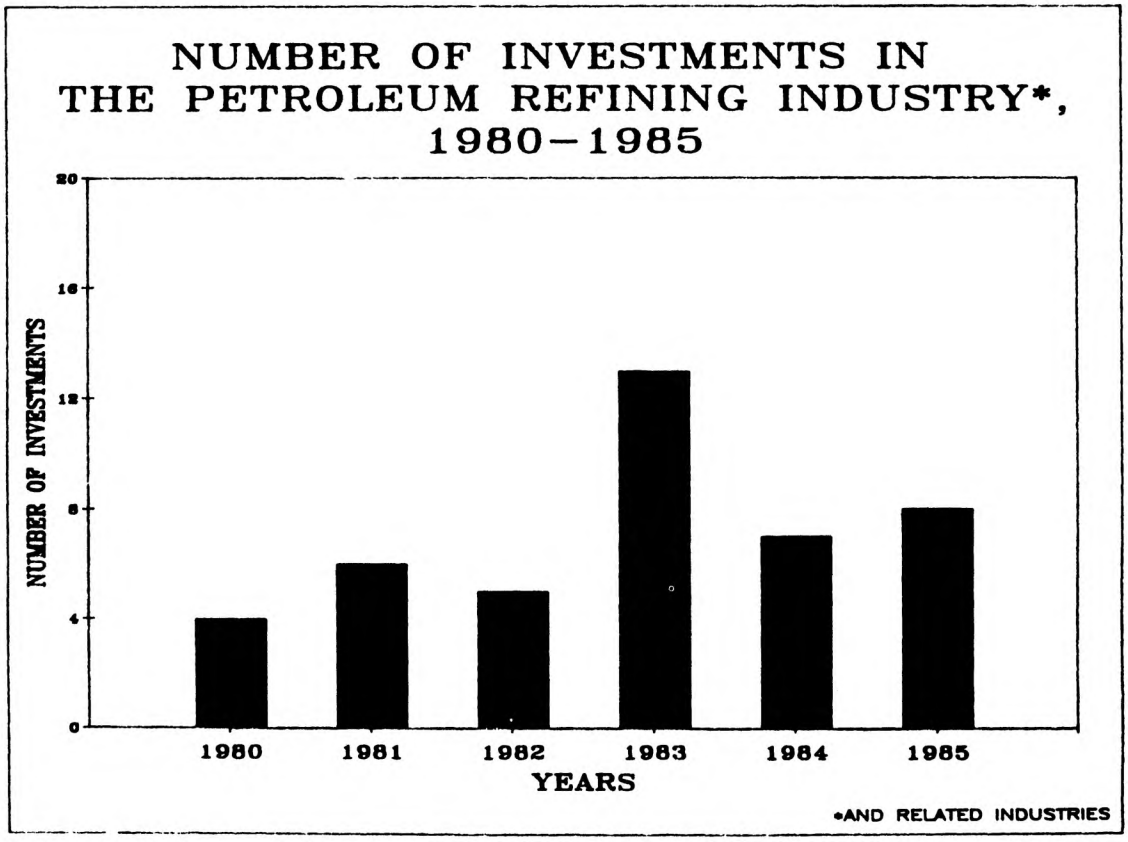
The largest transaction was Atlantic Petroleum Corp.'s acquisition of Atlantic Richfield Co.'s assets in Pennsylvania and New York, including a 125,000 barrel-a-day Philadelphia refinery, a network of 576 gasoline stations, 27 terminals, and a pipeline system, for $420 million. Atlantic Petroleum is owned by John Deuss, a Dutch oil trader and

principal owner of Transworld Oil Ltd., a Bermuda-based oil trading company, and of TW Oil Houston, an oil trading company with headquarters in Texas.

As in 1984, Standard Oil Co. of Cleveland, Ohio had the second largest transaction in the refining industry. Standard Oil acquired Gulf Corp.'s Alliance, Louisiana refinery and all of Gulf's wholesale and retail petroleum marketing assets in the southeastern United States in a transaction valued at $380 million. Gulf Corp. is a wholly-owned subsidiary of Chevron Corp. Standard Oil is 55 percent held by the British Petroleum Co. PLC, itself controlled by the Government of the United Kingdom.

Seventy-five percent of the transactions in this sector were acquisitions. The petroleum refining subsector accounted for half of the transactions and the asphalt, felts and coatings subsector accounted for another 38 percent.

Figure 11



Primary Metal Industries (SIC 33) - Increasing numbers of producers, worldwide overcapacity, slowdown in consumption growth rates, and falling prices are factors that have caused producers in the U.S. primary metals sector to restructure in an effort to become more competitive and survive. In 1985 foreign participation in primary metals increased almost 35 percent over the previous year as more U.S. firms sought an infusion of capital and technology from foreign investors.

Twenty-three completed transactions were identified, 12 of which had a value of $703.1 million. However, the 1985 value figure was almost 45 percent lower than 1984's record $1.3 billion.

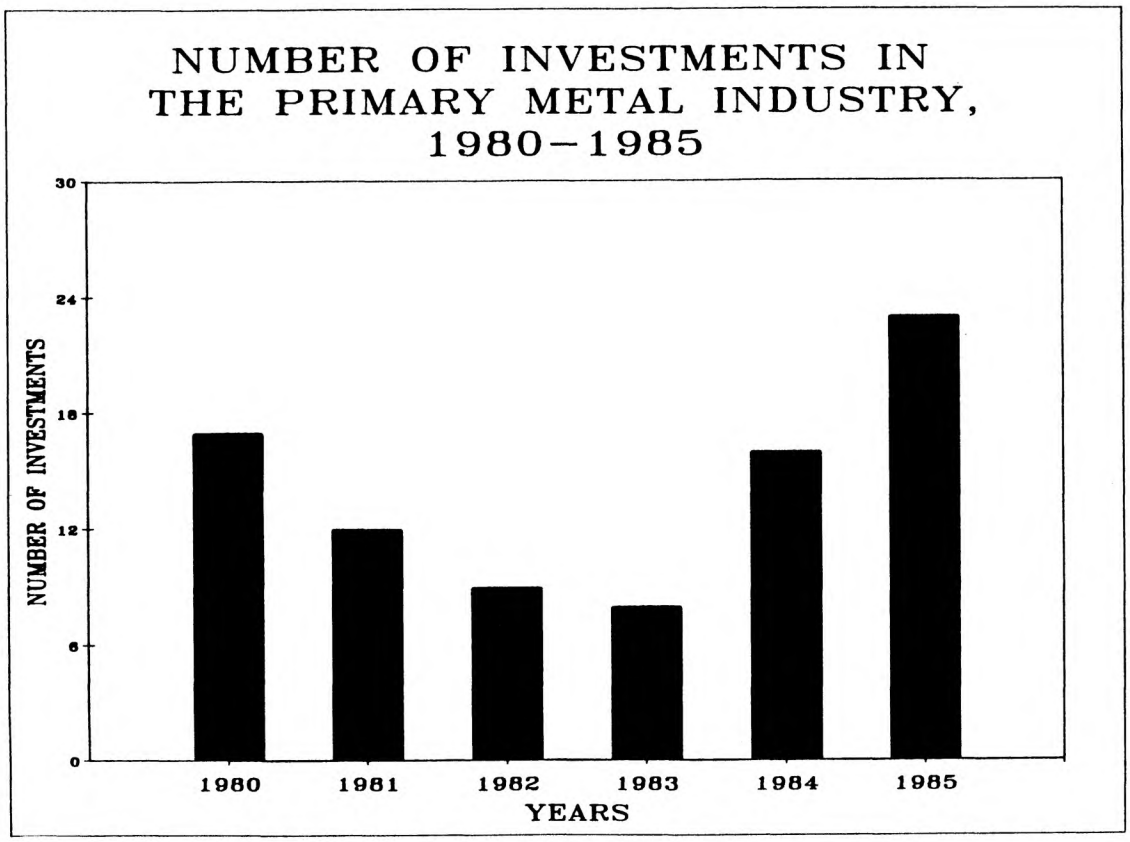
The steel industry accounted for more than half of the foreign investments (13) while the aluminum and copper industries had 3 transactions each.

Three countries, in the same ranking order as in 1984, were the source of just over four-fifths of the investments. Japanese investors in first place with 13 transactions had a 60 percent increase over the previous year. Canadian investors with 4 transactions had one more than in 1974, and investors from the United Kingdom with 2 transactions remained at the 1984 level.

The primary forms of investment were acquisitions (7), joint ventures (6) and new plants (3). Japan was the source country for all of the joint venture investments, four of which were in the steel industry, continuing the trend seen last year.

The two largest investments in the primary metals sector were made by Australian companies. The first was Comalco Ltd.'s acquisition of all of the stock of Martin Marietta Aluminum Inc. for $400 million in cash and notes. Comalco renamed the company Commonwealth Aluminum Corp. Comalco, Australia's largest aluminum producer, is 52 percent owned by the London-based mining firm Rio Tinto-Zinc Corp. PLC. The second largest investment was MIM Holdings Ltd.'s equity increase to 32.4 percent from 19.1 percent in Asarco Inc., a major mining and smelting concern with headquarters in New York City. This transaction by MIM Holdings, a major Australian mining company, had a value of $97.7 million.

Figure 12



Machinery, except Electrical - SIC 35 - Experiencing a lack of sales in a depressed market, foreign direct investment in the machinery industry totalled $562.4 million, a decrease of $330 million from the previous year. However, they increased the total number of completed transactions in the sector from 38 in 1984 to 48.

Japanese investors dominated the machinery industry with 16 transactions valued at $260.9 million. The most active investors continued to be the traditional source countries (West Germany, the United Kingdom, and Japan) accounting for 28 (58 percent) transactions.

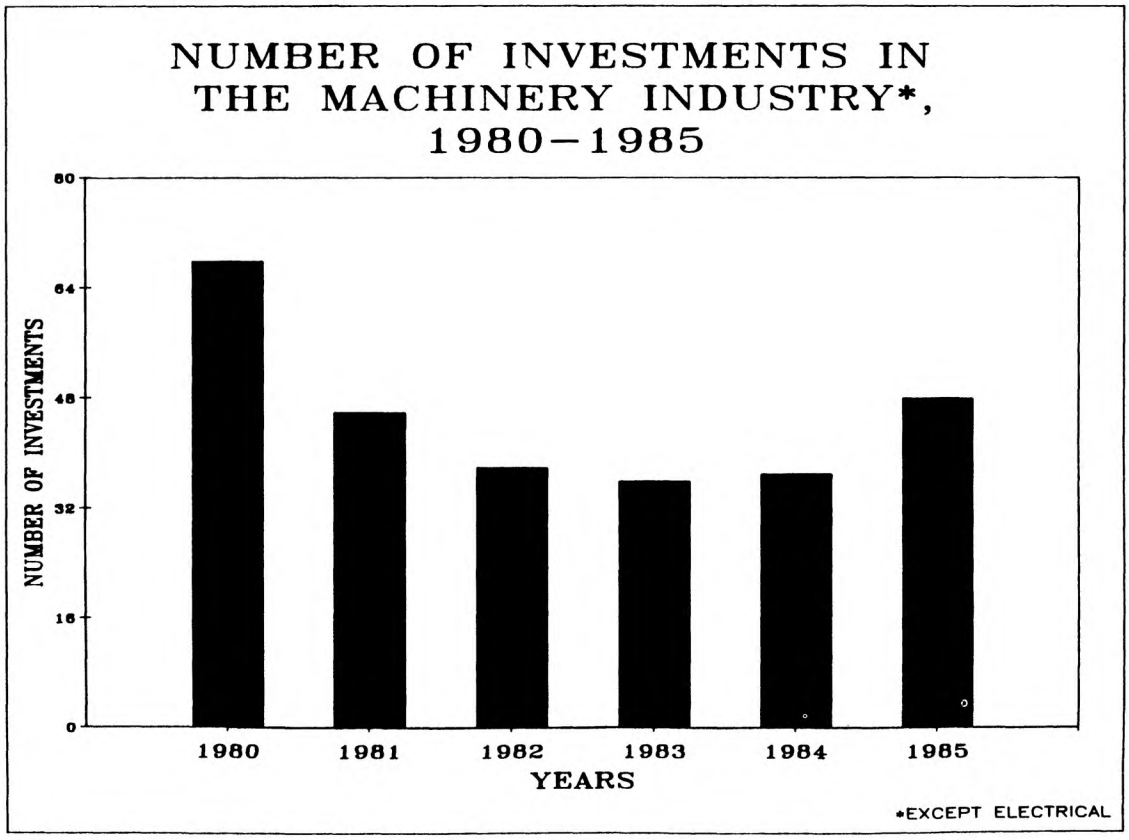
The $107 million acquisition of Wisconsin-based Allis Chalmers Agricultural Equipment Company by Kloeckner-Humboldt Deutz AG, a major West German industrial company, was the largest transaction of the year. The second largest occurred in the ball and roller bearings subsector. Minebea Company Ltd. acquired New Hampshire Ball Bearings Inc. (Peterborough, New Hampshire), a manufacturer of precision ball bearings for military and civilian use for $100.3 million. Minebea, a leading producer of ball bearings and of diversified electronic and computer devices, is owned by the Takahashi Family of Japan. Also in the roller

bearings subsector, NTN Toyo Bearings Company Ltd. (Osaka, Japan) and Federal-Mogul Corp. (Hamilton, Alabama) formed a $54 million joint venture, NTN Bower Corp.

The electronic computing equipment subsector attracted 15 cases and a total identified value of $223 million. In its effort to increase its worldwide penetration in semiconductors and to establish a beachhead in the United States, Thomson SA, the nationalized electronics group of Paris, France acquired semiconductor manufacturer, Mostek Corp. for $71 million.

Japanese investors acquired 3 companies - Apple Computers' Plant and Forward Technology in California and Plasmon Data Systems in New Jersey. Japanese investors also established a computer printer plant, by Fujitsu America, and a disk plant, by Epson Portland, both in Oregon. Horison Research Inc. a subsidiary of Mitsubishi Electric, was established in Massachusetts to conduct research and development in the computer field.

Figure 13



Electric and Electronic Equipment (SIC 36) - In 1985, the electrical and electronic industry experienced a 30 percent decline in the number of completed transactions. The slowdown can be attributed to a worldwide decline in demand for electronic products. There were 48 completed transactions in 1985 with values for 24 totalling $1.1 billion compared to 69 in 1984 with a total value of $473.2 million.

The traditional foreign investor countries were the source of 90 percent of the investments in this industry - Japan accounted for 22 transactions, United Kingdom 9, France and West Germany 5 each, and Canada 2. The remaining 5 transactions were made by investors from Turkey, Sweden, and Finland.

The most frequent type of investment was by the acquisition or merger mode (20), followed by new plants or expansions (12), new subsidiaries, outlets or joint ventures (12), and equity increases (4).

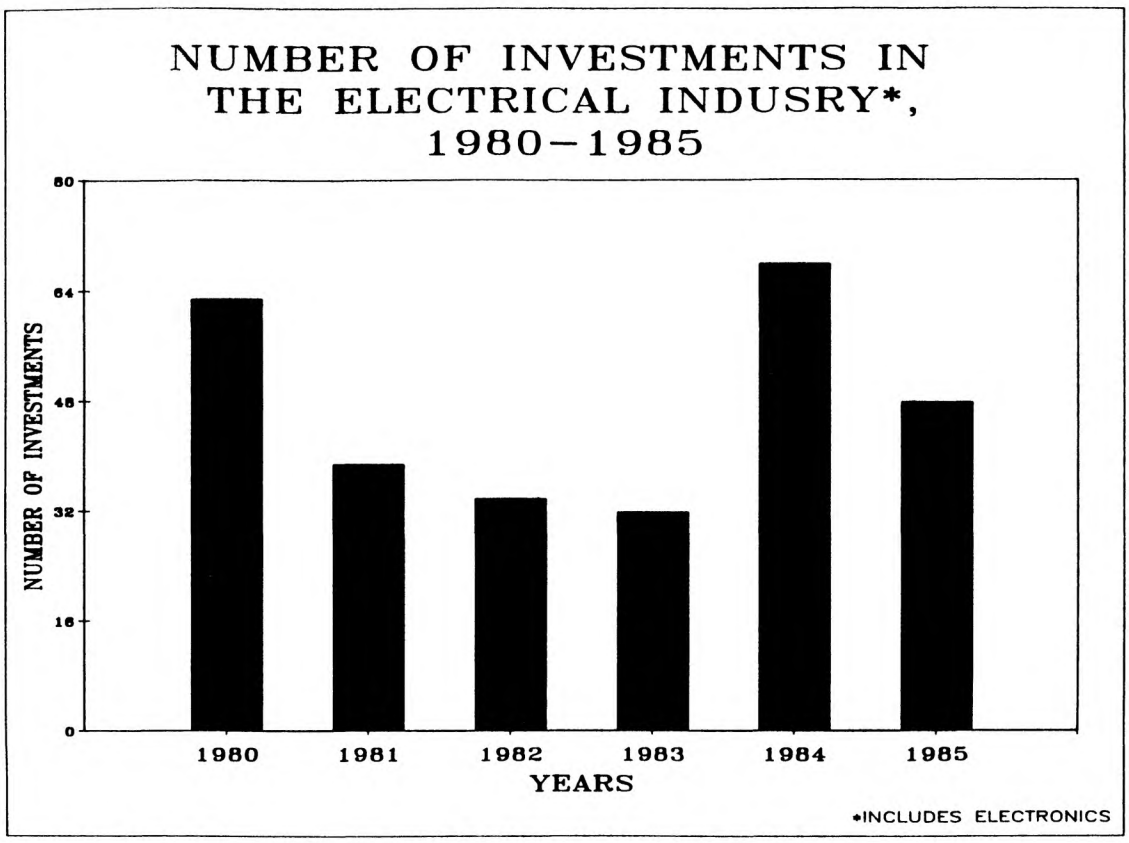
Twenty-seven of the completed 1985 transactions were dispersed throughout the east coast. California attracted more than any other state with 11 completed transactions.

Twelve of the 48 transactions were in the radio and television communications equipment subsector where U.S. consumer electronic companies rely on foreign technology, and concentrate more on marketing, distribution and design. During 1985, the General Electric Company stopped making color TV sets in Portsmouth, Virginia thus leaving only two U.S. color TV manufacturers - RCA and Zenith Electronics Corp. The largest transaction of this subsector was by a Japanese company, Nippon Electric Company Ltd. (Tokyo, Japan). Through its U.S. subsidiary, NEC America Inc., construction of a $67 million telecommunications equipment plant was completed in Hillsboro, Oregon.

The largest transaction in the electronics industry was a $523 million acquisition. First City Properties Inc. of California, a Belzberg-owned (Samuel, William & Hyman) real estate development company, increased its equity interest in Scovill Inc. from 6.3 percent to 100 percent. Scovill, headquartered in Waterbury, Connecticut, manufactures a wide variety of consumer and industrial products including Hamilton Beach appliances, Yale locks and securing devices, and Nutone intercoms. The Belzbergs, who in the past invested in real estate and financial services interests in the United States, are now attempting use Scovill to establish an industrial base here.

In a joint venture, Sharp Corp. (Osaka, Japan) 49 percent, and RCA Corp. (New York) 51 percent, are building a $107 million integrated circuits plant in Camas, Washington.

Figure 14



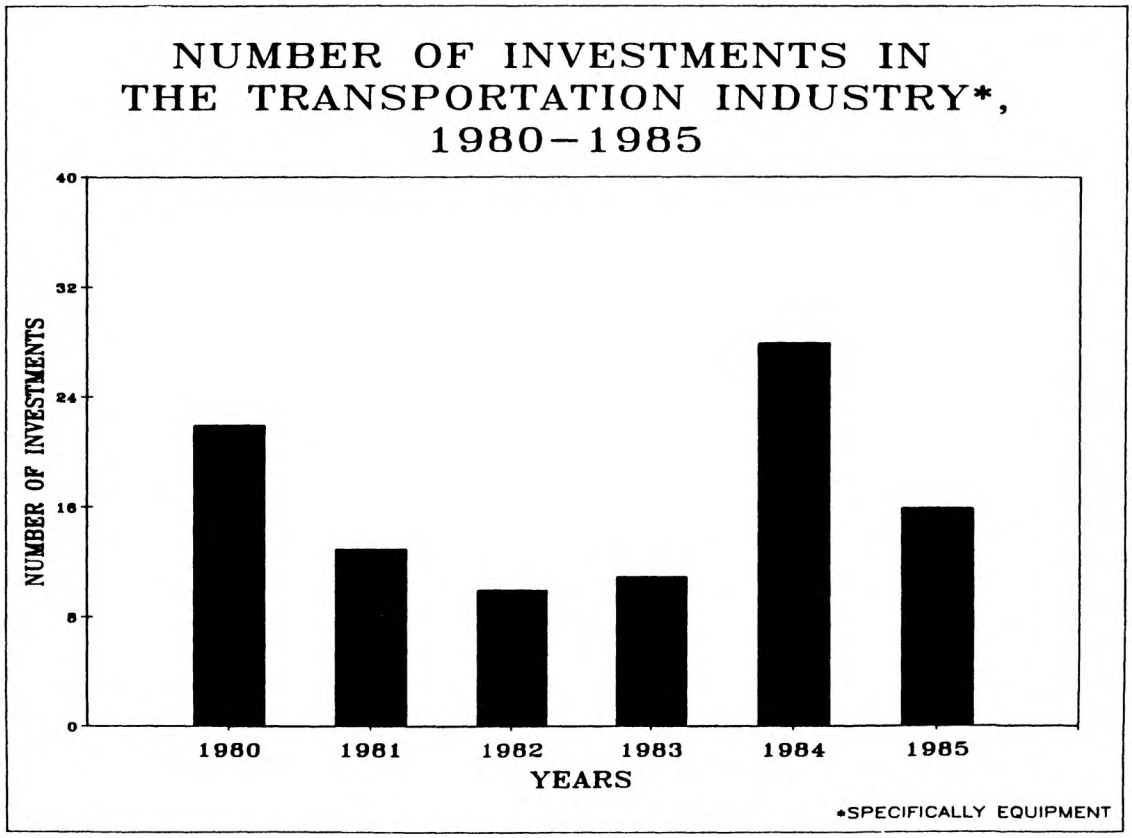
Transportation Equipment (SIC 37) - Foreign direct investment in the transportation equipment industry dropped about 42 percent in the number of transactions identified in 1985 although there was a 23 percent increase in the known dollar value. Much of the increase in value was the result of Japanese investment as U.S. consumers showed continuing strong demand for their products. By establishing production facilities here, Japanese investors hope to alleviate trade frictions brought on by their imports (Japanese imports accounted for more than 20 percent of the 11,042,658 automobile sales in the United States during 1985), and to lessen protectionist pressures. Another factor influencing Japanese investment here was the decision by two Korean manufacturers to enter the U.S. car sales market through imports, thus capturing some of the market at the lower end of the scale as Japanese manufacturers move to luxury high-ticket models.

During 1985, OTIA identified 16 transactions in this sector with values for 9 totalling more than $700 million as compared to 28 transactions in 1984 with 12 values amounting to $571 million. Two Japanese investors, Mazda Motors (25 percent owned by Ford Motor Company) started construction on a $450 million facility in Flat Rock, Michigan and Mitsubishi Motors (15 percent owned by Chrysler Corporation) formed a $680 million 50/50 joint venture with Chrysler to produce automobiles in Illinois.

Future investments include Toyota Motor Corp.'s planned $800 million production facility in Tennessee, while Isuzu Motors and Fuji Heavy Industries, maker of Subaru cars and trucks, have announced a tentative joint venture to manufacture automobiles here. Should the latter production facilities materialize, seven of Japan's nine automotive manufacturers will have production bases in the United States.

There were eight countries investing in this industry. Other than Japan with 8 transactions, none had more than 2 transactions. Most were in the form of parts production with no central geographic concentration. There were 12 new plants, 2 acquisitions and 2 joint ventures.

Figure 15



Railroad Transportation (SIC 40) - Federal law restricts foreign direct investment in the maritime and aviation industries but not in railroad transportation. However, there are extensive state laws concerned with the formation of railroads within various states, almost all of which permit foreign ownership through the establishment of subsidiaries or through acquisition or control of existing U.S. railroads.

Nevertheless, during the 10 years of ITA's foreign direct investment monitoring program, few transactions have been recorded in the railroad transportation sector. In 1985 only three transactions were recorded, but in an unusual development, one of these was the largest transaction identified in this sector since the inception of the monitoring program. It was also controversial. In a spirited takeover bidding competition, two Canadian-owned railroad firms and a U.S. railroad company vied for almost one year to acquire the Milwaukee Road Railroad.

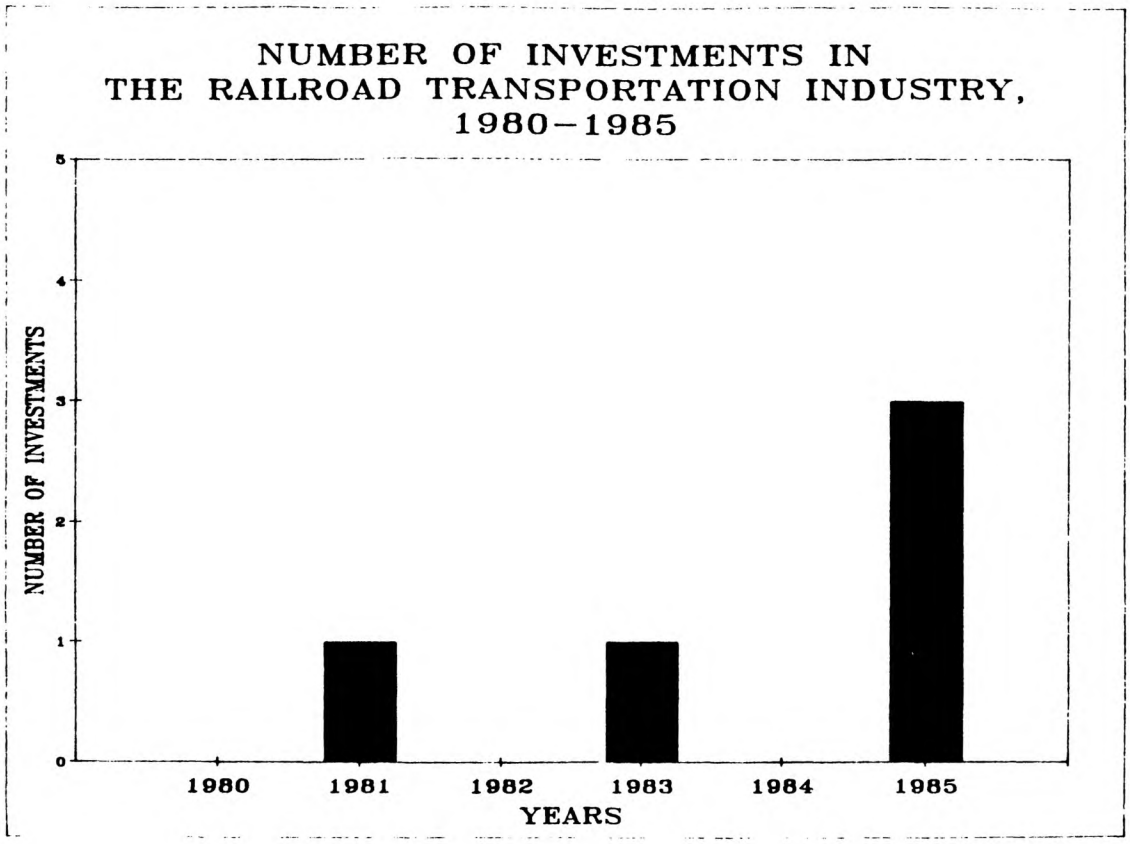
The three railroads were the Soo Line Railroad Co. of Minneapolis, majority-owned by Canadian Pacific Ltd.; Grand Trunk Corp. of Detroit, owned by the Canadian-Government-controlled Canadian National Railway System; and the Chicago and North Western Transportation Co., a Chicago-based railroad company.

Known as the Milwaukee Road, the Chicago, Milwaukee, St. Paul & Pacific Railroad, was 95 percent owned by Chicago Milwaukee Corp., itself 16.3 percent held by Cie. de Banque et d'Investissments of Switzerland and Electra Trust PLC of the United Kingdom. One of the country's largest railroads, Milwaukee Road had been trimmed down to a 3,300-mile Midwestern line after filing for bankruptcy in 1977. The Soo Line Railroad Co. finally acquired the Milwaukee Road in 1985 for $570.6 million after an extended bidding battle. Soo Line's winning bid, $210 million lower than the final offer from Chicago and North Western Transportation, was accepted by a Federal judge who ruled that public interest factors outweighed the financial superiority of the higher bid.

The merger of the Milwaukee Road and the Soo Line created a company that now operates 7,600 miles of line in a dozen states, making it one of the major rail carriers in the upper Midwest. The merger was the second acquisition in five years for the Soo Line. In June 1981, the railroad acquired the Minneapolis, Northfield and Southern Railway, a small Minnesota line.

Soo Line is 55.7 percent owned by Canadian Pacific Ltd. of Montreal, itself 11.7 percent held by Power Corp. of Canada Ltd., a Montreal-based utilities and railroad service holding company.

Figure 16



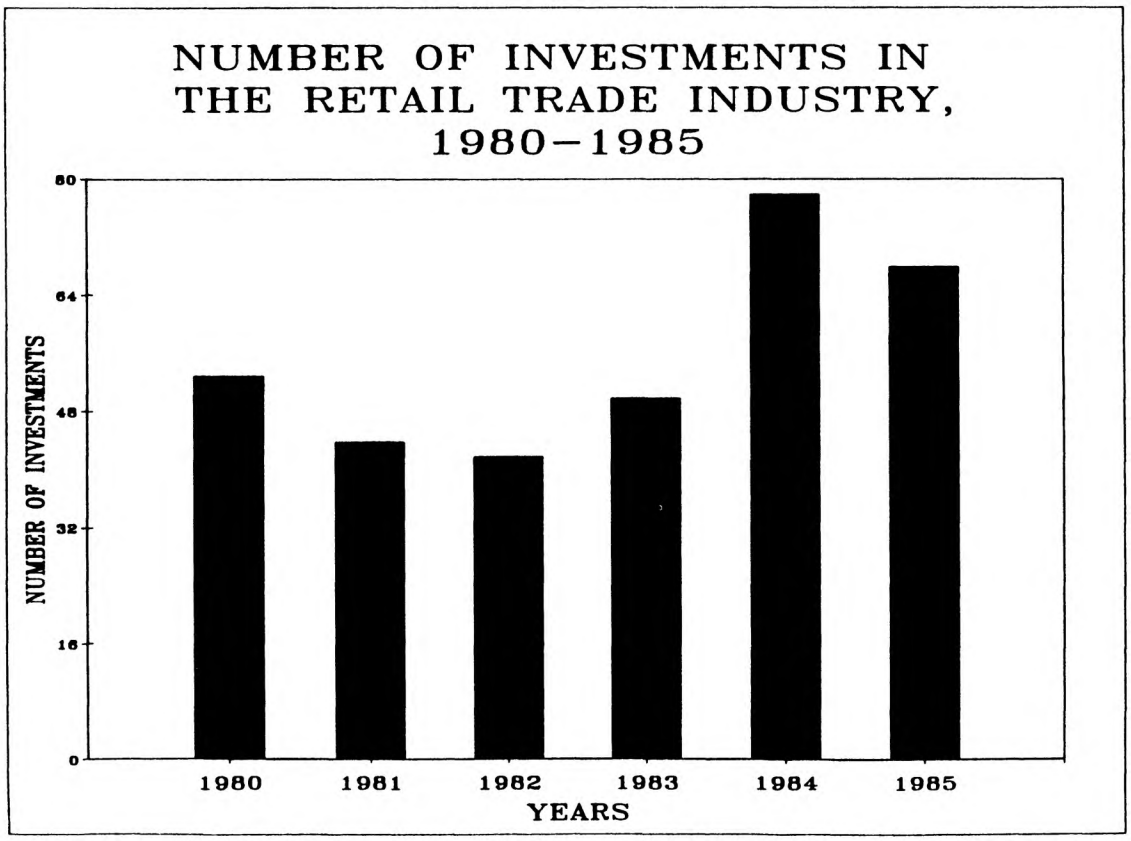
Retail Trade (SIC's 52-59) - Foreign direct investment in the retail industry is changing the American retail market as many European investors are continuing their 1984 investment strategy and expanding into this vast consumer market. While some stress their identity, others quietly move into the U.S. marketplace through acquisition of major chains, thus retaining the U.S. identity. In previous years, many foreign manufacturers were content to manufacture at their home-base and allow U.S. retailers to handle the U.S. consumers. Now, many are retailing directly to the consumer.

Investors who duplicate their home operations seem to have more success than those who acquire existing businesses. For example, Conrans of Great Britain and IKEA of Sweden, both sell their own lines of household furnishings in their own style with great success. On the other hand, The French group, Agache-Willot acquired Korvette Stores in 1979 and closed it after three years of disappointing results. Likewise, the Howard Johnson's restaurant and hotel chain was acquired in 1980 by the Imperial Group of London and sold to the Marriott Corporation last year. There have been others with equally disappointing results.

While foreign investment in this sector declined about 13 percent during 1985, there were 68 transactions identified with values for 19 totalling more than $750 million. Two transactions accounted for about 70 percent of the value. The British conglomerate, Grand Metropolitan PLC, acquired Pearl Health Services, of Texas, the nation's largest retailer of eye glasses and contact lens for $368 million, and Atlantic Richfield Company sold more than 400 service stations in the northeast corridor to the Royal Dutch Shell Group of the Netherlands and Great Britain for $150 million.

The greatest number of transactions (17) was in the subsector listed as eating and drinking places, and the apparel and specialty stores subsector had 15. While investments were identified from 16 countries, the most came from the United Kingdom 13, France 12, Japan 9 and Germany 7. Twenty states were the recipients of these investments, led by New York, the center of the U.S. apparel industry, with 17 transactions, and California, 10.

Figure 17



Banking (SIC 60) - During 1985, 12 completed banking transactions were identified, two of which had reported values totalling $20.9 million. While the number of transactions registered a slight decline from 14 in 1984, the associated values declined significantly from $826.7 million in 1984. This value decline was due to the lack of large bank acquisitions.

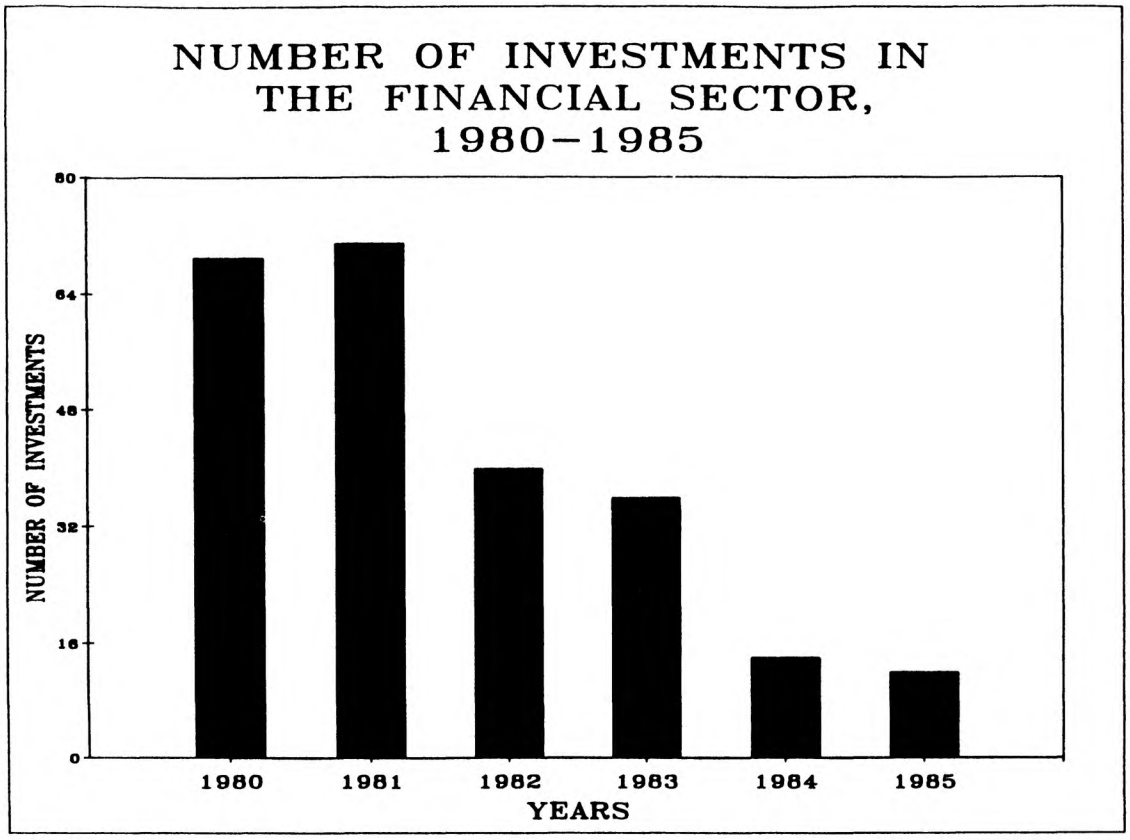
Seventy-five percent (9 cases) of the banking investments were made in New York (5) and California (4). Massachusetts, Illinois, and Colorado each received one banking investment. Foreign banks' predominant choice as "home state" (a choice required by the International Banking Act of 1978) remained New York, with California close behind.

During 1985, investors from the United Kingdom (3), Hong Kong (2), and Finland (2) accounted for over one-half of the transactions. Investors from Canada, Indonesia, Venezuela, and the Netherlands Antilles each accounted for one transaction. In the previous year, investors from Canada, Japan, France, and Belgium were significant investors. During 1985, 6 of the investments were new branches, and one new banking subsidiary was established. There were also 4 acquisitions of existing U.S. banks and one equity increase in a previously acquired bank.

There were several reasons for the continued low level of foreign banking activity in the United States. One important reason was the relatively high value of the U.S. dollar. Another was the depressed nature of the U.S. banking industry, affected by reduced activity and deflation in the oil, mining, and agricultural sectors. Further, internal conditions in the U.S. banking industry contributed to the continued slowdown in foreign investment. Other banks and bank-like institutions in the U.S. market generated increased competitive pressure. U.S. banking deregulation caused aggressive pricing policies. Together these factors made it difficult to maintain both quality loan portfolios as well as traditional profit margins.

In the largest transaction last year, Midland Bank (United Kingdom) purchased the additional 40 percent it did not already own of Crocker National Bank (San Francisco) for approximately $200 million.

Figure 18



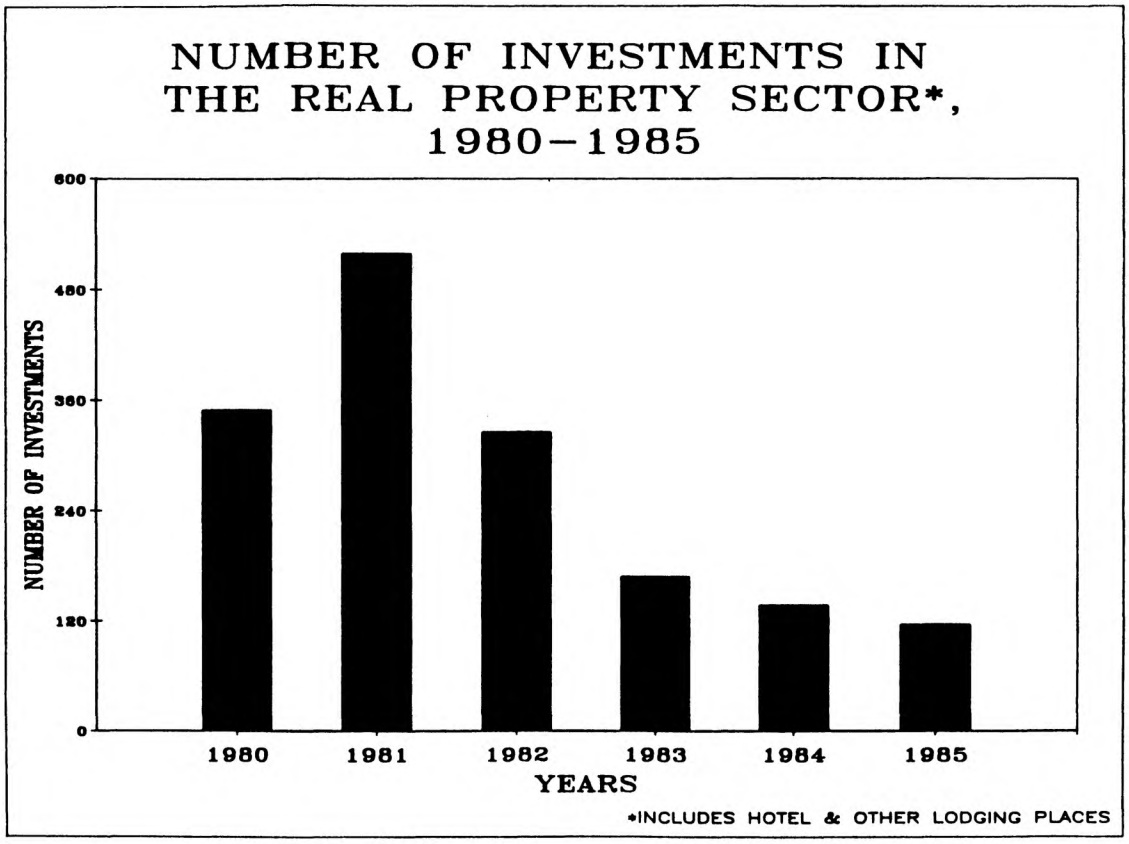
Real Property - During 1985, 90 commercial real estate investments involving foreign investors in the purchase and development of real property, plus a further 27 investments in the hotel industry (SIC 70), were identified. Of the total 117 investments, 79 had known values totalling nearly $3.6 billion, of which 6 were valued at $100 million or more. (Purchases of agricultural land and individual residential real estate units are not included in this report.)

From the peak number of transactions in 1981 (464), the number has declined each year, and 1985 was no exception, being 21 lower than 1984 (138). With office vacancy rates in some prime urban districts at 20-30 percent, investors continued to be cautious and very selective.

It was expected that Japanese investment would grow during 1985, and it did. With 34 investment transactions, and values known for 10 totalling $820 million, the Japanese were the most active investors in the sector. In 1984, 11 Japanese transactions were identified with 7 values totalling $597 million. The Canadians were the next most active in 1985, with 22 transactions for which 15 values were identified totalling $853 million. Combined, these two groups of investors accounted for 48 percent of the transactions, with the remainder spread widely among other nations.

Four states attracted 73 investments (62 percent of the total), with California leading with 31, New York attracted 17, Georgia 15, and Florida 10.

Figure 19



MAJOR SECTORAL DEVELOPMENTS

The following section focuses on major investment transactions trends in the more active industrial sectors during 1986.

Metal Mining (SIC 10) - Continued interest by foreign investors in the U.S. gold mining industry resulted in a 40 percent increase of foreign direct investment in the U.S. metal mining sector in 1986. Eleven of the 14 completed transactions identified had a total value of $519.5 million, more than four times greater than the 1985 total.

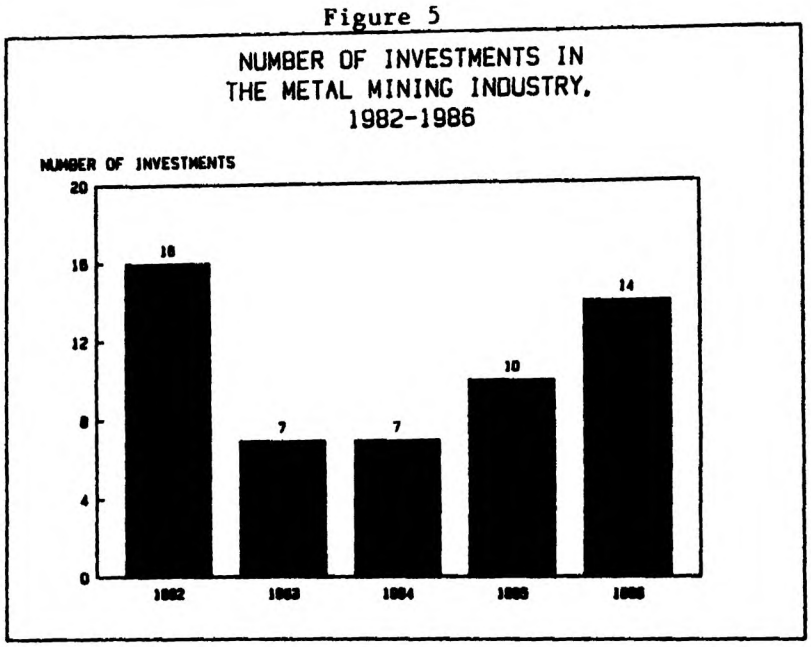
Two major transactions accounted for 67 percent of the value. The largest was the modernization of Standard Oil Co.'s Utah Copper Division production facilities at a cost of $220 million. Standard Oil Co. of Cleveland, Ohio, which was 55 percent owned by the British Petroleum Co. PLC at the commencement of the three-year project, is how wholly owned by that company.

The second major transaction was Echo Bay Mines Ltd.'s acquisition of certain gold mining properties from Tenneco Inc. of Houston, Texas for $130 million. The properties are located primarily in Nevada. Echo Bay Mines, with headquarters in Edmonton, Canada, is a major mining company with significant gold mining operations in both Canada and the United States, including a 50 percent interest in Round Mountain Mine, the third largest gold mine in this country.

Two primary source countries accounted for more than two-thirds of the investments in the metal mining sector. In the same ranking order as the previous year, Canadian investors were credited with 7 transactions, while investors from the United Kingdom accounted for 3 transactions.

Eight of the 14 transactions were acquisitions. There were also 4 joint ventures and 2 equity increases. Gold mining as the most attractive industry accounted for 6 transactions, 5 of which were acquisitions. The copper, iron ore, uranium and other metal ores each had 2 transactions.

Figure 5



Oil and Gas Extraction (SIC 13) - In 1986 the U.S. oil and gas extraction sector suffered the worst year in a decade. Plunging oil prices, weak natural gas prices, and an oversupply of crude oil in storage caused operating earnings for major domestic oil companies to fall 80 percent below those of a year earlier. Since most companies were unable to fund and produce new oil profitably at 1986 price levels (about $16 per barrel at year's end) many suspended exploratory drilling in the United States. The number of working U.S. rigs fell from 1,915 in 1985 to 663 in July 1986, the lowest number since 1940 when record keeping began. The 55 percent reduction of foreign direct investment in this industry reflected the problems that producers were having worldwide.

OTIA identified 29 completed transactions, the lowest number recorded in the 1980's. The value for 15 of the transactions was $1.8 billion, a decrease of 66 percent from 1985.

The largest transaction accounted for most of the value figure. That transaction was the acquisition of Big Three Industries Inc., a Houston, Texas industrial gas producer for about $1.1 billion in cash by L'Air Liquide SA of France, one of the world's leading producers of industrial gases.

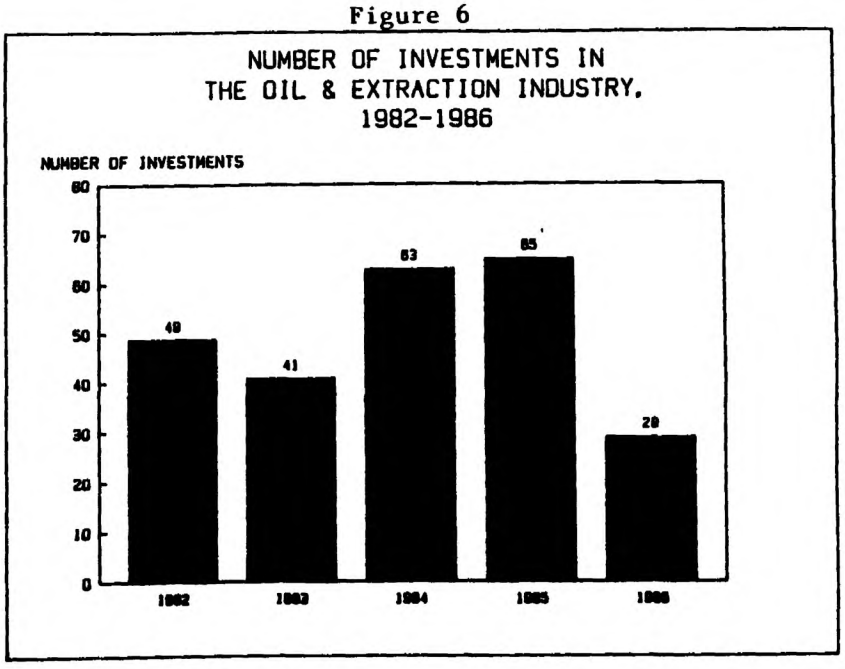
The second largest transaction was the acquisition by Shell Oil Co., a wholly owned subsidiary of the Royal Dutch/Shell Group of the Netherlands, of several onshore and offshore California oil

exploration and production properties from Phillips Petroleum Co. for $225 million. The third largest transaction was also an acquisition of oil and gas properties. Lear Petroleum Partners LP sold exploration and production related assets to Minatome Corp., a Houston-based subsidiary of Total-Compagnie Francaise des Petroles (CFP), for $115 million. Total-CFP is the Paris-based oil and gas exploration controlled by the French Government.

The principal source countries for investment in this sector changed considerably in 1986 from past years. Since 1982 investors from Canada, the Netherlands and the United Kingdom have been the most prominent. However, in 1986 Australian investors ranked first with 7 transactions. Investors from the Netherlands were second with 5 transactions, while Japanese investors were in third place with 4 transactions, one of which was the Texaco USA Inc.-Nippon Oil Co. Ltd. joint drilling and exploration venture valued at $100 million.

Almost half of the transactions in the oil and gas extraction sector were acquisitions (14). Equity increases (8), new wells (3) and joint ventures (2) were other types of multiple investments.

Figure 6



Food & Kindred Products (SIC 20) - Foreign companies are making major inroads into the U.S. food and kindred products sector. In 1986, the foods industry experienced a 64 percent increase in the total number of transactions. In 1986, OTIA identified 39 completed cases, 24 values totalling $1.7 billion, while the prior year there were 25 transactions and values totalling $3.2 billion.

Investments by principal source countries were responsible for 77 percent of all completed transactions. Japan was the major source country in the food & kindred products area. Japanese investors accounted for 13 of the 39 completed transactions. Other major source countries were Switzerland with 6 cases, United Kingdom 5, and 3 each from Canada and the Netherlands.

In 1986, foreigners invested $1533.7 million (92 percent of the total value) to acquire 21 U.S. food producers and processors; 6 new plants/expansions, 5 new offices, new wineries or joint ventures and 2 equity increases.

British Petroleum Company's (BP) aim to diversify outside oil and related business resulted in the largest transaction in the foods sector. Ralston's Purina Mills, the nation's largest animal feed business headquartered in Louisville, Kentucky was purchased by BP for $500 million. BP, which is 36.1 percent owned by the British Government, is now the largest animal feed company in the world.

Motivated in part by the declining dollar and depressed import sales foreign investors made 4 acquisitions and expanded one plant to tap the growing U.S. market for wines, brandy and brandy spirits.

Nestle SA, a Swiss food giant, acquired financially troubled Louverain Cellars in Geyserville, CA for $12.5 million.

The Gloria Fever Champagne Caves in Sonoma County, California were opened in July 1986 by Spanish wine maker Freizinet SA.

Ridge Vineryards, a small but prestigious California winery, was purchased by an Amercan subsidiary of Otsuka Pharmaceutical Co. Ltd., Toyko, Japan.

Takara Shuzo Co. Ltd. of Japan paid $2.7 million for a 90 percent interest in Honolulu Sake Brewery & Ice Co. And Takara also invested $1.3 million to expand its Berkeley, California sake company.

Foreign companies invested in a variety of other subsectors. John Labatt Ltd., a Canadian brewing and food concern, paid $151.9 million for a 95 percent interest in Pasquale Food Co., a Birmingham, Alabama-based supplier of fresh pizza crusts and pasta to supermarkets and delicatessens. Johanna Farms Inc., a subsidiary of John Labatt Ltd. (Allentown, PA) bought the dairy processing

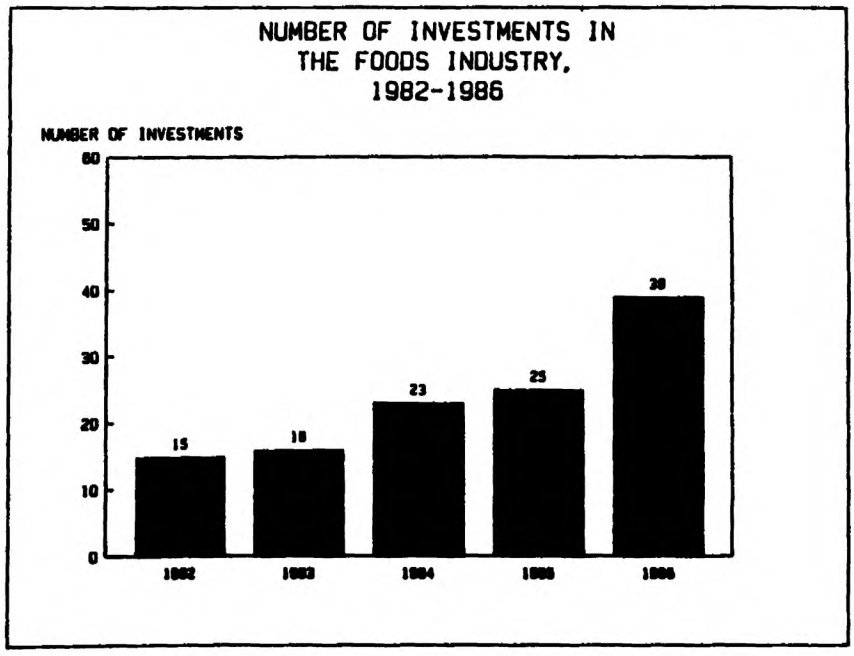
facilities of Atlantic Processing Inc. Johanna & API were major competitors in the fluid milk industry.

Two British companies, Cadbury Schweppes PLC and Rowntree MacKintosh PLC were among the top investors in foods. Cadbury Schweppes PLC, a London-based candy and soft drink company, has been aggressively building its soft drink business in the United States. In 1986, Cadbury bought RJR Nabisco's Canada Dry & Sunkist Soft Drinks for $230 million. Continuing its expansion drive, Cadbury paid $124.8 million for a 30 percent interest in Dr. Pepper Co. Dr. Pepper Co, (Dallas, Texas) is the fourth largest soft drink producer in the United States.

Continuing its strategy of diversification through investment in the United States, Rowntree MacKintosh PLC added to its confectionery business by acquiring Sunmark Inc. for $230 million. Sunmark is based in St. Louis, Missouri.

The Fleishchmann yeast and vinegar plant was purchased by Burns, Philip & Co. Ltd. of Sydney, Australia for $130 million. Fleischmann is the country's largest producer of consumer yeast.

Figure 7



Paper and Allied Products (SIC 26) - As a growing number of foreign producers compete for market share in the United States, they are establishing or expanding their presence here. However, since the U.S. paper and allied products sector continued to be challenged by

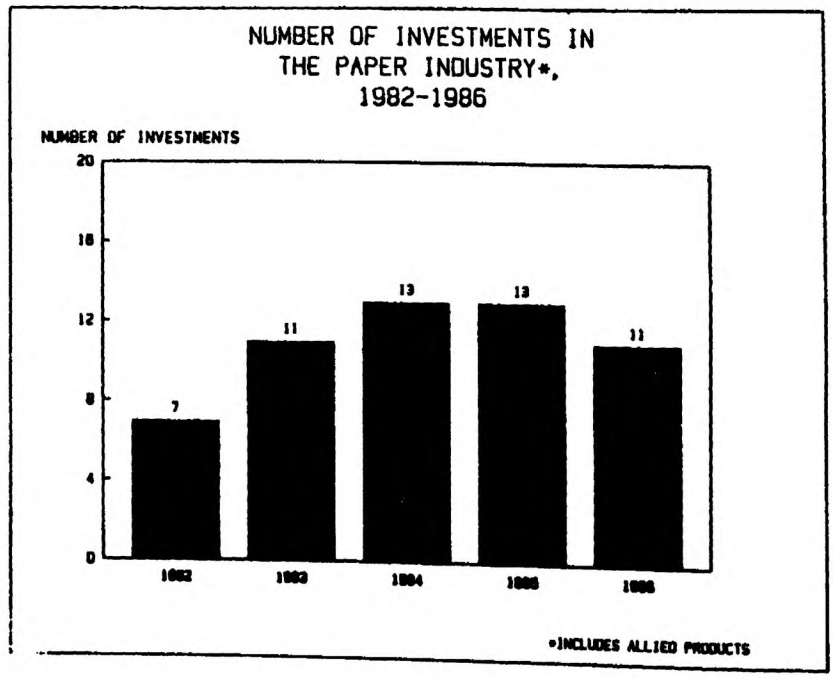
global competition in some product lines and worldwide overcapacity in others, foreign investors became more cautious in 1986.

This may explain the slight decline in the number of investments recorded by OTIA, which identified 11 completed transactions, 4 of which had a total value of $725.6 million, with the largest transaction accounting for 94 percent of that figure. This transaction was the acquisition of Container Corp. of America by Jefferson Smurfit Corp. in partnership with Morgan Stanley Leveraged Equity Fund. The total cost of the investment, including assumption of debt, was about $1.2 billion.

Jefferson Smurfit Corp.'s share was about $683 million. The Alton, Illinois-based firm, which operates seven paperboard mills and more than 60 plant sites in the United States, is 78.5 percent owned by the Jefferson Smurfit Group Ltd. of Dublin, Ireland, an international manufacturer of paperboard and packaging products. The group, controlled by the Smurfit family, accounted for 36 percent of the investments in this sector in 1986.

As in 1985, Ireland was the leading source country with 4 transactions. Canada and Japan tied for second place with 3 transactions each. Almost three-quarters of the investments were acquisitions (8). The others were all new plants (3). The majority of the investments were equally divided (2 transactions each) in four subsectors: 2611-pulp mills; 2621-paper mills; 2641-paper coating and glazing and 2651-folding paperboard boxes.

Figure 8



Printing and Publishing (SIC 27) - A weakened dollar and access to half the world's book market encouraged foreign investors to acquire U.S. publishing houses at an unprecedented rate in 1986. OTIA identified 38 investments with 15 values that totalled $1,697.6 million, a record sum for this industry.

Almost 16 percent or 6 transactions, had values exceeding $100 million. The largest of these was Bertelsmann AG's acquisition of Doubleday & Co. for the record sum of a half billion dollars, some 70 times Doubleday's most recent profit figures. Bertelsmann, West Germany's biggest communications concern, is controlled by Reinhard Mohn in Guetersloh, West Germany.

An acquisition by a Canadian investor in the book publishing industry tied for second place with an acquisition in the periodicals publishing industry by a British investor. In the former, International Thomson Organization Ltd., a Toronto-based publisher controlled by Kenneth R. Thomson, acquired South-Western Publishing Co., an Ohio business and mathematics textbook publisher, from SFN Cos. for $250 million. In the other transaction Dun and Bradstreet Corp. sold its Technical Publishing Co. subsidiary to Cahners Publishing Co. of Newton, Massachusetts, a unit of Reed International PLC of London, also for $250 million.

The third largest transaction was another acquisition by International Thomson Organisation Ltd. The Canadian publisher purchased Cordura Corp., a Los Angeles database publishing firm for $222 million.

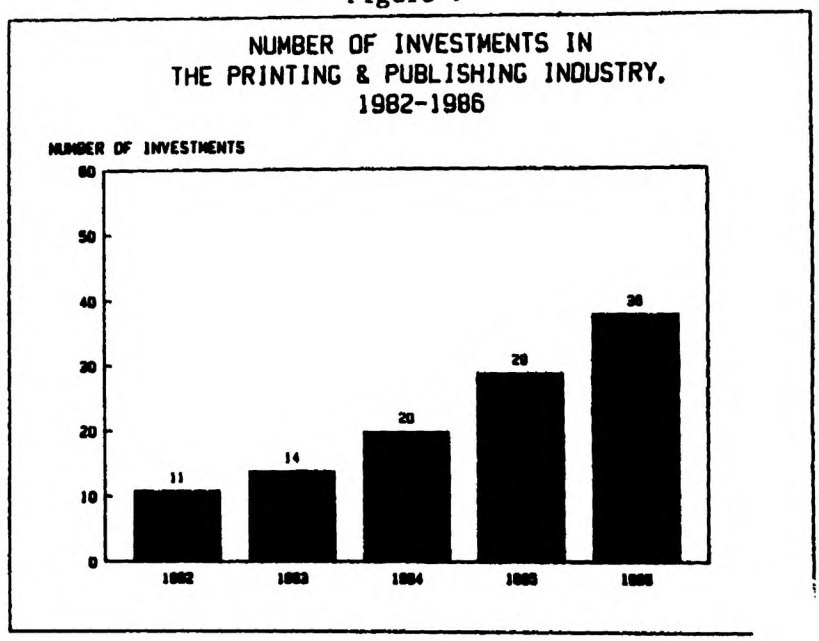
Robert Maxwell, Chairman of British Printing & Communication Corp. PLC (BPCC) and owner of the Mirror newspaper group of London, accounted for the fourth and fifth largest transactions recorded in 1986. Both were acquisitions by BPCC which purchased Providence Gravure Holdings Inc., a commercial printing company in Providence, Rhode Island, for $152 million, and the Webb Co., a St. Paul, Minnesota printing and publishing group, for $117.3 million.

Investors from the United Kingdom and Canada continued to account for the bulk of the transactions in the printing and publishing sector. In 1986, investors from these two countries made almost three-quarters of the investments identified. Prominent among them were Canadian publisher Kenneth R. Thomson with 8 investments and British publisher Robert Maxwell with 6 investments. The United Kingdom was the number one source country with 16 transactions; Canada, with 12 transactions, was in second place. All other sources countries, including Australia, Italy, the Netherlands, Sweden and West Germany had 2 transactions each.

Twenty-nine of the transactions were acquisitions. There were also 3 equity increases, 3 new subsidiaries, 2 joint ventures and 1 new office identified.

Periodicals publishing (2721) attracted the most investor interest. There were 15 transactions; one-third of them had an aggregate value of $426.2 million. However, the book publishing industry (2731) with 10 transactions had the highest total value - $760.2 million for 4 transactions. Newspaper publishing (2711) was the third most attractive industry with 5 transactions, one of which had a $75.6 million value.

Figure 9



Chemical and Allied Product (SIC 28) - Chemical and pharmaceutical companies outside the United States are aquiring U.S. chemical businesses in record numbers at premium prices.

The effect of new tax laws on capital gains gave U.S. companies the incentive needed for restructuring their operations, giving up unprofitable and unrelated segments. With the weaker dollar and the increased desire to become global, the U.S. has become the prime target for many foreign chemical companies.

Over $4.2 billion was spent in the chemical industry during 1986 by foreign investors, making it their second industry of choice. With the trend set in 1985 for billion dollar investments, we expect it to continue at least through 1987, since two acquisitions to be consummated in 1987 at a cost of nearly $6 billion were announced at year-end 1986.

While there was an eighteen percent increase in the number of transactions identified, the known dollar value of transactions nearly doubled. Sixty-nine transactions were identified with values

for 37 totalling more than $4.2 billion. Ten transactions accounted for nearly 94 percent of the value. British companies had the largest share when Hansan Trust acquired the remaining 75 percent of SCM Corporation, an acquisition started in 1985 for $699.6 million.

Other transactions included:

-- Boots Company PLC acquired Baxter Travenol's Flint (pharmaceutical preparation) Division for $550 million.

-- The Beechman Group PLC acquired Norcliff Thayer, another pharmaceutical company for $395 million.

-- Celanese Corp. sold its paint and varnish division to Rin-Tinto-Zinc Corp. PLC, another British company, for $138 million. Other British companies like Gloxo Holdings and BOC Group PLC made smaller investments.

-- The French Government controlled Rhone-Paulenc acquired the agricultural crop division of Union Carbide for $575 million.

-- Japan's Dainippon Ink and Chemicals Inc acquired the graphic arts division of Sun Chemical for $550 million. Previously financing research and development in this industry, Japanese companies are now beginning aggressively to seek and increase their presence in the specialty chemical market.

-- The Swiss chemical and pharmaceutical giant, Sandoz Ltd., acquired Farley/Northwest Industries' Velsical chemical pesticide subsidiary for $225 million.

-- Monsanto Company sold its paper chemical division to Akzo NV, the Netherlands, for $200 million.

-- Montedison SPA, Italy, increased its investment in Ehramont NV, a Connecticut pharmaceutical company, from 71 to 85 percent for $125 million.

-- Belgium's Solvay & Cie acquired Reid-Rowell Inc., a Georgia pharmaceutical company for $117.0 million.

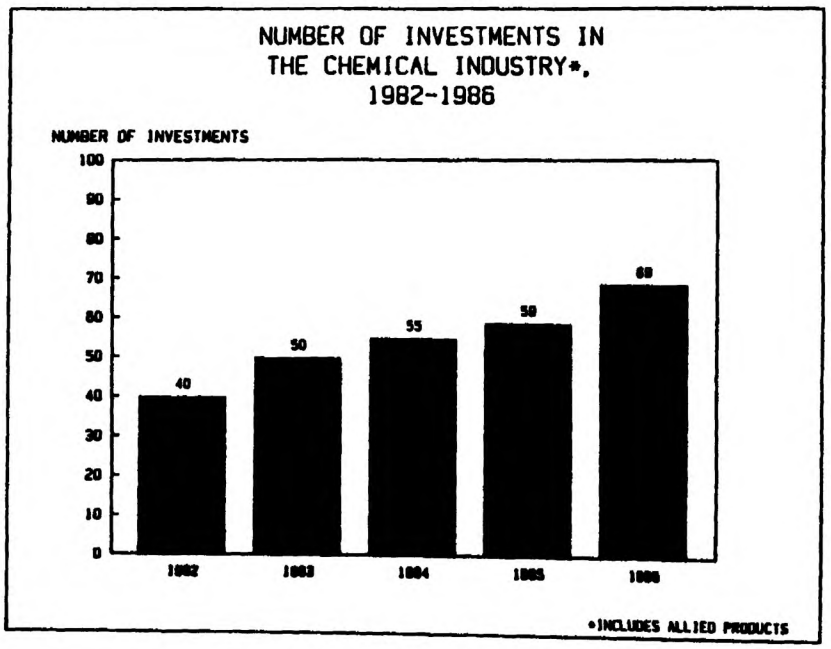
British companies contributed the largest share of transactions (18) with a known value at $1.8 billion. Japan had 15 transactions and values of $695 million, while France had only 4 transaction valued at approximately $580 million. There were also 12 transactions by Germany companies.

Acquisition was the investment mode used most often (39) with 16 new plants and 13 expansions of existing facilities.

In another development not included in this industry but associated with it, Charles of the Ritz, a distributor of cosmetics and health care products was acquired by Yves Saint Laurent of France for $630 million.

There was also one large transfer between British companies, as Britain's Hanson Trust sold the Glidden Paint division that it acquired through its acquisition of SCM to Imperial Chemicals for $580 million.

Figure 10



Petroleum Refining and Related Industries (SIC 29) - While refined petroleum products' prices fell more slowly than did crude oil prices in 1986, there was still too much refining capacity to keep profit margins high enough to attract foreign investors.

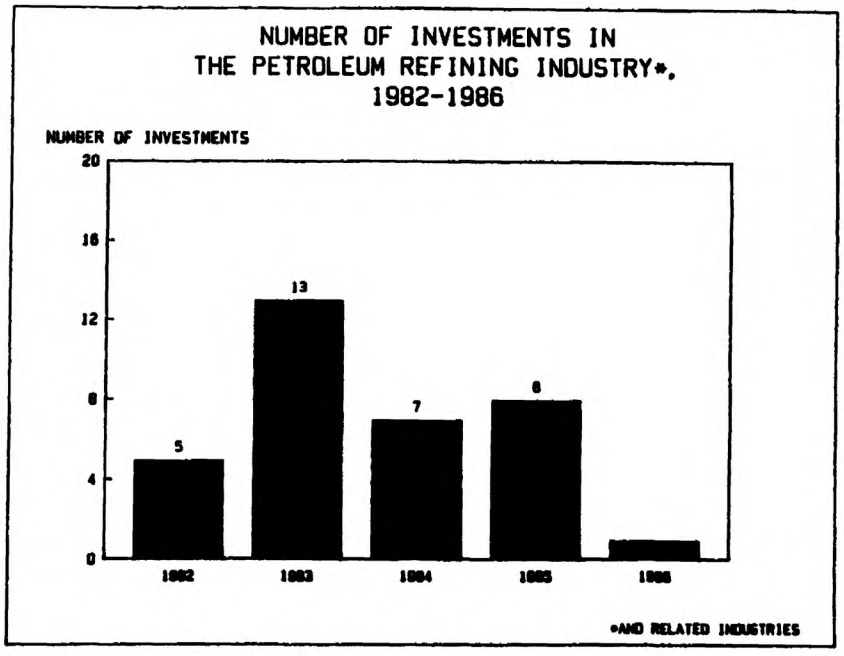
In 1986 OTIA recorded only one completed transaction in the petroleum refining industry. It had a value of $540 million. Petroleos de Venezuela SA (PDVSA), Venezuela's state-owned oil company, acquired a 50 percent equity interest in Citgo Petroleum Corp. of Dallas, Texas for $290 million. In addition, PDVSA agreed to provide $250 million or 50 percent of Citgo's working capital requirements. The Citgo acquisition was part of the state-owned oil company's strategy to acquire equity interests in refining capacity in its major markets. Venezuela ranks with Canada, Mexico, and Saudi Arabia as the leading foreign suppliers of crude oil to the United States.

Citgo's Lake Charles, Louisiana refinery complex, which has a production capacity of 320,000 barrels per day, is the ninth largest refinery in this country. Thirty percent of the crude processed at the refinery is heavy oil, much of it supplied by Venezuela. In addition to its refinery, Citgo operates a wholesale business that provides refined oil products to more than 300 independent distributors in 30 states and has interests in several U.S. terminal and pipeline systems.

At the end of 1986, PDVSA was still negotiating the terms of a joint venture with Union Pacific Corp. to own and operate the Champlin oil refinery in Corpus Christi, Texas.

One noteworthy foreign investment in the petroleum refining industry that fell through was the attempted acquisition of Ashland Oil Inc. by the Belzburg family of Canada. Acting through First City Financial Corp. Ltd. and First City Trust Co., Canadian firms in which they have major holdings, the Belzburgs offered to acquire Ashland Oil Inc. of Ashland, Kentucky, the largest independent refinery in the United States, for $60 per share, or $1.8 billion. However, stringent anti-takeover laws rushed through the Kentucky legislature and Ashland's offer to buy back the Belzburg's 9.2 percent holdings at $51 per share or $134.1 million ended the proposed acquisition.

Figure 11



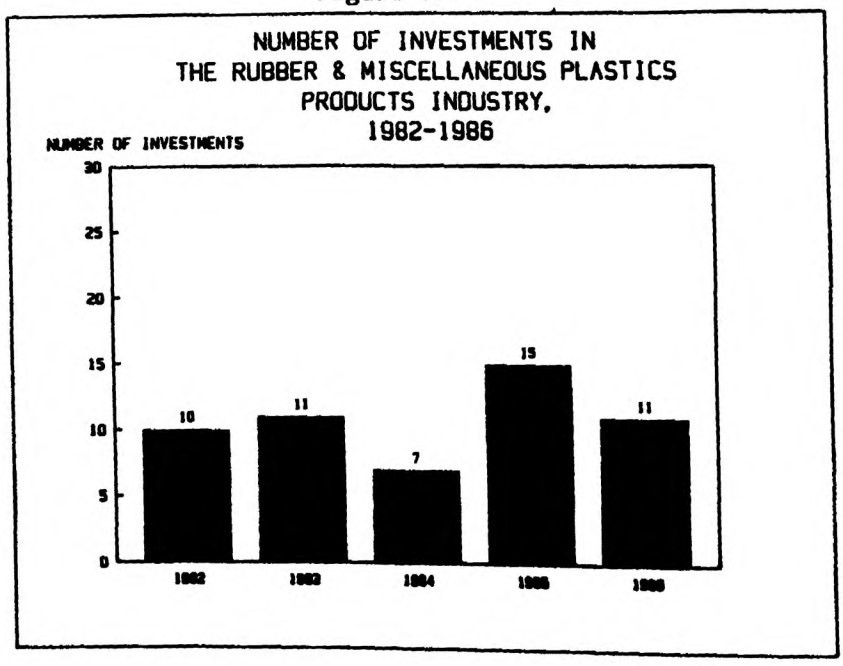
Rubber and Miscellaneous Plastics Products (SIC 30) - OTIA recorded 11 completed transactions with values for 5 totalling $377.7 million in the rubber and miscellaneous plastics products industries.

Following the lead of auto manufacturers, foreign tire makers are targeting the U.S. replacement tire and original equipment markets at an ever increasing rate. Invasion of the U.S. tire market comes at a time when producers, both domestic and foreign, are offering a variety of all-weather tires, thus making it unnecessary to change tires with the season.

The largest transaction in the rubber industry was Japan's Sumitomo Rubber Industries increase of their equity interest in Dunlop Tire Corp., Grand Island, New York, for $245 million. Sumitomo, also a tire maker, is owned by Sumitomo Electric Industries Ltd.

Sir James Goldsmith, an Anglo-French financier, made an unfriendly, and ultimately unsuccessful bid to acquire Goodyear Tire and Rubber Co., the world's largest tire maker, for $5 billion. Goldsmith accumulated an 11.5 percent interest in Goodyear but sold the shares back to the company.

Figure 12



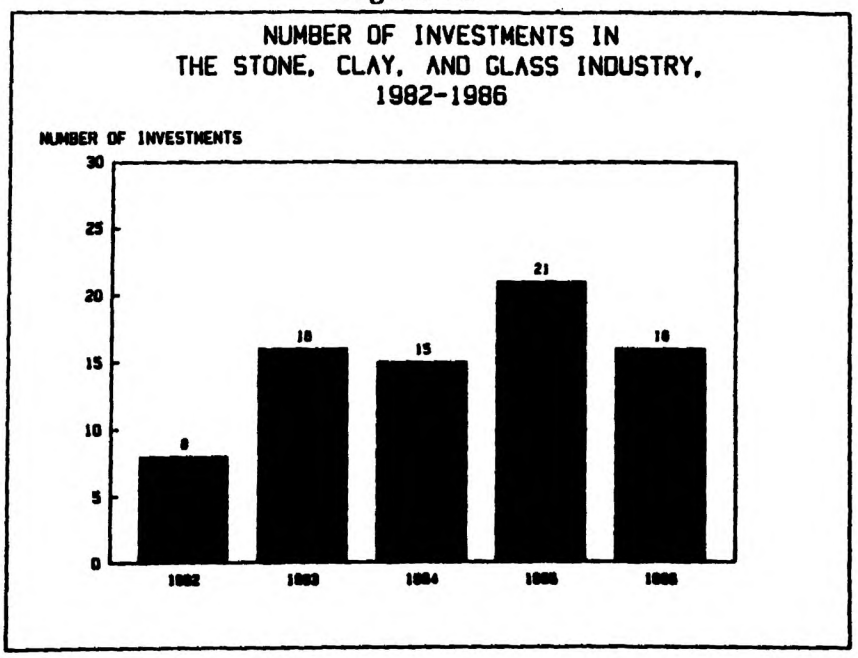
Stone, Clay, Glass and Concrete Products (SIC 32) - European investors--paying with less expensive dollars into a market that looks better here than at home--are investing in U.S. cement, concrete and construction products, acquiring not only the manufacturing facilities but distribution networks as well. They now control 51 percent of U.S. cement production capacity.

There were 16 transactions identified during the period covered with values for 10 totalling $851.3 million down 23 percent in the number of transactions but more than double 1985 known values.

Four transactions of significant value were identified. Gifford-Heil, one of the nation's largest producers of cement and construction supplies, was purchased by C. H. Baeger Holdings PLC, a British property and construction company for $275 million. Tarmac Inc. another British company paid $225 million for a 60 percent interest in Lone Star Industries, a southeastern United States cement and concrete business. Marley PLC, also British, acquired General Shale Products Company, a Texas brick and other building materials, for approximately $94 million. And, Holderbank Financiere Glaris of Switzerland bought 68 percent of nearly bankrupt Ideal Basic, another cement and construction products company for $100 million. After restructuring, Holderbank will become the second largest cement producer in the U.S. in terms of capacity as it had acquired some Lone Star facilities in previous years.

These four transactions accounted for more than 82 percent of the identified transaction values, while British companies accounted for nearly 83 percent of the total value. Acquisitions (9) were the favored mode of transaction.

Figure 13



Primary Metal Industries (SIC 33) - Although the U.S. primary metals sector continued to be affected by problems such as worldwide overcapacity, weakening prices, and labor disputes, foreign participation in this area increased 26 percent over 1985. There were 29 completed transactions identified in 1986; 15 of them had a total value of $594.9 million. Asian investors, strong competitors in the primary metals area, accounted for more than 90 percent of the total value.

The three largest investments in the primary metals sector were all made in the steel industry by investors from Asia. The first was USS-Posco Industries, a joint venture, formed by USX Corp. and Pohang Iron & Steel Co. of South Korea to build a new steel mill in Pittsburg, California. Pohang's share of the venture is valued at $240 million. The South Korean steel producer has the Korea Development Bank, a state-owned institution, as its major shareholder.

The second largest investment was the $90 million all electric steel mini-mill which Sanger Steel Corp. is building in Sanger, California. Sanger Steel is a subsidiary of Dynatec International Ltd. of Japan.

The third major investment was Wheeling-Nisshin Inc., a joint venture firm that is building a sheet-steel coating plant in Follansbee, West Virginia. The value of the transaction is $69.7 million. Under the terms of the joint venture, Wheeling Pittsburgh Steel Corp. will be a one-third partner in the project, contributing land, buildings, and services. Nisshin Steel Co. of Tokyo, Japan will guarantee loans of about $55 million, most of which is to be borrowed from Japanese banks. Nisshin Steel, which is 11 percent owned by Nippon Steel Corp., also holds 10 percent of Wheeling-Pittsburgh's common stock.

Two countries, in the same ranking order as in 1984 and 1985, were the source of almost 70 percent of the transactions in this sector. Japanese firms with 16 transactions were the pre-eminent investors and accounted for $298.2 million, almost three-quarters of the total investment value in 1986. Canadian investors ranked second as they did in 1985 with 4 transactions.

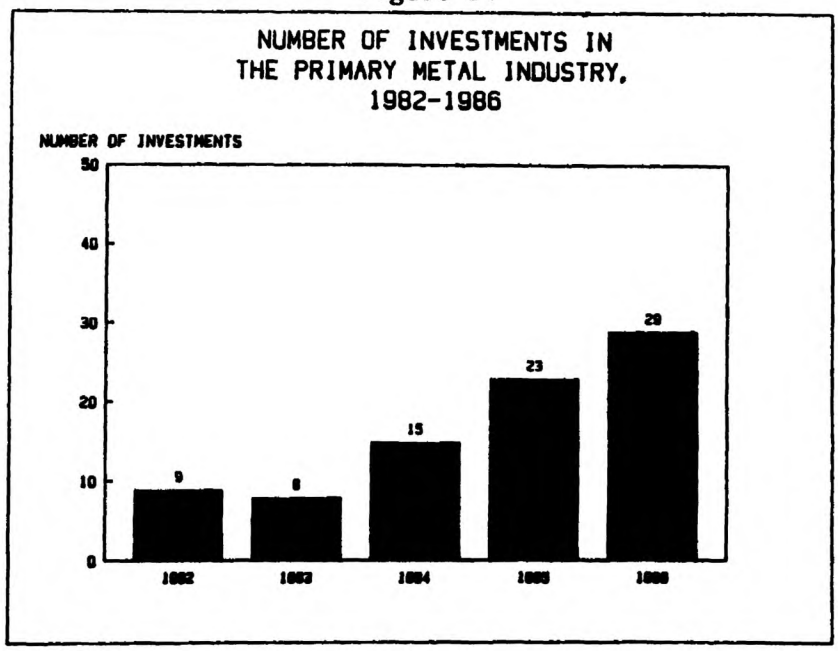
Acquisitions accounted for the largest number of transactions - 14. That was a 50 percent increase over the previous year. The other primary forms of investment were new plants (6) and joint ventures (5). Steel producers from Japan and South Korea made all of the joint venture investments.

The number of transactions in the steel industry (14) rose only slightly from 1985, but the number of investments in aluminum (7) more than doubled, despite two major divestitures by foreign investors in this industry.

The first one was the divestiture of 50 percent of Alumax Inc., the nation's fourth largest aluminum company, by Mitsui & Co. Ltd., which owned 45 percent of the firm and by Nippon Steel Corp. which owned the remaining 5 percent. The Japanese partners sold their shares of Alumax to the third partner, Amax Inc., for $435 million. Alumax, one of the earliest Japanese direct investments in the United States, was established in 1974.

The second divestiture was by Alusuisse. The Zurich-based company decided to abandon its smelting activities in the United States and sold its 66 percent holdings in Ormet Corp. which operates a processing plant in Louisiana and a smelter in Ohio. Alusuisse also closed its smelter in Tennessee.

Figure 14



Machinery, Except Electrical (SIC 35) - Continued interest by foreign investors in the gradually recovering machinery industry gave cause for a 72 percent increase in the total number of completed transactions for 1986. There were 66 completed transactions in 1986, with values for 34 of them totalling $599.2 million compared to 48 in 1985 with a total value of $562.4 million.

Investment modes for 1986 included 33 acquisitions, which accounted for 50 percent of reported transactions, followed by 12 new plants/expansions, 3 joint ventures, 7 equity increases, and 11 other types of activity such as new subsidiaries, companies and headquarters.

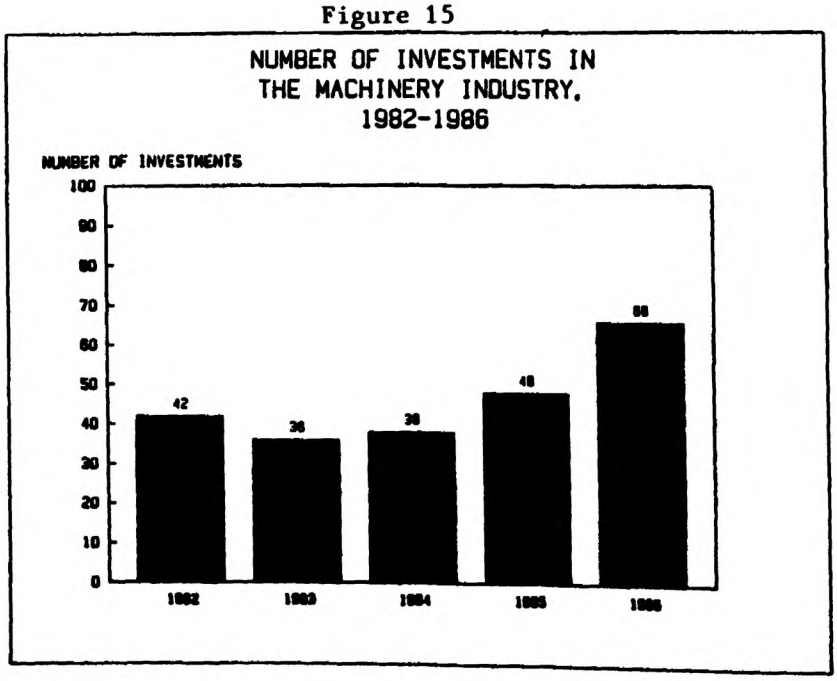
As in 1985, Japan was the principal source country and Japanese investors dominated the machinery industry, with 28 transactions and values for 16 of them totalling $402.1 million.

Electronic computing equipment was the most attractive subsector, with 18 cases and a value of $240.3 million. AEG AG of Frankfurt, West Germany and the second largest electronics firm in that country, bought the remaining 81 percent of the outstanding common stock of Modular Computer Systems Inc. (Ft. Lauderdale, Florida) for $52 million.

Japanese investors were responsible for the two largest transactions in this sector. With a continuous expansion strategy in the U.S. market, Canon Inc. opened its first U.S. copier manufacturing plant in Newport News, Virginia. Canon's $125 million investment demonstrates their commitment to establish a manufacturing base in the United States. Canon is a leading international manufacturer of business equipment, cameras and video equipment.

Fanuc Ltd., Japan, a manufacturer of automation machinery and controls, and General Electric Company formed a 50-50 venture company - GE Fanuc Automation Corp. to produce machine control equipment. The $100 million joint venture is headquartered in Charlottesville, Virginia.

Figure 15



Electric & Electronic Equipment (SIC 36) - Foreign firms were responsible for 75 transactions for a total of $1.8 billion in the electric and electronic equipment industry for 1986. That compares with 48 transactions in 1985 and a $1.1 billion value. With value remaining about the same for the 2 years, there was a 64 percent increase in the total number of transactions.

Foreign companies eager to gain a foothold in the United States continued to do so via the acquisition route with 32 transactions, followed by 23 new plants/plant expansion, 15 new subsidiaries, offices, companies or joint ventures and 5 equity increases.

Japanese investors, aggressively shopping for small or financially troubled high-tech companies in the U.S. dominated the electric and electronic equipment industry with 38 completed transactions and a value of $235.1 million. Other traditional source countries continued to be prominent investors: the United Kingdom with 12 transactions, followed by Canada and West Germany with 6 each and 5 from France. Investors from 7 other countries accounted for the 8 remaining transactions.

As in 1985, the east coast was the most predominant geographically in attracting foreign investors with 35 transactions. California, known for high technology and revision of its unitary tax bill in 1986, attracted more investors than any other state with 18 completed cases.

In hopes of improving its position in the United States, Europe's top appliance maker was responsible for the largest transaction in the electronics industry. Electrolux AB of Sweden paid $742.6 million for White Consolidated Industries. White Consolidated, based in Cleveland, Ohio, is the nation's third largest maker of major home appliances. The company manufactures such brand name appliances in the as Frigidaire, White, Westinghouse, Kelvinator and Gibson.

Another large transaction in the electronics industry was by a German company. For $300 million General Electric Company sold its 75 percent stake in RCA/Ariola International records operations to Bertelsmann AG, which already owned 25 percent. Bertelsmann is controlled by Reinhard Mohn and family, Guetersloh, West Germany. RCA/Ariola, formed in a merger of RCA's record and music publishing group with Bertelsmann's Ariola unit last year, includes the RCA, Arista, Ariola and Hansa labels. It is the third largest record company in the world with operations in 18 countries.

Siemens AG, a giant West German electronics company, paid $336 million for an 80 percent interest in GTE's switching business, Stamford, Connecticut.

The most active subsector in the electrical industry was electronic components (3679) with 13 completed transactions. Japan's Mitsubishi

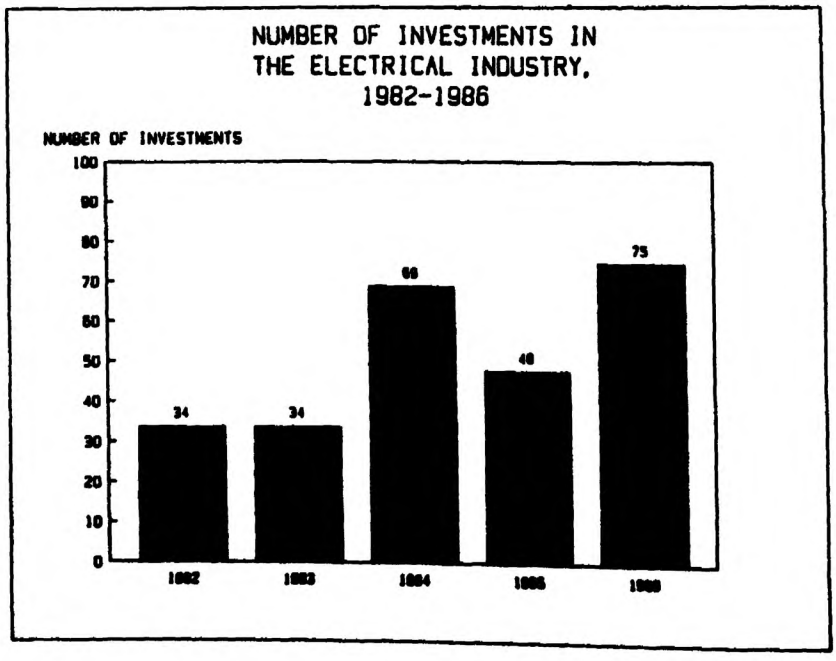
Metal Corp. acquired Siltec Corp. of Menlo Park, California for $32 million. Siltec produces silicon wafers used to make computer chips.

JVC America Inc., a subsidiary of the Victor Company of Japan, opened a $30.3 million subsidiary in Tuscaloosa, Alabama to produce videocassette tapes. Victor is owned by Matsushita Electric Industrial Co. Ltd., Osaka, Japan.

The second most attractive subsector for this industry was in the semiconductors and related devices (3674) subsector, with 12 completed transactions. Japanese investors were responsible for 8 of the cases: an acquisition in California; 2 new plants-Washington and California; 2 new offices-New Jersey and Texas; a new division in Florida; a new company in California, and a joint venture in Pennsylvania.

The most controversial issue in the electronics industry for 1986 was a proposed transfer of ownership between foreign companies. Fujitsu Ltd., Tokyo, Japan offered to buy control (80 percent) of Silicon Valley pioneer Fairchild Semiconductor Corp., which is owned by Schlumberger Ltd., a Netherlands Antilles-based producer of oil exploration equipment. Fairchild manufactures advanced technology semiconductors used widely in mainframes and supercomputers and a variety of Defense Department programs. In light of trade frictions and the recent trade agreement between the U.S. and Japan governing the prices of certain semiconductor products made in Japan and potential U.S. national security implications, the U.S. Government instituted a review of the pending merger. As a result of mounting concern within U.S. Government circles that the merger could be detrimental to national interests, Fujitsu withdrew its proposal.

Figure 16



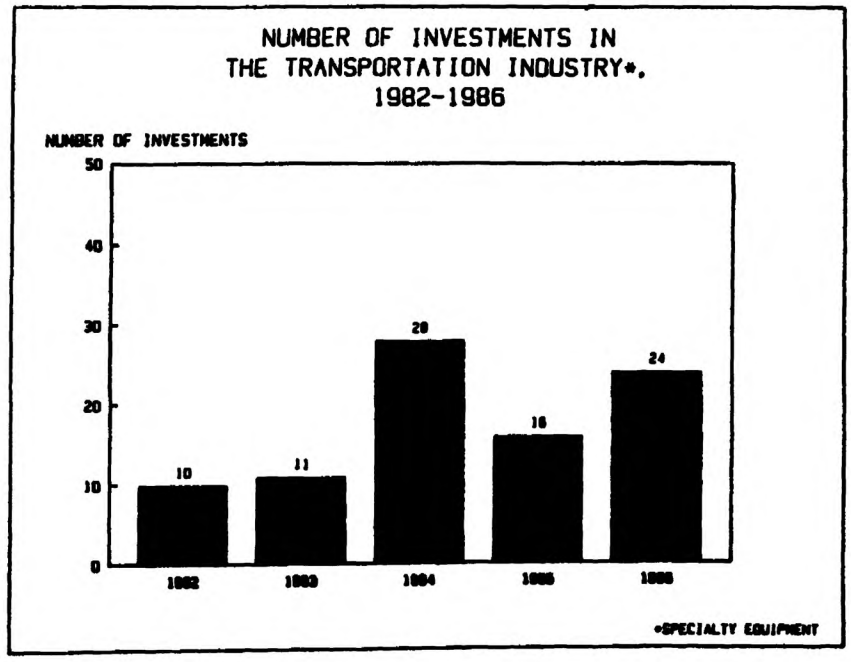
Transporation Equipment (SIC 37) - Foreign investment in this industry increased more than 56 percent in the number of transactions as well as value known over 1985 as Japanese investors continue to play the major role. Their share remained about the same as 1985, about 20 percent. Toyota Motor Company started construction on an $800 million automotive manufacturing facility in Kentucky, while Fuji Heavy Industries and Isuzu Motors announced plans to form a joint venture in the United States in 1987.

Most notable was the influx of auto parts manufacturers (17) that came into the United States as many states recruited new investments, often as a way of providing jobs for their citizens, granting concessions and incentives. The strength of the yen and need of suppliers to be near their customers gave rise to many original and replacement parts manufacturers locating in the United States in order to remain competitive.

With the construction of the Toyota plant underway, Japan now has six automobile manufacturing facilities in various stages of construction or operation in the U.S., with the ultimate capacity to produce more than 1.5 million cars and light trucks a year.

These were 24 transactions identified with values for 18 totalling more than $1 billion. Traditionally, investors in this industry have opted for establishing their own facilities. This year was no exception with 14 new plants and 7 expansions of existing facilities. Concentration was mostly in the Eastern and Southeastern United States.

Figure 17

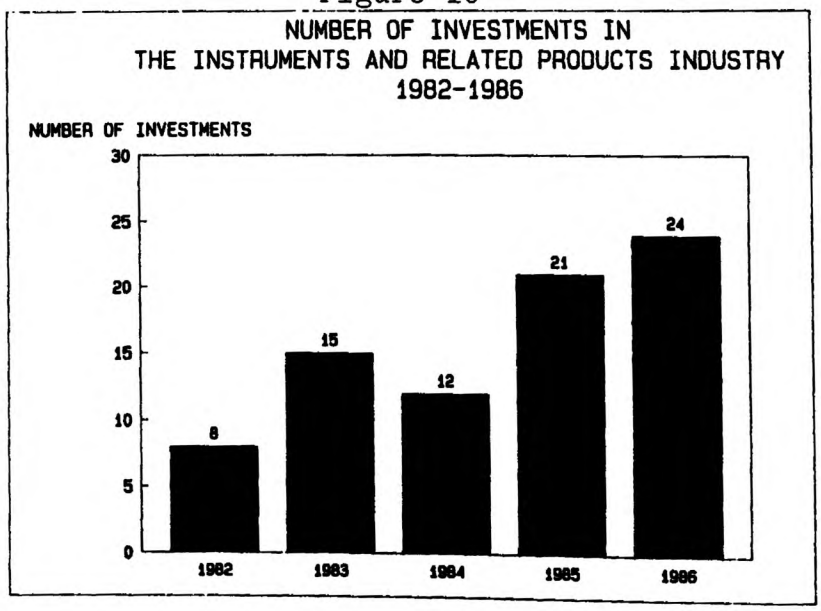


Instruments and Related Products (SIC 38) - Foreign investors are investing in this sector for much the same reasons as other industries. There seems to be a number of opportunities available. In many cases home markets have lost much of their appeal and the increase in other currencies against the dollar has brought about bargain prices for companies wishing to expand into the U.S. market. The medical and photographic equipment and measuring and control devices industry were most appealing. Half of the transactions identified were in the medical equipment subsector.

OTIA identified 24 transactions with values for 12 totalling $1 billion. Over 41 percent of the transactions and 82 percent of the value were by British companies. While the number of transactions decreased about 42 percent from 1985, the value known increased nearly six-fold.

Two transactions of significant value: Siebel PLC acquired Robertshaw Controls, a Virginia temperature control devices, for $468.8 million; Richard Medical, a manufacturer of orthopedic products, was acquired by British Smith Nephew Associates Company for $284 million. Except for California with 7 transactions, there was no particular geographic concentration. Acquisition was the most popular investor mode in this industry (19).

Figure 18



Retail Trade (SICs 52-59) - Retail trade continues to be a sector of great interest to foreign investors as the services industry emerges as a larger portion of the U.S. economy.

Fueled in part by the increase in value of other currencies against the dollar, economic conditions were favorable for foreign investors in this service-oriented sector. There was only a slight increase in the number of transactions identified but more than five-fold increase in dollar value over 1985.

Seventy transactions were identified in this sector with values for 21 totalling approximately $5.6 billion. By far the greater share of dollar value came from the subsectors department stores and miscellaneous. Clothing stores accounted for 93 percent of the value but only 31 percent of the number of transactions. Eating and drinking places had the greatest number of transactions (19).

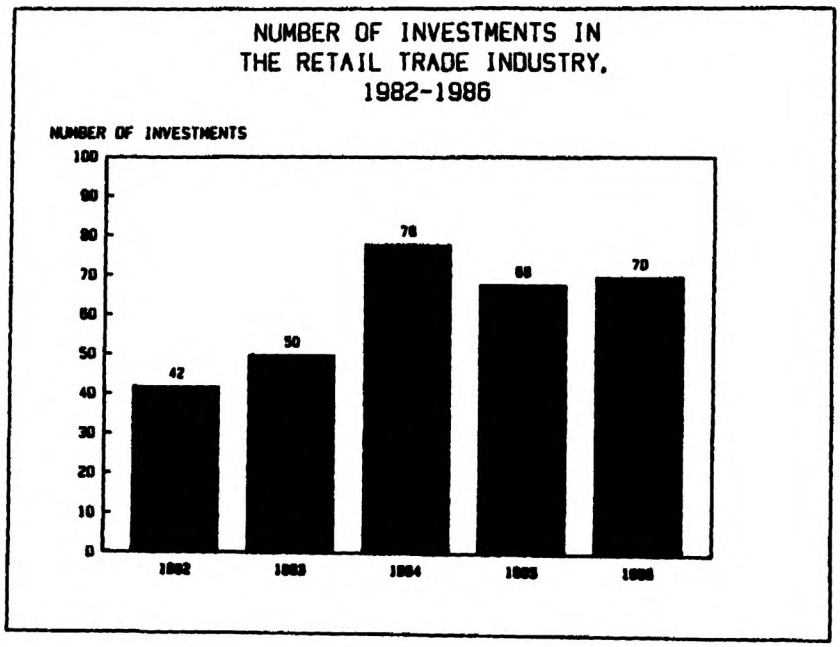
Allied Stores--parent company of Garfinckel's, Brooks Brothers, Bonwit Tellers, Ann Taylors, Miller and Rhoads, Jordan Marsh, and Plus-sizes--was a acquired by the Campeau Corp. for $4.3 billion. Campeau, a Canadian real estate developer controlled by Robert Campeau, almost immediately began restructuring and divesting many of Allied's unprofitable stores to pay off some of its debts. Another Canadian company, Peoples Jewelers, controlled by Marvin, Betrand and Gail Gerstein, and Swarovski International, paid $550 million for the 85 percent of Zale Jewelers that Peoples did not already own. Herman Sporting Goods was acquired by British Dee Corp, for $410.0 million.

Onex Capital Corp., a subsidiary of Canada Development Corp., (82 percent owned by the Government of Canada) acquired Flagship International, in-flight caterer, from AMC Corp. for $125 million.

Canadian companies accounted for more than 84 percent of the value but only 5 transactions, while British companies had 23 transactions and less than 1 percent of the dollar value. Japan had 13 transactions while other countries had 4 or less with no significant value reported. International retailers aiming for the U.S. market at one time only sought New York addresses. However, with sky rocketing rentals they are beginning to select other states as entry points to this mass consumer market. There were 23 transactions in New York. However, 10 selected California, and 6 Georgia 13 other states also had investments in this category.

Except for the 4 major acquisitions and a couple mid-size transactions, investments in this sector tend to be small, with 35 new start-up operations and 24 acquisitions.

Figure 19



Banking (SIC 60) - During 1986, 18 completed banking transactions were identified, six of which had reported values totalling $73.2 million. While the number of transactions registered increased 50 percent from 1985, the associated values were 3.5 times the 1985 level. Similar to 1985, 1986 was marked by the absence of large bank acquisitions.

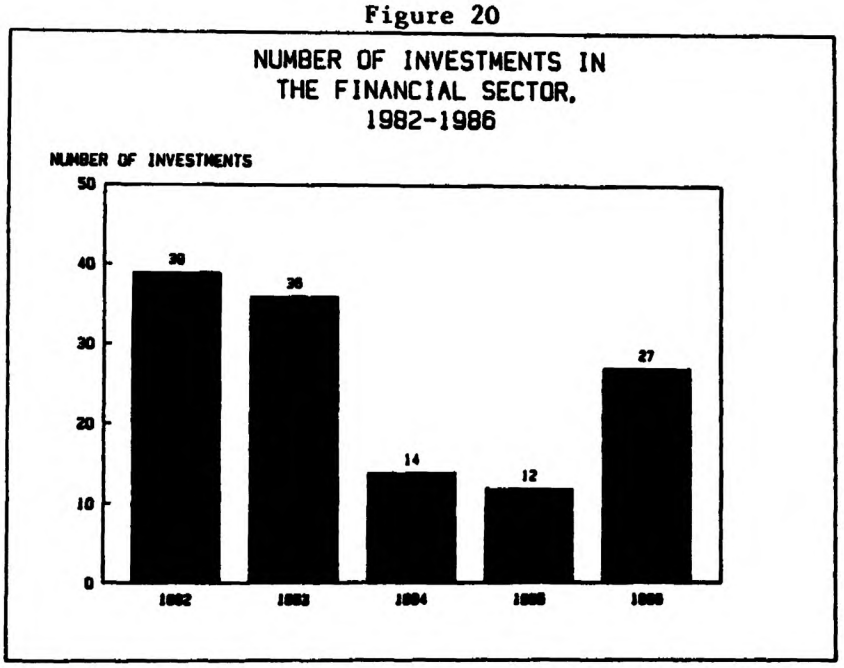
Fifty-five percent (10 cases) of the banking investments were made in New York (7) and California (3). Illinois received two banking investments, while the District of Columbia, Kentucky, Massachusetts, New Jersey, Pennsylvania, and Texas each received one. Foreign banks' predominant choice as "home state" (a choice required by the International Banking Act of 1978) remained New York, with California second.

Asian investors from Japan (8) and Hong Kong (3) accounted for over one-half of the 1986 transactions. Investors from the Netherlands Antilles were responsible for two investments while investors from Australia, Denmark, Egypt, Italy, and Yugoslavia each accounted for one transaction. In the previous year, the United Kingdom, Hong Kong, and Finland were significant investors. During 1986, five of the investments were new branches, and one new banking subsidiary was established. Increased investor activity accounted for nine acquisitions of existing U.S. banks.

There were several reasons for the turnaround on the level of foreign banking activity in the United States. One important reason was the

falling value of the dollar, which made U.S. banking assets more attractive to foreign investors. Further, improved conditions in the oil, mining, and agricultural sectors have improved the outlook for the U.S. banking industry. Most importantly, investors such as the Japanese with large amounts of investible funds view the vast U.S. market as a safe, reliable, profitable arena worthy of large investments.

Figure 20



Services (SIC 72-89) - Foreign competition is making inroads in the service industries, as evident by the number of transactions identified in 1986. Investments like the large advertising agencies acquisition/mergers creating superagencies are seen as continuing into 1987. Also, many of the forces that made investments attractive during 1986 are expected to be active again during 1987 (i.e., the attractiveness of the U.S. market with U.S. companies eager to divest or restructure, the desire of many foreign investors to develop an international base, and the rise of other currencies against the dollar). Even small and mid-size foreign investors are coming into this fast growing service-oriented sector.

There were 105 transactions identified with values for 37 totalling over $1.1 billion, a five-fold increase over 1985 in known dollar value and a 40 percent increase in the number of transactions.

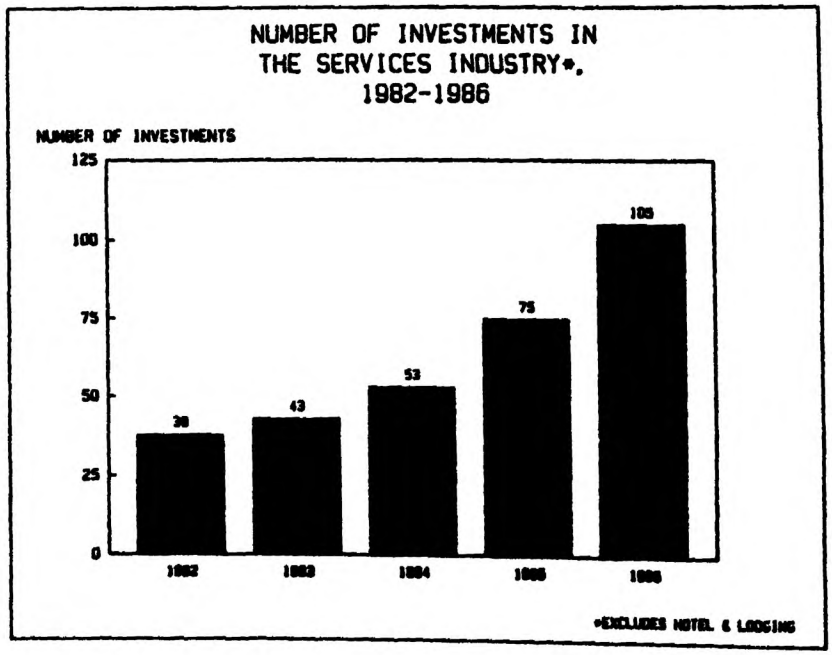
Investments in the services sector cover a broad spectrum. However, the business services subsector was most attractive to foreign

investors. Sixty-one percent of the number of transactions and 68 percent of the values known were in the business services subsector. Britain's Saatchi and Saatchi continued its expansion in the advertising sector by acquiring Ted Bates Worldwide for $450 million, Backer and Spielvogel for $50 million, and other advertising, public relations and management consultant firms. Other foreign interest includes research and development (13) transactions and management consultant/public relations (14).

In the motion picture subsector, a Canadian theater operator, Cineplex Oden, is fast becoming the largest and most profitable theater circuit in North America as it acquired RKO-Century Warner Theaters for $89.5 million, Neighborhood Theater chain, Spectrum Theater chain and a host of other smaller chains, converting them into upscale elegant social gathering places for dining and entertaining with a choice of seeing one to eight films. Plans are also underway for construction of a production studio and theme park in Florida.

In the services sector foreign investors used the acquisition mode most often (61) and establishment of their own facilities second (24). British investors had more transactions than any other country (32); Japan had 21, Canada 16 and Switzerland 7. Other countries has 4 or less.

Figure 21



Real Property

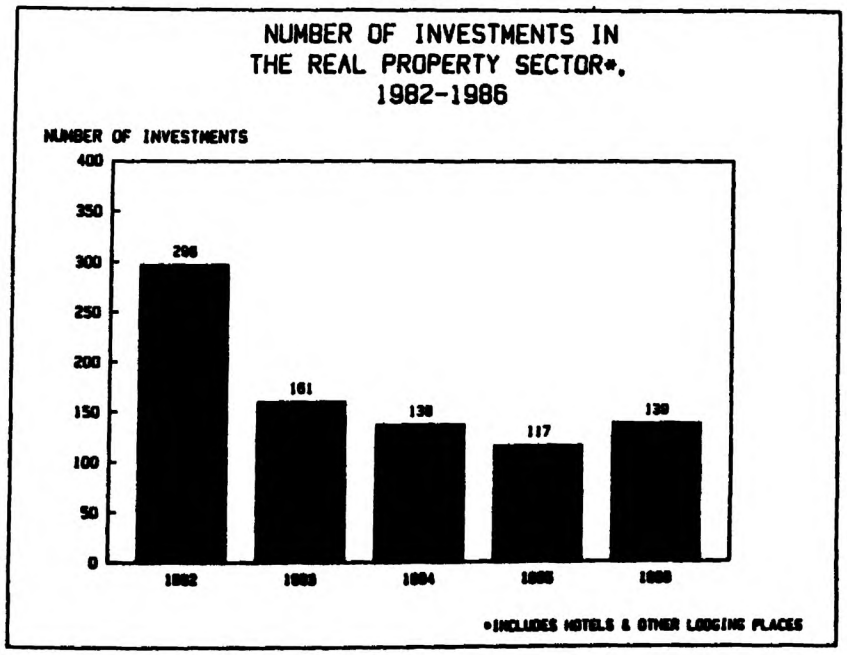
During 1986, 112 commercial real estate investments involving foreign investors in the purchase and development of real property, plus a

further 27 investments in the hotel industry (SIC 70), were identified. (Purchases of agricultural land and individual residential real estate units are not included in this report.) Of the total 139 investments, 96 had known values totaling over $7.5 billion, with 19 valued at $100 million or more. These 19 accounted for an aggregate value of $5.3 billion, nearly 71 percent of the total value.

The Japanese were the most active real estate investors, as they were in 1985. During 1986, 75 Japanese investments were identified, with 53 values totalling $5.5 billion, 73 percent of the total aggregate value. Three major investments were valued in excess of $600 million each. The ARCO Plaza in Los Angeles was purchased for $625 million by the Shuwa Corp., and the EXXON Building in New York was acquired by Mitsui and Co. Ltd. for $610 million. In Hawaii, Kumagai Gumi Co. Ltd., in a joint venture with two U.S. companies, began construction of the Ko Olino resort, a $2 billion development potentially as large as that of Waikiki Beach. Kumagai Gumi's share is estimated at $667.0 million.

In addition to these three transactions, the Japanese made 12 real estate investments valued at over $100 million each. In terms of both numbers and values, they far outpaced investors from other countries. Among the reasons for this sudden surge on their part into U.S. real property are the scarcity and extremely high comparable cost of properties in Japan; the comparatively low rate of return (2-4% in Japan, 6.8% in the United States); the need to invest surplus funds; the high value of the yen relative to the dollar, and the increased purchasing power that it represents; and the Tax Reform Act of 1986.

Figure 22



MAJOR SECTORAL DEVELOPMENTS

The following section focuses on major investment transactions trends in the more active industrial sectors during 1987.

Metal Mining (SIC 10)--Technological advances, rising prices and falling output from overseas producers were all factors in the rise in U.S. gold production in 1987. The copper industry also recovered strongly thanks to new technology, reductions in the work force, worldwide demand and sharply higher copper prices. Attracted by these developments, foreign investors increased their activity in this sector almost 36 percent over 1986. (Figure 5.) Thirteen of 19 completed transactions identified had a total value of $2.3 billion, more than four times greater than that of the previous year.

The two major transactions, which accounted for more than 90 percent of the total value, reflected the interest of foreign investors in the gold and copper industries. The largest was the equity increase by Consolidated Gold Fields PLC, a London-based mining concern, in Newmont Mining Corp., headquartered in New York, with both gold and copper mining interests. In a protracted takeover battle with Ivanhoe Partners, led by T. Boone Pickens, Consolidated Gold Fields purchased 15.8 million common shares of Newmont Mining in the open market over a 2-day period in what is called a street sweep. These purchases, which totalled more than $1.5 billion, increased the British mining firm's holdings in Newmont to 49.7 percent from 26.2 percent and enabled Newmont to fend off Ivanhoe Partners' hostile bid. Consolidated Gold Fields is 28 percent held by Minerals and Resources Corp. Ltd., known as Minorco, a Bermuda-based holding company, itself controlled by Anglo-American Corp. of South Africa Ltd. Harry F. Oppenheimer and his family are beneficial owners of Anglo-American Corp.

The second largest transaction was the $551 million acquisition of St. Joe Gold Corp. and other gold properties from Fluor Corp. by Dallhold Investments Pty Ltd. of Perth, Australia. The Dallhold Group, which is the second largest gold producer in Australia, is controlled by Alan Bond and his family. St. Joe Gold Corp., based in Clayton, Missouri, has 1,700 employees and is the sixth largest gold producer in North America.

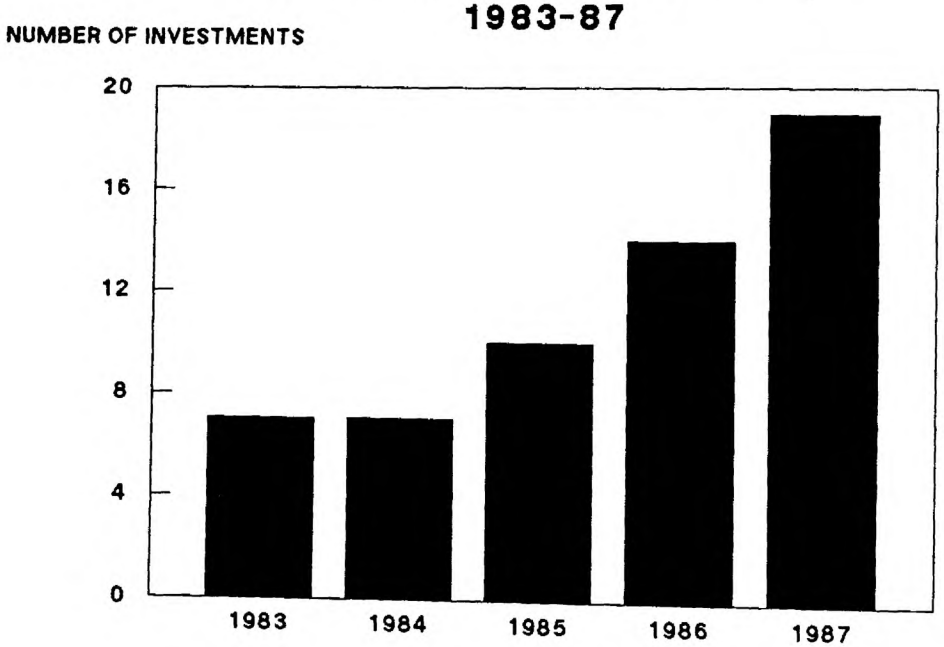
The increased activity in the metal mining sector was also reflected in the types of investments made in 1987. Ten investments were in the gold mining subsector. There were three investments in both the copper and silver subsectors, two in iron and one in the lead/zinc subsector.

In 1987 four source countries accounted for almost 85 percent of the investments in the metal mining sector. For the third year in a row, Canada was the principal source country; it accounted for 10 transactions. Australia, South Africa, and the United Kingdom each had two transactions.

Nevada was the state that accounted for most of the transactions in this sector--five. Alaska had three and Utah had two transactions.

Figure 5

NUMBER OF INVESTMENTS IN THE METAL MINING INDUSTRY, 1983-87



Oil and Gas Extraction (SIC 13)--In 1987 with U.S. demand growing at only one percent a year and crude oil prices at between $15 and $18 per barrel, U.S. oil and gas exploration activity increased only slightly from the depressed levels of 1986. The number of foreign direct investment transactions in 1987 declined from 1986's record low. (Figure 6.) There were 23 transactions identified; 18 of them had an aggregate value of $634.9 million. This is the first time since 1980 that the total value in the oil and gas extraction sector has fallen below $1 billion.

Three transactions accounted for more than 50 percent of the total value. The largest was the acquisition of Texas International Co.'s oil and gas reserves by Minatome Corp. for $120 million. The properties, located primarily in Louisiana and Texas, comprise 13 million barrels of proven oil reserves and 65 billion cubic feet of proven natural gas reserves. Houston-based Minatome is a subsidiary of Total Compagnie Francaise des Petroles, the Paris-based oil, gas, and minerals concern controlled by the Government of France.

Two investments, both by Nippon Oil Co. Ltd. of Tokyo, tied for second place. The first was a joint venture with Chevron USA to explore and develop 50 oil and gas wells across the United States. Nippon Oil contributed $100 million to the venture, some of it provided by the Japanese Government through Japan National Oil Corp.

Nippon Oil also established a joint venture with Texaco USA to explore outer continental shelf leases held by Texaco in the Gulf of Mexico. Again, Nippon Oil invested $100 million to cover the costs of the project, part of which was financed by Japan National Oil Corp. This is the second joint drilling venture between Texaco and Nippon Oil. The first one was established in March 1986 and has since resulted in discoveries in North Dakota's Williston Basin, Colorado's Paradox Basin, and Texas' Permian Basin.

Nippon Oil Co., Japan's largest oil refiner and marketer, has had a long-standing relationship with both Chevron and Texaco. The U.S. firms jointly own Caltex Petroleum Corp., which markets oil throughout Asia. Nippon Oil buys 50 percent of its crude from Caltex, which has a 25 percent share of the Japanese firm's refinery operations.

There were six principal source countries in 1987. Australia, Japan, the Netherlands and the United Kingdom each accounted for three investments. Belgium and France each had two investments. Five investments were made by companies owned or controlled by the governments of Brazil, Finland, France (two) and Japan.

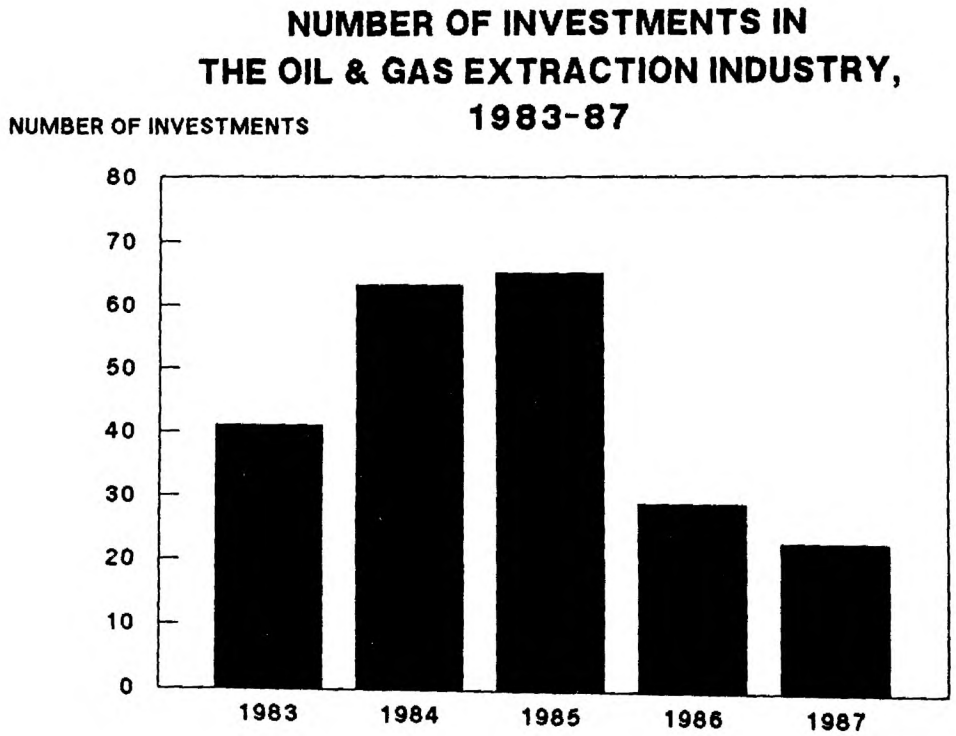
The most prominent corporate investors in the oil and gas extraction sector in 1987 were the Royal Dutch Shell Group of the Netherlands, through its U.S. subsidiary Shell Oil Corp., with three investments and Japan's Nippon Oil Co. Ltd. with two investments.

There were three types of investments in the oil and gas extraction sector. Thirteen of them were acquisitions. There were also five joint ventures and five equity increases. The oil and gas

exploration and development subsector (SIC 1311) attracted the most investment; there were 19 transactions. Oil and gas field exploration services (SIC 1382) and oil and gas field services (SIC 1389) each had two transactions.

Geographically, Texas was the state with the most investments in this industry--11, while Colorado and Louisiana each had 5 investments. The two remaining investments were in California and North Dakota.

Figure 6



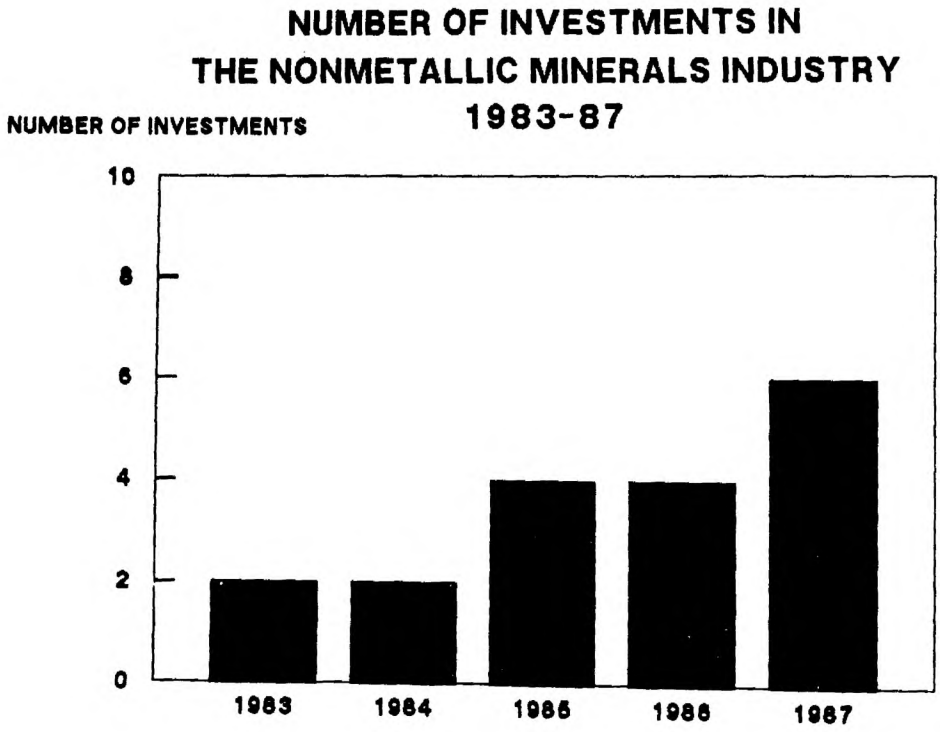
Nonmetallic Minerals, except Fuels (SIC 14)--Increased interest in the U.S. construction sand and gravel industry resulted in a 50 percent increase of foreign direct investment in the nonmetallic minerals sector in 1987. (Figure 7.) Four of the six completed transactions identified had a total value of $449.4 million, almost three times greater than the 1986 total.

Two major transactions accounted for nearly 75 percent of the value. The largest was the $242 million acquisition of American Aggregates Corp. by Consolidated Gold Fields PLC of London. Based in Greenville, Ohio, American Aggregates is engaged in the mining, processing, and sale of sand, gravel, limestone, and other aggregates. Consolidated Gold Fields, also the largest corporate investor in the U.S. metal mining sector in 1987, is 28 percent owned by Minorco, a Bermuda-based holding company controlled by Anglo-American Corp. of South Africa Ltd., of which Harry F. Oppenheimer and his family are beneficial owners.

The second major transaction was the acquisition of 19.2 percent of Calmat Co. for $110.4 million by Industrial Equity (Pacific) Ltd., a Hong Kong-based investment firm controlled by Brierley Investments Ltd. of Wellington, New Zealand. Brierley Investments, New Zealand's largest company with assets of $7 billion, is controlled by a group of investors headed by Ronald A. Brierley. Calmat, with headquarters in Los Angeles, California, produces construction sand and gravel, cement and concrete.

Two countries accounted for two-thirds of the investments in the nonmetallic minerals sector. Both the United Kingdom and South Africa each had two transactions, while Ireland and New Zealand each had one transaction. Construction sand and gravel, the most attractive industry, accounted for four transactions, all of which were acquisitions. One transaction in the kaolin and ball clay industry was a plant expansion; one peat mining transaction was a new subsidiary.

Figure 7



Food and Kindred Products (SIC 20)--The U.S. food industry, from distribution to production, is rapidly becoming internationalized, thus becoming a magnet for foreign investors. The decline of the U.S. dollar and the openness of our economy were major factors attributing to the surge of foreign direct investment in the food and kindred products industry, resulting in an 83 percent increase in the total number of transactions in 1987. (Figure 8.) OTIA identified 47 completed transactions, with 23 values totalling $4.3 billion, while in 1986 there were 39 completed cases and values totalling $1.7 billion.

With acquisitions being the most popular mode of investments, foreign companies invested $4.2 billion (98 percent of total value) in 29 U.S. food makers and processors, 7 new plants/expansions, 5 new outlets, 4 joint ventures, and 2 equity increases.

The major industrialized countries continue to be the source of most investment activity; Japan had 16 transactions, the United Kingdom and Canada, seven each. France had five transactions, the Netherlands, Switzerland, and West Germany had two apiece. These countries accounted for 87 percent of the total transactions in 1987.

In the foods sector, foreign direct investment were reported in 21 states. Two states, California (11 transactions) and New York (6), accounted for 36 percent of the total transactions. The remaining transactions were scattered throughout the eastern half of the United States.

In 1987, as wine imports dwindled, foreign companies found it more enticing to invest in the U.S. alcoholic beverages subsector (SIC 2082-3-4), and made 14 investments totalling $3.1 billion. As unsuccessful owners bowed out of the industry, foreign companies invested in five wineries in California, acquiring some of the country's most prestigious labels.

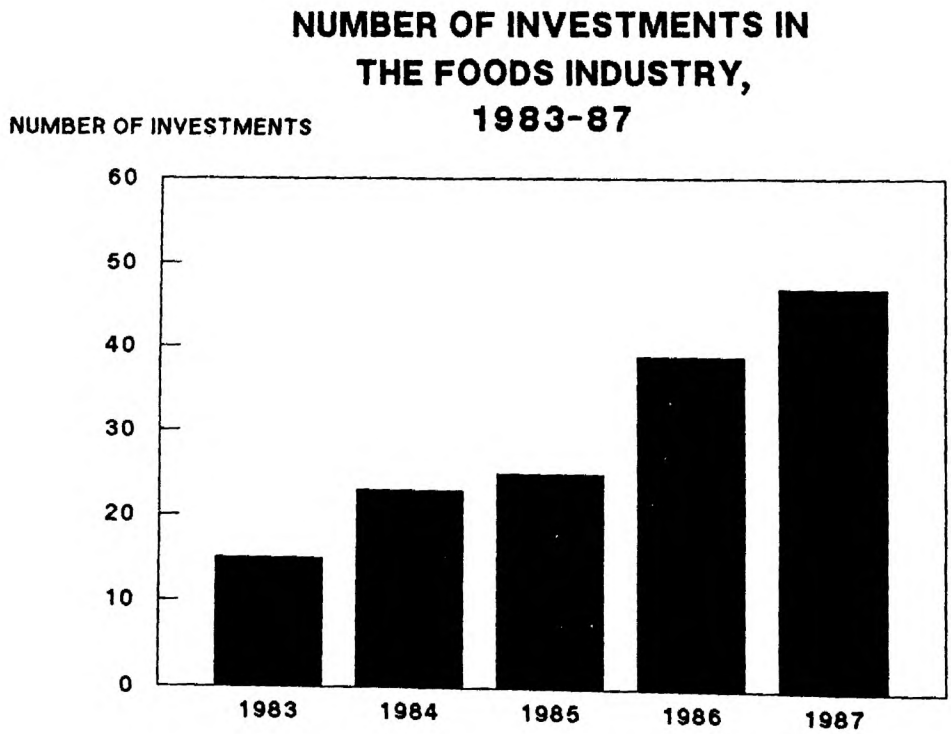
Two $1.2 billion transactions accounted for more than 55 percent of the total value in the foods industry. Australian magnate Alan Bond, through Bond Corp. Holdings Ltd., paid $1.2 billion for a 91 percent interest in G. Heileman Brewing Company. Heileman, headquartered in LaCross, Wisconsin, is the nation's fourth largest brewer. The Bond Corp. is also a leading Australian brewery.

Grand Metropolitan's long range strategy to enhance its position as one of the leading wines and spirits companies in the world led to the purchase of two major companies, thereby increasing its share of the U.S. market to well over 13 percent. Grand Metropolitan, a British hotel and beverage conglomerate, acquired Heublin Inc., Farmington, Connecticut, for $1.2 billion. Heublin is the United States' second largest producer of wines and spirits. Almaden Vineyards Inc., a San Jose, California-based wine maker, was also purchased by Grand Metropolitan for $128 million.

Another large transaction by a British company in the industry was the $480 million acquisition of Schenley Industries Inc., New York, by Guinness PLC.

In the foods sector, Jacobs Suchard AG, Switzerland, which is rapidly expanding its chocolate manufacturing base in Europe and the United States, paid $730 million for E. J. Brach and Sons. Brach, headquartered in Chicago, Illinois, is also known for its candy and other confectionery products. Suchard is owned by Colima Holding AG, a Swiss investment company.

Figure 8



Textile Mill Products (SIC 22)--The textile industry is one of the most competitive in the world, and the U.S. industry has experienced numerous consolidations and plant closures, and the loss of more than 300,000 jobs since 1980. Under present economic conditions, it is attractive to foreign investors.

For the first time since OTIA began monitoring foreign investment, the textile mill industry experienced more than a 100 percent increase in the total number of transactions and a fivefold increase in total value. (Figure 9.) In 1987, OTIA recorded 22 transactions, with 11 known values totalling $674.5 million, as opposed to 8 transactions with 3 values aggregating $115 million in 1986.

Ten East Coast states were recipients of the 22 transactions identified in the textile industry. South Carolina led with six transactions representing more than one-quarter of the total number of transactions.

TNS, one of the largest industrial investors in South Carolina and a subsidiary of Tsuzuki Spinning Company Ltd. of Japan; built a $65 million spinning and weaving plant in Gaffney, South Carolina; expanded its Spartanburg and Blacksburg, South Carolina; and established a $25 million cotton and cotton-blend yarns plant in Eufaula, Alabama.

A Belgian-based multinational yarn company, Beaulieu Tufting N.V., built a $20 million yarn plant in Bridgeport, Alabama.

Establishment of new plants or expansions (10) were the most active mode of investment followed by acquisitions (8), joint ventures (2), and new outlets (2).

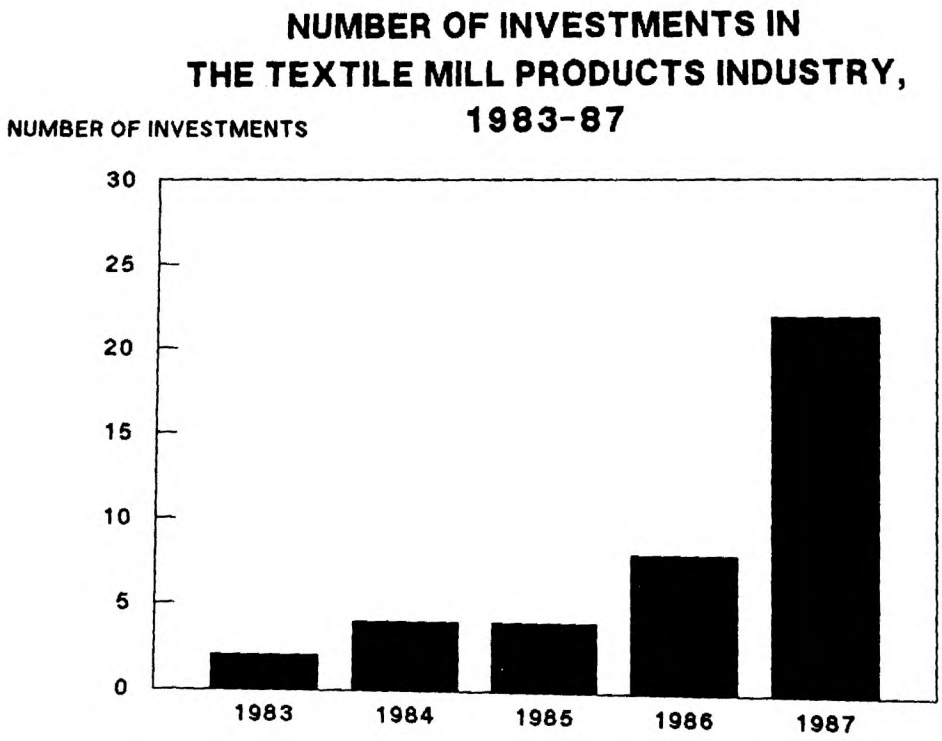
The three largest transactions accounted for more than 77 percent of the total value identified in the textile mill products industry.

Toray Industries Inc., a leading manufacturer of synthetic fibers, made the first major Japanese investment in Rhode Island, opening a $213 million plant there.

To pay off or reduce debt incurred during the attempted hostile takeover of Burlington Industries by New York investor Asher Edelman and Dominion Textiles, Burlington had to divest some of its operating units. Burlington sold its state-of-the-art denim plant in Erwin, North Carolina to Dominion Textile Inc. of Montreal, Canada for $205 million. The purchase makes Dominion one of the top denim manufacturers in the country.

A multinational British textiles and chemicals company, Courtaulds PLC, paid $100 million for Martin Processing Inc. of Martinsville, Virginia.

Figure 9



Paper and Allied Products (SIC 26)--The U.S. paper and allied products industry enjoyed an upswing in 1987. Cost-cutting and higher prices increased activity, while a weaker dollar made the industry much more competitive in international paper markets. Foreign investors found the U.S. paper industry more attractive and investment rose 18 percent over the 1986 level. (Figure 10.) There were 13 transactions identified. Eight of them had values that totaled $1 billion, a record sum for this industry.

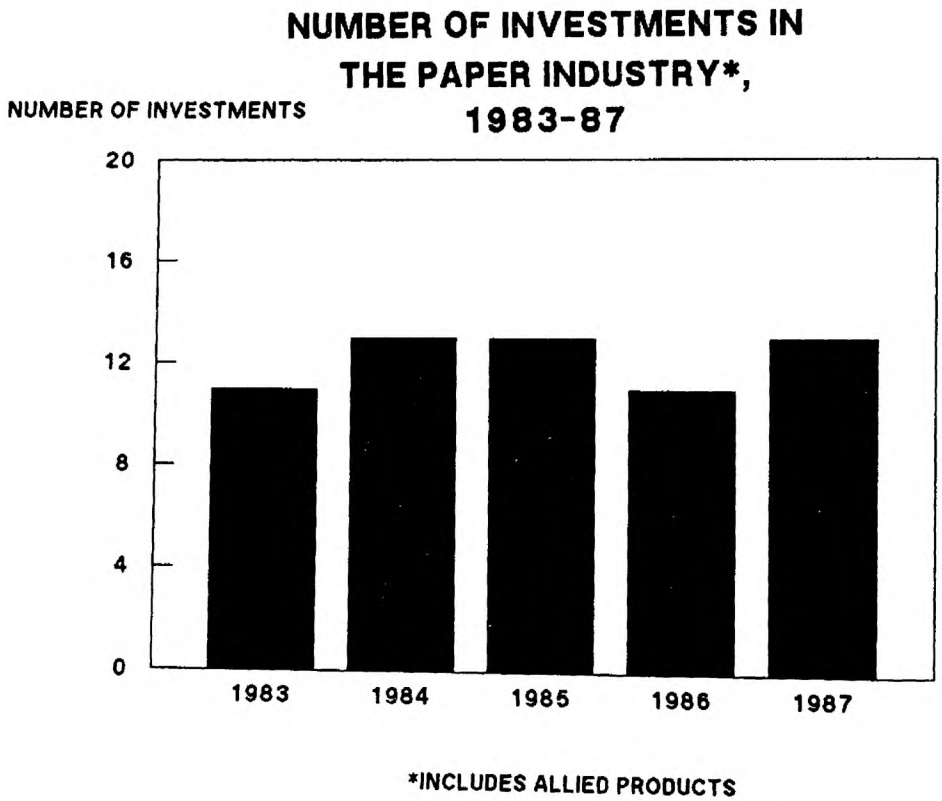
Three transactions accounted for almost 76 percent of the value figure for this industry. The largest transaction was a $350 million expansion and modernization of Blandin Paper Co. of Grand Rapids, Minnesota by its Canadian parent company, British Columbia Forest Products Ltd. The Vancouver-based firm is controlled by Noranda Mines Ltd., which is itself controlled by Edward and Peter Bronfman through their holdings in Brascan Ltd. of Toronto.

The second largest transaction was the $226 million acquisition of Rexham Corp., a Charlotte, North Carolina packing materials and machinery company, by Bowater Industries PLC of London. This British industrial holding company with interests in packaging, timber products, building materials, and freight services, became Rexham Corp.'s "white knight" in its attempts to resist a hostile bid by the Asher B. Edelman investment group.

The third largest investment was the $212 million acquisition of Georgia Craft Co.'s linerboard mill in Macon, Georgia by Pratt Holdings Pty Ltd., an Australian forest products company based in Melbourne. Pratt also has interests in three corrugating factories in the United States.

There were four primary source countries in 1987. Canada and Sweden each had three investments, while Switzerland and West Germany together accounted for another four investments. Six of the investments were acquisitions. Joint ventures (two) and plant expansions (two) were the next most frequent modes of investment. Investments were primarily in four industry subsectors: 2611-paper mills (three); 2631-paperboard mills (three); 2641-paper coating and glazing (two); and 2645-die-cut paper, paperboard, and cardboard.

Figure 10



Printing and Publishing (SIC 27)--In 1987 the printing and publishing industry, despite a year of robust investment activity, experienced almost a 73 percent decline in foreign investment from the record high levels of 1986. (Figure 11.) Twenty-one transactions were identified; 16 of them had an aggregate value of $863.2 million.

Robert Maxwell, chairman of Maxwell Communication PLC and a major investor in 1986, accounted for two of the three largest investments recorded in this industry. Both of them were in the commercial printing industry. The first and largest investment was the acquisition of Diversified Printing Corp. of New York from Parade Publications Inc. for about $350 million. The other, which was the third largest investment, was the acquisition of Alco Gravure Inc., a Rochelle Park, New Jersey commercial printer, for about $77.5 million. With this purchase, Maxwell Communication became the second largest commercial printer in the United States. In 1986 and 1987 Maxwell Communication (formerly British Printing & Communication Corp. PLC) acquired four U.S. commercial printers for more than $600 million.

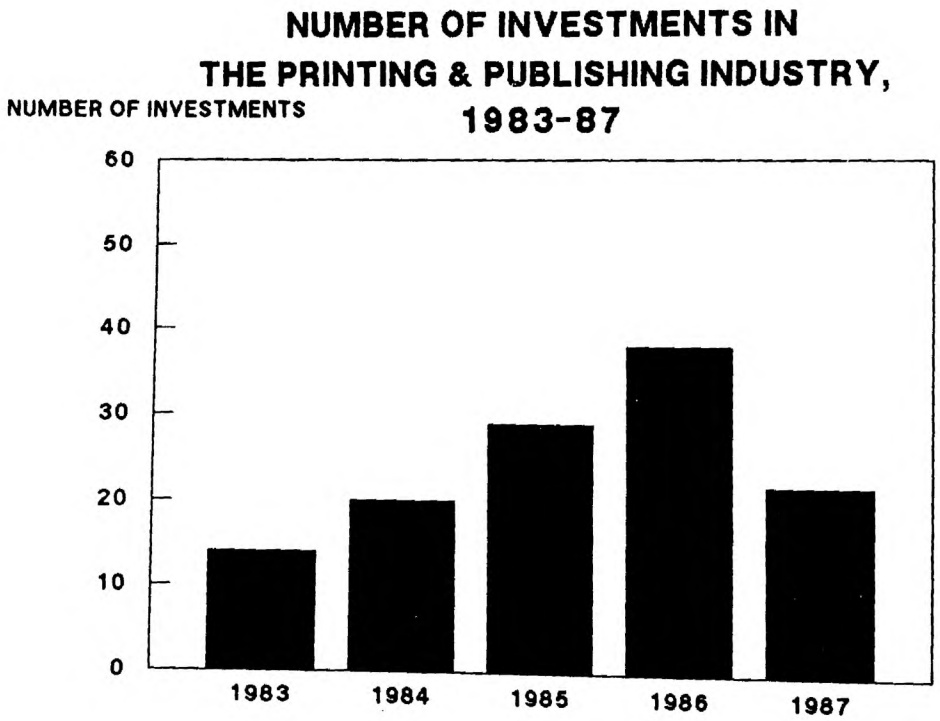
However, not all Maxwell investments were concluded successfully in 1987. The attempted acquisition of Harcourt Brace Jovanovich Inc., the publishing and entertainment company, for $1.7 billion failed when the Orlando, Florida-based firm successfully undertook a $3 billion recapitalization, effectively blocking Maxwell's bid.

A second prominent investor was Canadian publisher Kenneth R. Thomson. Thomson Newspapers Inc., the Des Plaines, Illinois subsidiary of Thomson Newspapers Ltd. of Toronto, accounted for two transactions, including the second largest investment in the printing and publishing industry in 1987. This was the acquisition of four daily newspapers in North Carolina and West Virginia from Clay Communications Investors Corp. for about $200 million. This transaction brought the number of Thomson-owned newspapers in the United States to 102.

Two source countries accounted for more than half of the investments in this industry sector. The United Kingdom, as in 1986, ranked first with seven transactions. Japan, not noticeably active in this area until 1987, was in second place with four transactions. Australia, another new investor source country in this sector, had three transactions as did Canada.

The two primary forms of investment were acquisitions (15) and new plants (4). As in 1986, periodicals publishing (2721), with eight transactions, was the most attractive industry. However, the commercial printing industry (2754), with four transactions, had the highest aggregate value--$442.5 million for three transactions. Newspaper publishing (2711) and book publishing (2731), with three transactions each, tied as the third most attractive area for investment.

Figure 11



Chemical and Allied Products (SIC 28)--Continued globalization, favorable exchange rates against the U.S. dollar, and U.S. chemical manufacturers' need for cash and their willingness to restructure and divest themselves of unprofitable units, resulted in a banner year for foreign companies wishing to invest in this industry.

There were 80 transactions completed by foreign investors in the chemical industry with values known for 34 totaling nearly $8.8 billion. (Figure 12.) The following transactions were major foreign investments in the U.S. chemical industry in 1988:

Specialty chemicals and pharmaceuticals were the main attraction as Unilever of the Netherlands acquired Cheseborough Pond Inc., a cosmetic and toiletries manufacturer and distributor, for $3.1 billion.

Hoechst AG, West Germany, acquired Celanese Corp., one of the world's largest producers of textile polyester fibers, for $2.8 billion.

Montedison SPA, Italy, controlled by the Ferruzzi Group, increased its interest in Himont to 81 percent for nearly $1.5 billion. Himont is the world's largest producer of polypropylene, a lightweight plastic.

Dainippon Ink & Chemicals, Japan, acquired Reichhold Chemicals, a manufacturer of specialty chemicals used in printing inks, for $600 million.

Joh. A. Benckiser GmbH, a West German chemical consumer products manufacturer, bought Ecolab's worldwide consumer dishwasher detergent division for $242.5 million.

Courtauld's PLC, a leading British textile chemical manufacturer, acquired Porter Paint Company for $140 million.

In addition to these transactions, there was one transfer of assets between two foreign companies when Britain's Imperial Chemicals acquired Stauffer Chemicals from Unilever of the Netherlands for $1.9 billion.

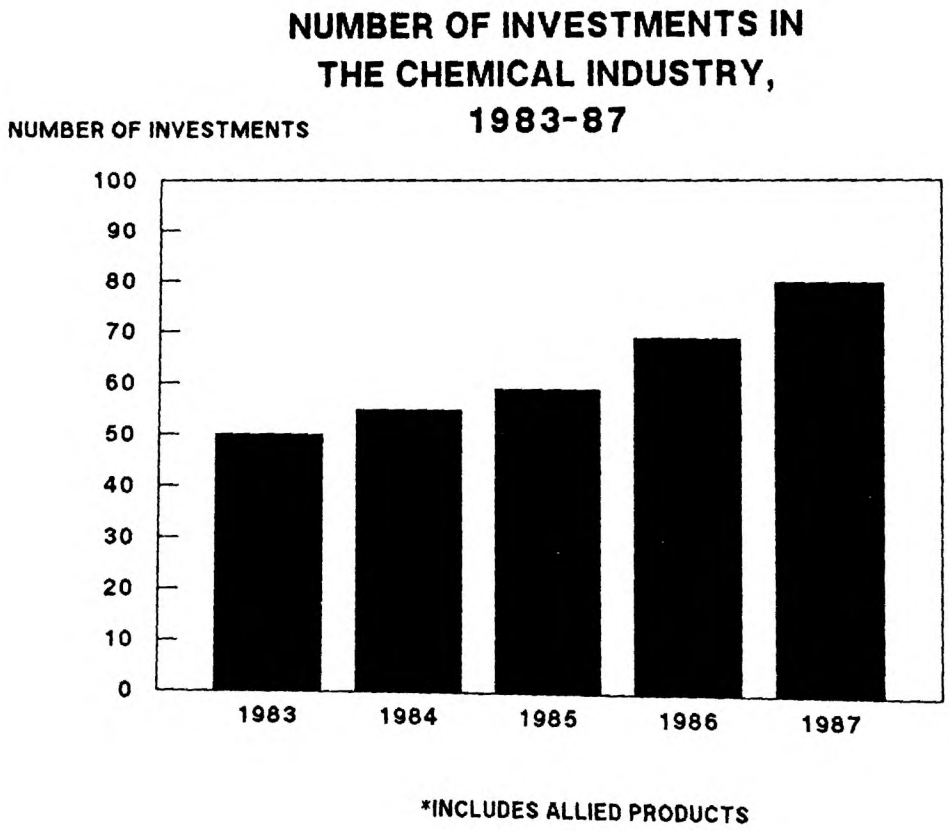
Foreign investment in this industry nearly doubled that of 1986 in terms of dollar value known while the number of transactions increased about 16 percent with acquisitions (36) accounting for the largest share, followed by new plants (23).

Initially slow to enter the chemical industry, Japanese investors have been moving more swiftly in the last couple of years. During 1987 they completed 29 transactions, more than any other country. With little exception, however, their investments tend to be in smaller start-up companies.

West Germany was the source for 14 transactions and the United Kingdom 12. However, West Germany and the Netherlands had about 70 percent of the known value ($6.2 billion), with only 17 transactions.

Investments in this industry were made in 28 states with California Michigan, New Jersey and Ohio having six transactions each. Other states had five or less.

Figure 12



Petroleum Refining and Related Industries (SIC 29)--Continued low profit margins and crude oil price instability did little to improve conditions in the long-depressed petroleum refining business. However, foreign producers interested in insuring outlets for their crude oil and sales networks in their major markets were active in the U.S. petroleum refining and related industries sector in 1987. (Figure 13.) Moreover, this sector had the largest single foreign direct investment identified in 1987.

The acquisition by British Petroleum Co. PLC of the 45 percent of Standard Oil Co. that it did not already own for almost $8 billion was also the largest foreign investment identified since the OTIA foreign investment monitoring program began. This transaction accounted for more than 97 percent of the total value figure in this industry.

In 1987 10 investments were identified in the petroleum refining and related industries sector. Six investments had an aggregate value of $8.2 billion.

The second largest investment was the $100 million acquisition of the Caribbean Gulf Refining Corp. in Catano, Puerto Rico from Chevron USA Inc. by FOI Ltd., a company controlled by Gad Zeevi, an Israeli citizen based in Kenya. Mr. Zeevi also owns Kobil East Africa and Kobil Kenya Co., two other refining and downstream oil operations.

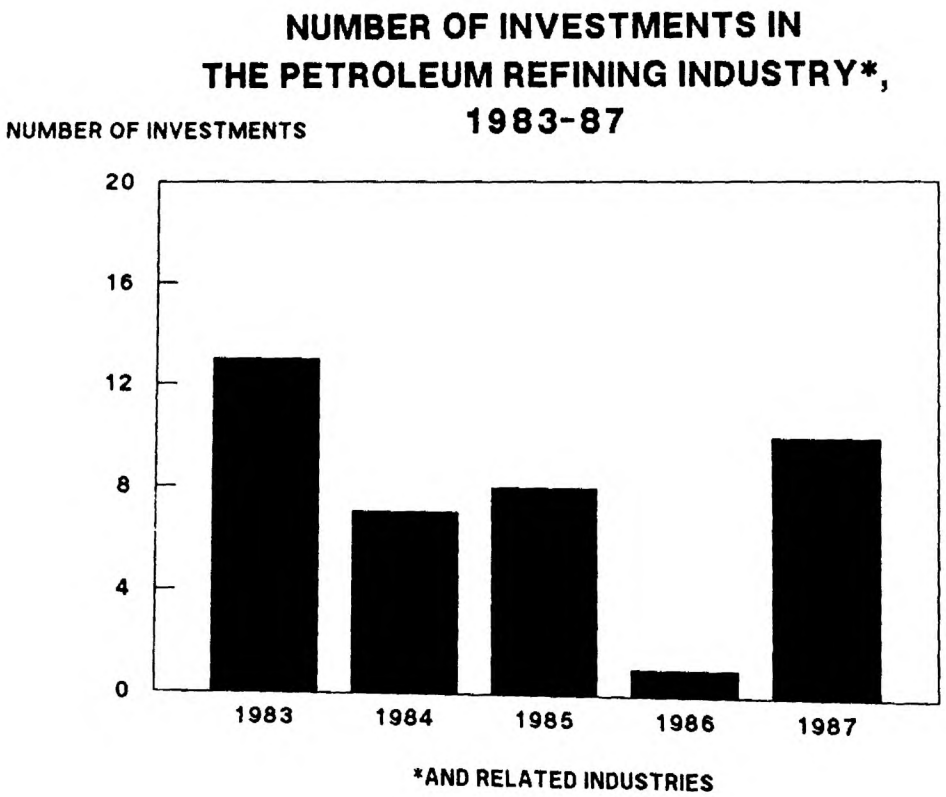
The third largest investment was the acquisition of 50 percent of Union Pacific Corp.'s refinery in Corpus Christi, Texas by Petroleos de Venezuela SA(PDVSA), the government-owned oil firm, in a transaction valued at $90 million. Under the terms of the agreement, each firm contributed equally to establish and finance the venture known as Champlin Refining Co. This investment followed closely the investment by PDVSA in Citgo Petroleum Corp. of Dallas in 1986. So far, Venezuela has been the only OPEC member to invest directly in U.S. refining and marketing operations, although Kuwait and Saudi Arabia are said to be considering the acquisition of refining and marketing operations in this country.

Investor source countries were numerous in 1987. France and Switzerland were the most prominent source countries with two investments each. Canada, Ireland, Israel, Saudi Arabia, the United Kingdom, and Venezuela had one investment apiece. Moreover, companies owned or controlled by foreign governments--France (two), the United Kingdom (one), and Venezuela (one)--accounted for 40 percent of the investment in this sector.

The majority of investments were acquisitions (six). Other investment modes included equity increases (two), joint ventures (one), and new plants (one). The petroleum refining subsector (SIC 2911) attracted almost two-thirds of the investment in 1987. Four of the six transactions identified were acquisitions, evidence of increased foreign interest in owning U.S. refining operations. The remaining transactions (three) were either in the asphalt paving and roofing materials subsectors (2951 and 2952) or in the lubricating oils and greases (2992) subsector (one).

Companies with headquarters or production sites located in Texas (three) and New York (two) attracted half of the investments in this sector. Colorado, Massachusetts, Michigan, Ohio, and Puerto Rico were also sites for investment.

Figure 13



Rubber and Miscellaneous Plastics Products (SIC 30)--The rubber and miscellaneous plastics products industry is basically dominated by a few large companies that compete in every region of the world. In the United States, foreigners more than doubled their investments by number of transactions and total value. There were 27 transactions identified during 1987 with 14 known values, totalling $877.6 million. (Figure 14.)

Acquisition was the most favored mode of investment with 11 such transactions. Additionally, there were the following types of investment: seven new plants or expansions, four joint ventures, three new outlets, and two equity increases.

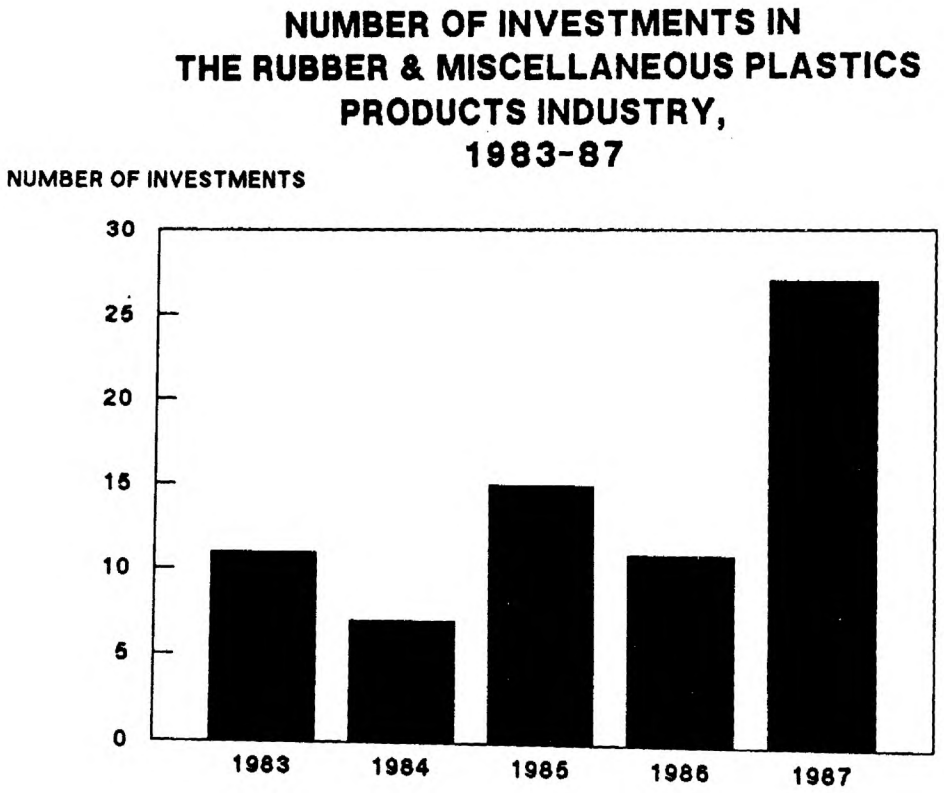
The largest transaction, a $625 million acquisition (71 percent of the total value), was made by a West German company. As part of its restructuring plan to thwart a hostile takeover attempt, and in order to concentrate on its aerospace and industrial businesses, GenCorp., Akron, Ohio, sold its General Tire company subsidiary, both domestic and foreign operations, to Continential Gummi-Werke AG. General Tire employs over 10,000 people and is one of the oldest and best-known tire makers in America.

A number of foreign companies invested in industries that correspond with their domestically manufactured product. For instance, Japanese investors established (11 transactions) automotive and industrial rubber and plastics plants throughout the Midwest to supply Japanese automobile plants in the United States. Other leading source countries for 1987 were the United Kingdom with five transactions, and West Germany and Sweden, with three each.

Miscellaneous plastics products was the most active subsector in terms of numbers, with 16 completed transactions. The Japanese and British dominated this subindustry with six and five transactions, respectively.

A diversified mining and energy resources company, M.A. Hanna Company, Cleveland, Ohio paid $133.6 million for Day International Corp., a Dayton, Ohio maker of rubber and plastic products. Hanna is 35.5 percent controlled through subsidiaries owned by Edward & Peter Bronfman and Peter Cundill of Canada.

Figure 14



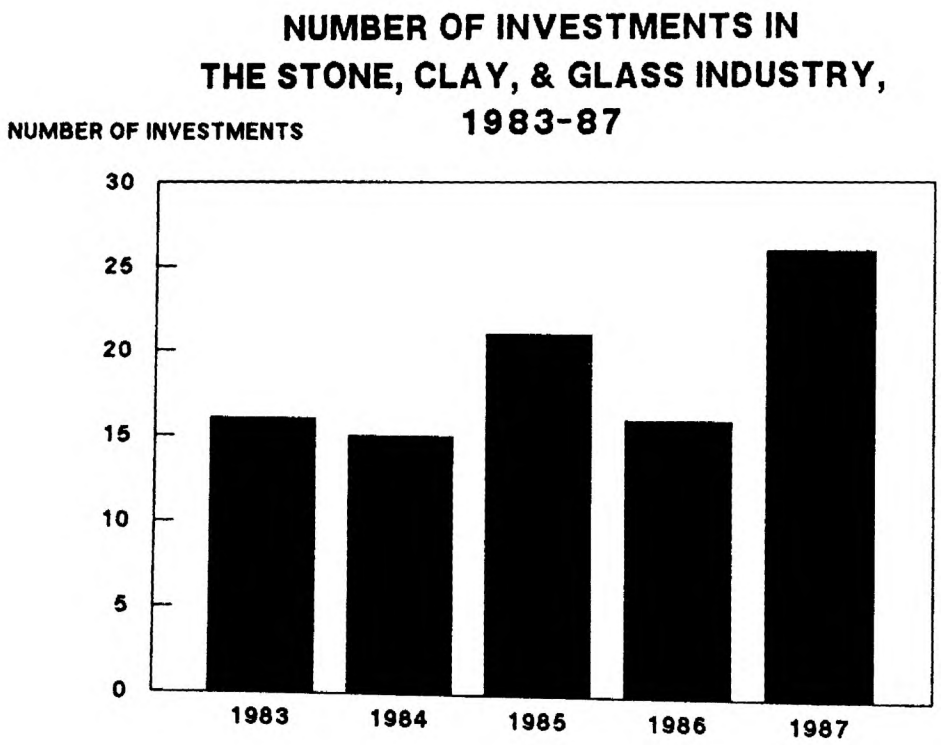
Stone, Clay, and Glass Products (SIC 32)--In 1987 foreign direct investment in the stone, clay, and glass products industry rose almost 63 percent from the 1986 level. (Figure 15.) There were 26 completed transactions identified and 12 had values totaling $914.3 million.

The largest transaction was the acquisition of Houdaille Industries Inc., a mechanical seals manufacturers, by TI Group PLC of England for $500 million. The second largest transaction, in the cement subsector, was the $250 million acquisition of Kaiser Cement Corp. by Hanson Trust PLC, another British company. Seven of the ten largest cement manufacturers in the United States are now controlled by foreign companies. The growing trend toward foreign ownership of cement companies in this country may be partly attributed to concern by foreign investors about the possibility of future import restrictions.

British and Japanese companies were the most prominent investors in this industry in 1987. British firms completed six transactions with four values totaling $786 million, which accounted for almost 86 percent of the total industry value. Japanese firms also had six transactions; however, the three known values had a total of only $16 million.

The two two primary types of investment were acquisitions (10) and new plants (9). Most of the investments were located in Indiana, Kentucky, and North Carolina, each of which had three transactions. Fourteen other states had only one or two.

Figure 15



Primary Metal Industries (SIC 33)--While the falling dollar has helped products in the primary metal industries become more competitive in price and quality, world and domestic overcapacity and competition from highly efficient foreign mills continue to present challenges to U.S. producers. Foreign investment in the primary metal industries sector dropped almost 32 percent in 1987. There were 22 completed transactions identified; 16 of them had a total value of $764.6 million. Japanese firms, traditionally prominent investors in this industry, accounted for $420.8 million, or 55 percent of the total value. (Figure 16.)

Two of the three largest investments were joint ventures by Japanese companies in the steel industry. The first was a joint project between Nippon Steel Corp. and Inland Steel Industries Inc. to build a continuous cold-rolling mill complex employing 200 people in South Bend, Indiana. The project, known as I/N Tek Inc., will cost $400 million. Inland Steel, with a 60 percent interest, will provide $90 million. Foreign investors will contribute $310 million. Nippon Steel will contribute $60 million for a 40 percent interest in the complex. The remainder of the cost will be covered by Mitsui & Co. Ltd., Mitsubishi Corp. and Nissho Iwai Corp. The three Japanese trading companies will handle the steel sales to Japanese automobile plants.

The other major Japanese investment, the third largest in this sector, was a $175 million joint venture between Nucor Corp. of Charlotte, North Carolina and Yamato Kogyo Co. Ltd. of Himeiji City, Japan to build and operate an electric furnace steel mill, which will employ 400 to 600 people in Blytheville, Arkansas. Yamato Kogyo's 49 percent share of the project accounts for $85.8 million of the cost.

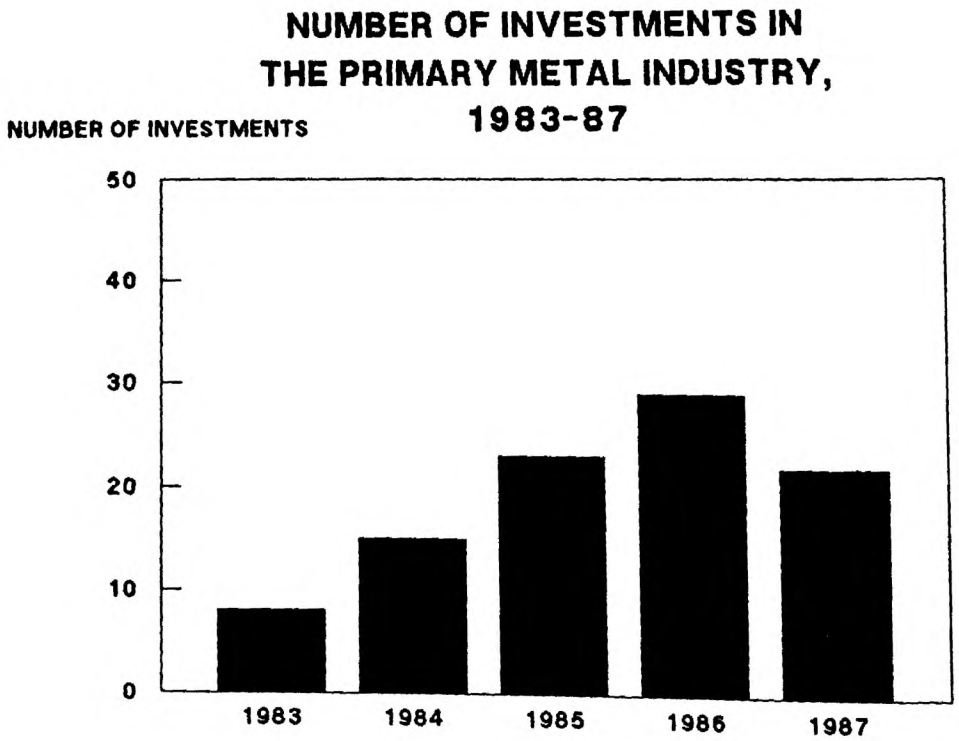
The second largest investment in the primary metal industries sector was an equity increase to 16.3 percent from 15.2 percent of Kaiser Aluminum and Chemical Corp.'s common shares by British investor Alan E. Clore for $151.8 million. When the Oakland, California aluminum producer was reorganized as KaiserTech Ltd., Mr. Clore became chairman. However, he began selling part of his holdings late in 1987, apparently because of financial difficulties resulting from the October drop in the stock market.

For the 4th consecutive year, Japan, with 11 investments, was the number one source country. The United Kingdom was a distant second with three investments, while Canada and Australia tied for third place with two investments each.

Acquisitions (11) accounted for half of the investments identified. The other primary forms of investment were joint ventures (five), all by Japanese investors, and equity increases (three). Although the steel industry (SIC 331) attracted the most foreign investors in 1987, the number of transactions actually declined slightly from 14 in 1986 to 12. Four transactions were identified in the area of rolling, drawing, extruding of nonferrous metals (SIC 335). These two industries accounted for almost 73 percent of the investments.

An investment of particular interest was the acquisition of Special Metals Corp. The Hartford, New York producer of superalloy products for the aerospace and transportation industries was acquired by Aubert & Duval SA, a French producer of specialty alloys, and Vereinigte Deutsche Metalwerke AG of West Germany from Astrotech International Corp. for $72.5 million. In 1983 Special Metals was the subject of sale negotiations between Allegheny International Inc., its parent company at the time, and Nippon Steel Corp. of Japan. The negotiations were terminated after objections by the Department of Defense. Special Metals was subsequently sold to Cyprus Corp., the parent of Astrotech International, for $85 million in cash and notes in December 1983.

Figure 16



Fabricated Metal Products (SIC 34)--Foreign direct investment in the fabricated metal products industry rose almost 32 percent from 1986, thanks largely to overseas manufacturers following in the footsteps of major foreign automobile companies that have established operations in the United States. Twenty-five completed transactions were identified in 1987; 14 of them had a total value of $419.7 million. (Figure 17.)

Two investments accounted for more than 50 percent of the total value. The largest was the $112.5 million acquisition of Smith & Wesson Corp., the famous 135-year-old firearms maker, by F. H. Tomkins PLC from Lear Siegler Holdings Corp. Smith & Wesson, of Springfield, Massachusetts, is the country's largest pistol manufacturer and its weapons are used by many law enforcement agencies, including 44 of the 50 state police forces. This purchase was the first major acquisition in the United States for Tomkins, a diversified British manufacturer of industrial and consumer products, controlled by Gregory Hutchings.

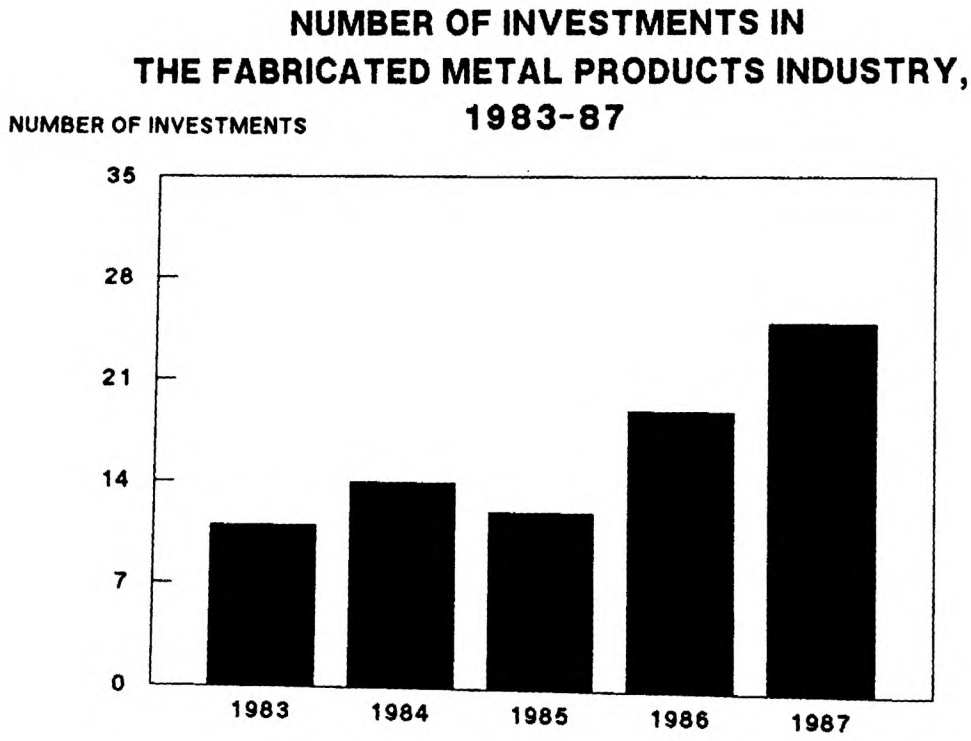
The second largest investment was the Budd Co.'s new $100 million plant in Shelbyville, Kentucky. This stamping plant will employ 400 people and is the largest plant investment in recent years by the Budd Co., one of the nation's largest automotive parts manufacturers. Based in Troy, Michigan, the Budd Co. is a subsidiary of Thyssen AG of Duisburg, West Germany.

Three countries were the source of almost 70 percent of the transactions in this sector. Japanese firms with 10 transactions were the preeminent investors. Canadian companies accounted for four investments and German investors made three investments. Most of the investments (ten) were acquisitions. Other primary forms of investment were new plants (six) and joint ventures (two).

Almost half of the investments were in four subsectors. The most active area was automotive stampings (3465) which had six investments, one-fourth of the investments in the fabricated metal products sector. Japanese firms made five of the six investments identified. Investments in the other subsectors were equally divided. They each had two investments: bolts, nuts, screws and rivets (3452); coating, engraving and allied services (3479); and small arms (3484).

Geographically, investments were concentrated in and around major automobile and automotive parts production centers. Ohio, Pennsylvania, and Tennessee each accounted for three investments, while Indiana, Michigan, and New York had two each.

Figure 17



Machinery, Except Electrical (SIC 35)--An economically rebounding machinery industry encourged foreigners to establish facilities here to take advantage of fluctuations in the exchange market and the stability of our economy. Foreign direct investment in the machinery industry increased significantly in number of transactions and total value for 1987. (Figure 18.)

The industry experienced a 63 percent increase in case numbers over 1986 and more than a triple increase in dollar value. OTIA recorded 105 completed transactions in 1987, 37 of them had a total value $2.1 billion, compared to 1986's 66 transactions, 34 known values totalling $599.2 million.

Forty-three percent (46 cases) of all transactions originated in Japan, with 15 values totalling $177.8 million. The United Kingdom was the second leading investor country with 16 transactions and values totalling $627.6 million, while the Netherlands was responsible for the single largest dollar value--$916 million.

The largest transaction in the machinery industry was made by a privately held Dutch computer maker. Memorex International NV (Amsterdam) paid $911 million for a 90 percent interest in Tulsa, Oklahoma-based Telex Corp., a manufacturer of computer terminals.

General Electric Co. PLC (GEC), a London-based multinational electronics concern, acquired Gilbarco Inc., Greensboro, North Carolina, for $250 million. Gilbarco makes gas station equipment. The acquisition will strengthen business relations between North Carolina and Great Britain.

Other transactions that exceeded $100 million follow:

- Inter-City Gas Corp., Winnipeg, Canada, bought Whirlpool Corp's Heil-Quaker Home Systems Division (Nashville, Tennessee) for $176 million. Heil-Quaker makes heating and cooling systems for commercial and industrial use.

- Emhart Corp. of Farmington, Connecticut, sold its shoe machinery operations to Ablekind Ltd., United Kingdom for $115 million.

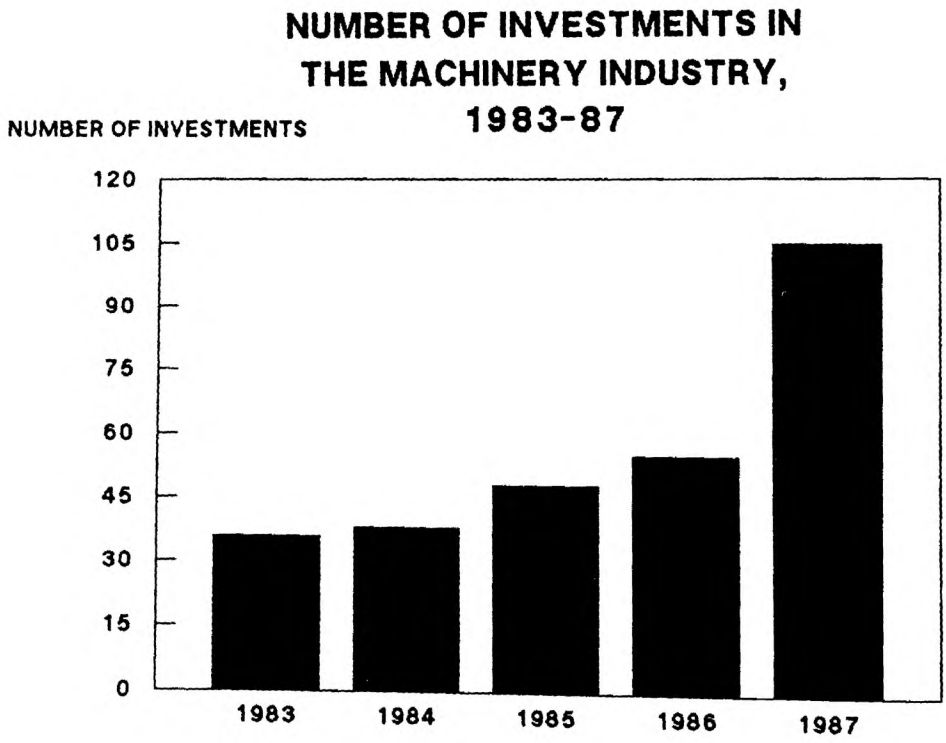
- To expand and strengthen its position in the United States, a British aerospace, automotive, and industrial products producer, Lucas Industries PLC, paid $110 million for Western Gear Corp. Western Gear, headquartered in South Milwaukee, Wisconsin manufactures gears.

Foreign investment took place in 32 states, with California hosting 17 transactions; New York and Illinois, 8 each; North Carolina, 7; and Michigan, Ohio, and Tennessee, 5 each. Investments in these seven states accounted for more than 50 percent of the identified transactions.

The electronic computing equipment (SIC 3573) subsector had the largest number of transactions with 26. Values were identified for

10 of them, totalling over $1 billion, and representing 47 percent of the total value. Japanese investors were the most prominent with 12 transactions.

Figure 18



Electric & Electronic Equipment (SIC 36)--Since the United States is viewed as a stable country with great market potential, the electric and electronic equipment industry experienced a 73 percent increase in foreign direct investment activity and more than a threefold increase in value in 1987. OTIA identified 103 completed transactions, values for 53 of them totaling $5.6 billion, compared to 1986 figures of 75 transactions, 37 values of $1.8 billion. (Figure 19.)

As in 1986, Japanese high-technology investors continued to buy into the electrical industry, with 49 transactions and aggregate value of $2.5 billion. The United Kingdom was the second leading investor country with 23 transactions and $1.1 billion in total investments. Japan and the United Kingdom investment activity in the industry accounted for almost 70 percent of the total number of transactions.

The primary mode of investment in electronics was by acquisitions. More than half of the transactions (57) were foreigner investors acquiring U.S. electrical/electronics companies. The establishment of new plants or plant expansions (20) was second, followed by new outlets/subsidiaries/offices (19), equity increases (4), and joint ventures (3).

On a regional basis, 25 states were recipients of foreign direct investment. Most notable were the states known for their high-tech areas: California with 25 transactions; followed by New York with 11; Illinois, 8; Florida, 7, and New Jersey, 6. Together they accounted for 65 percent of the total number of investments.

The most active subsector in the electronics industry was electronic components (SIC 3679) with 16 transactions; investments were made principally by firms from the United Kingdom and Japan which had five transactions each.

Japanese investors were responsible for 9 of the 13 cases in the semiconductor and related devices sector (SIC 3674). Currently Japan has 49 percent of the worldwide market share in semiconductors, while the United States trails with a 38 percent share.

The radio and television transmitting, signaling, detection equipment and apparatus (SIC 3662) subsector also had 13 transactions. British investors led with six acquisitions and one equity increase.

Intent on making products in countries where they will market them, Japanese investors played a major role in the U.S. telephone and telegraph apparatus (SIC 3661) subsector. Of the nine transactions identified in the wire telephone and telegraph equipment area, Japanese investors acquired or established six new plants or outlets here.

A Japanese firm also made the largest investment in this industry in 1987. Sony Corp., one of the world's leading consumer electronics manufacturers, purchased CBS Records, the largest record company in the world, for $2 billion, from CBS Inc. This acquisition will enable Sony to expand its product range in the music business.

The second, third, and fourth largest investments in this industry sector came from France, the United Kingdom and the Netherlands, respectively.

Thomson SA, the large electronics company owned by the French Government, continued its international expansion by acquiring GE's Consumer Electronics Division for $800 million. This acquisition leaves Zenith Electronics Co. as the only U.S. television manufacturer in this country.

British investors strengthened their presence in the U.S. security systems industry with a $715 million acquisition. ADT Inc., a New York-based manufacturer of electronic security systems, was purchased by an international services company, Hawley Group Ltd.

In an effort to consolidate its operations, Dutch electronics concern, Philips NV, purchased the outstanding 42 percent publicly held interest of its U.S. subsidiary, North American Philips Corp., for $680 million. North American Philips, headquartered in New York, makes electronics, lighting and electrical products and is known for its Norelco, Maganvox, Philco and Sylvania brand names.

Other noteworthy transactions in this industry include the following acquisitions:

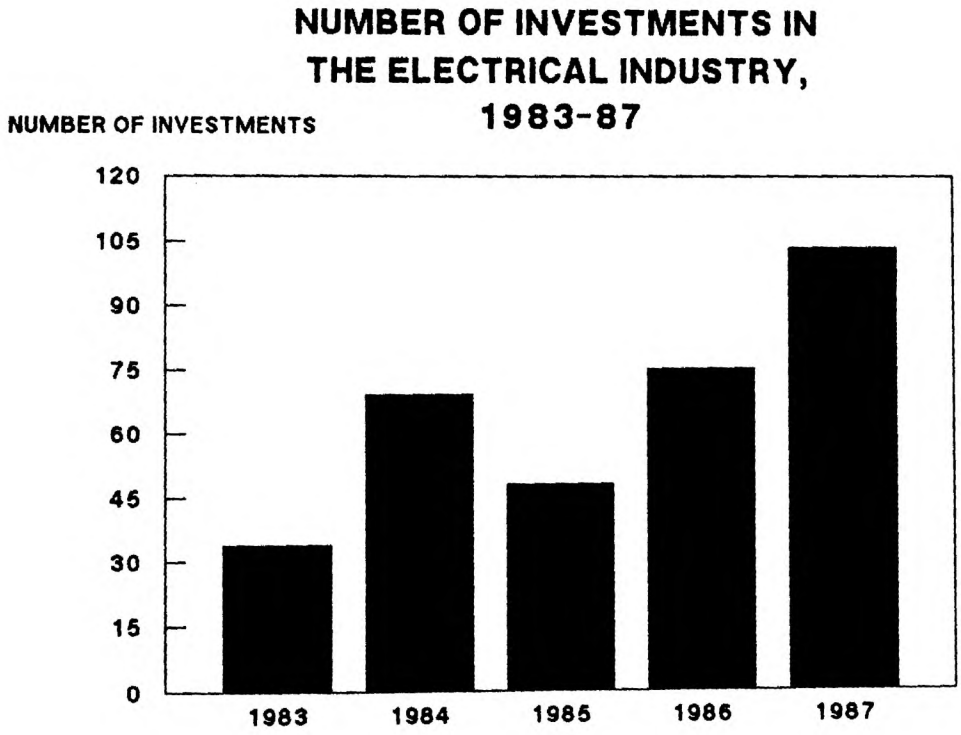
BTR PLC, another British industrial conglomerate, paid $200 million for Stewart-Warner Corp., Chicago, Illinois. Stewart-Warner makes electronic components.

The Herbert Quandt family of Bad Homburg, West Germany bought 97 percent of Data Card Corp for $174 million. The Minnesota company makes credit card equipment.

Landis & Gyr AG, Switzerland, a maker of heating, ventilating, and air-conditioning controls, paid $132.5 million for Skokie, Illinois-based Mark Control's MCC Powers Division, a manufacturer of industrial temperature controls.

Despite a slump in the semiconductor market, Fujitsu Ltd., through its U.S. subsidiary, Fujitsu Microelectronics Inc., began construction of a $130 million semiconductors plant in Gresham, Oregon. Fujitsu Ltd., Japan's largest computer manufacturer, is owned by Fuji Electric Co. Ltd.

Figure 19



Transportation Equipment (SIC 37)--Hoping that the United States is able to support yet another automotive manufacturer, two Japanese companies, Fuji Heavy Industries and Isuzu Motors, teamed up to form a $405 million joint venture to produce cars and light trucks in Lafayette, Indiana. Japanese imports accounted for about 21 percent of the 10,277 auto sales in the United States during 1987. Nevertheless, Volkswagen of West Germany announced plans to close its U.S. production plant in 1988.

OTIA identified 45 foreign transactions during 1987 in this sector with values for 27 totalling nearly $1.5 billion. This was an increase of more than 87 percent in the number of transactions identified over 1986 while the increase in value was approximately 32 percent. (Figure 20.)

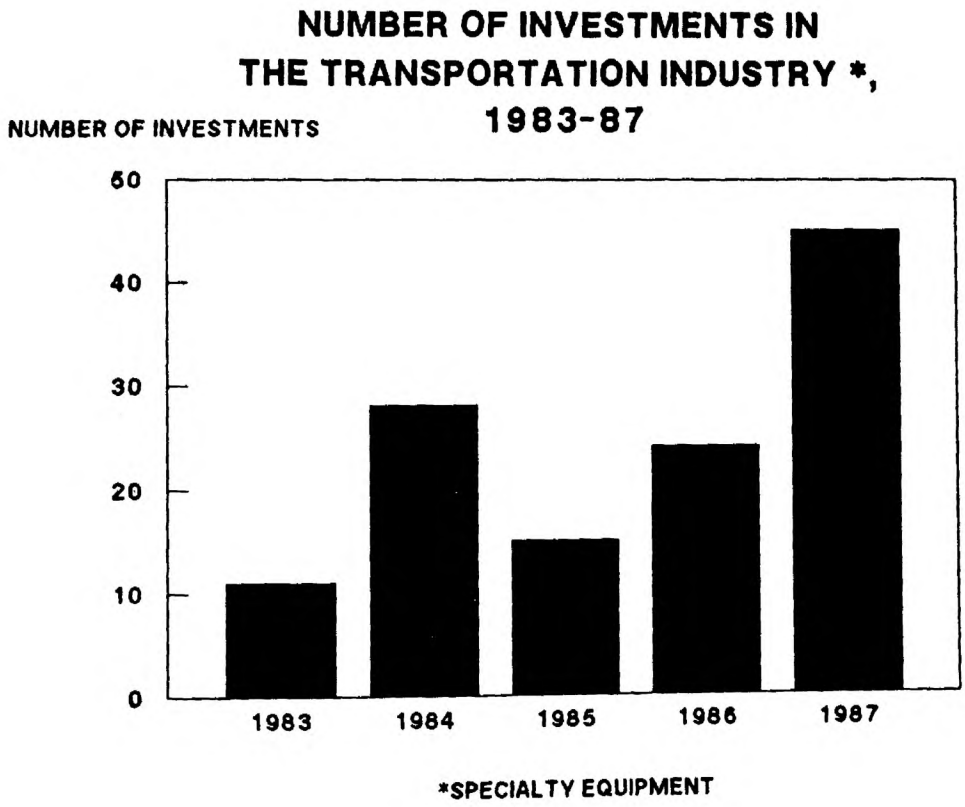
Much of the increase in the number of transactions identified in this industry came as Japanese parts manufacturers located here to be near their end users, the Japanese auto manufacturers, who require timely and dependable deliveries.

Honda Motor Co. began a $450 million expansion of its Ohio engine assembly plant to include engines, drive trains, suspensions and brake assembly for its automobiles manufactured here. Likewise, Toyota announced its intension to expand its Kentucky plant to include auto engines, front and rear axles, and steering components.

Japanese investors accounted for nearly 69 percent of the number of transactions (31) and 76 percent of the known value. The United Kingdom had five transactions, one of which had a significant value. Owens Corning Fiberglass sold its Hitco Division to British Petroleum, a subsidiary of the British Government, for $240 million. Hitco makes a wide range of aerospace products used in guided missiles. Other countries had three or fewer transactions.

Except for California with six transactions, the industry concentration continued to be in the eastern and southern United States, close to automotive manufacturers with Ohio gaining most investments, nine. As in previous years, investors frequently established their own plants (22) and expanded existing facilities (9). However, as investors became more confident in U.S. suppliers in this industry, they acquired seven U.S. firms and completed seven joint ventures with U.S. partners.

Figure 20



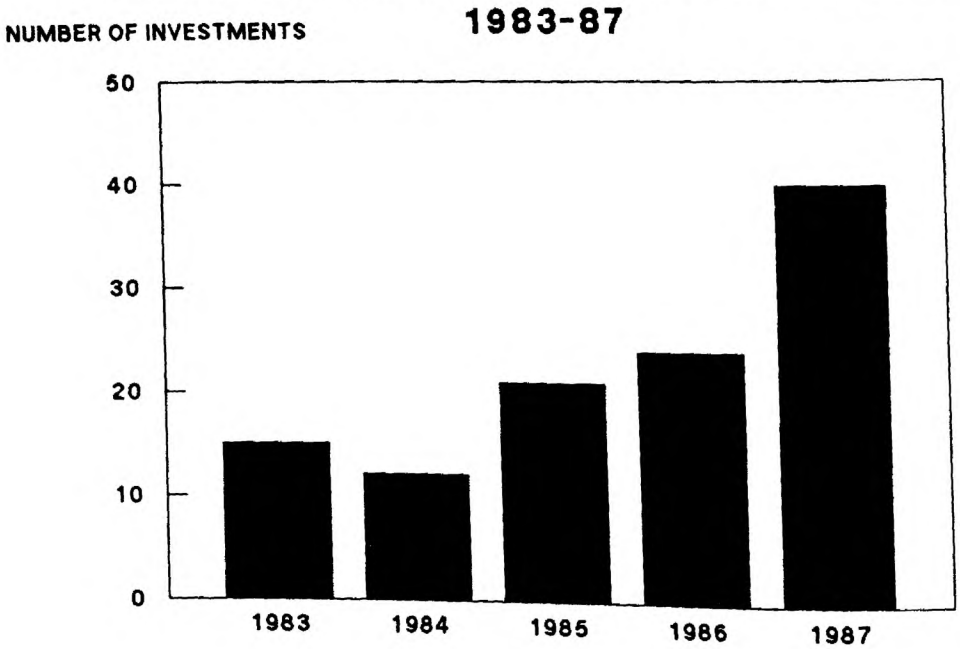
Instrument and Related Products (SIC 38)--Building a U.S. production and distribution base continued to influence foreign investors in the instruments and related products sector, who completed 40 transactions, with values for 18 totalling $1.7 billion. This was nearly twice the number of transactions identified during 1986 and a 71 percent increase in the value known. (Figure 21.)

Nearly 70 percent of the value came as Britain's Siebel PLC acquired Barber Colman, for $227 million and Ranco Co. for $150 million. Both U.S. companies manufacture automatic control devices. After an initial investment in Spectra-Physics nearly 2 years ago, Ciba Geigy of Switzerland acquired the outstanding 81 percent of this laser manufacturer for $310 million. Revlon solds its vision care division to Pilkington Brothers PLC, England for $574 million. Panavision Inc., a California motion picture camera manufacturer and supplier, was acquired by Lee International PLC, England, for $150 million, and Konishiraku Photos of Japan started construction on a $100 million plant in Greensboro, North Carolina to make photographic supplies.

Over half the transactions were from the United Kingdom and Japan, with 14 and 13 transactions, respectively. There were 23 acquisitions and mergers, and 8 new plant openings.

Figure 21

NUMBER OF INVESTMENTS IN THE INSTRUMENTS & RELATED PRODUCTS INDUSTRY, 1983-87

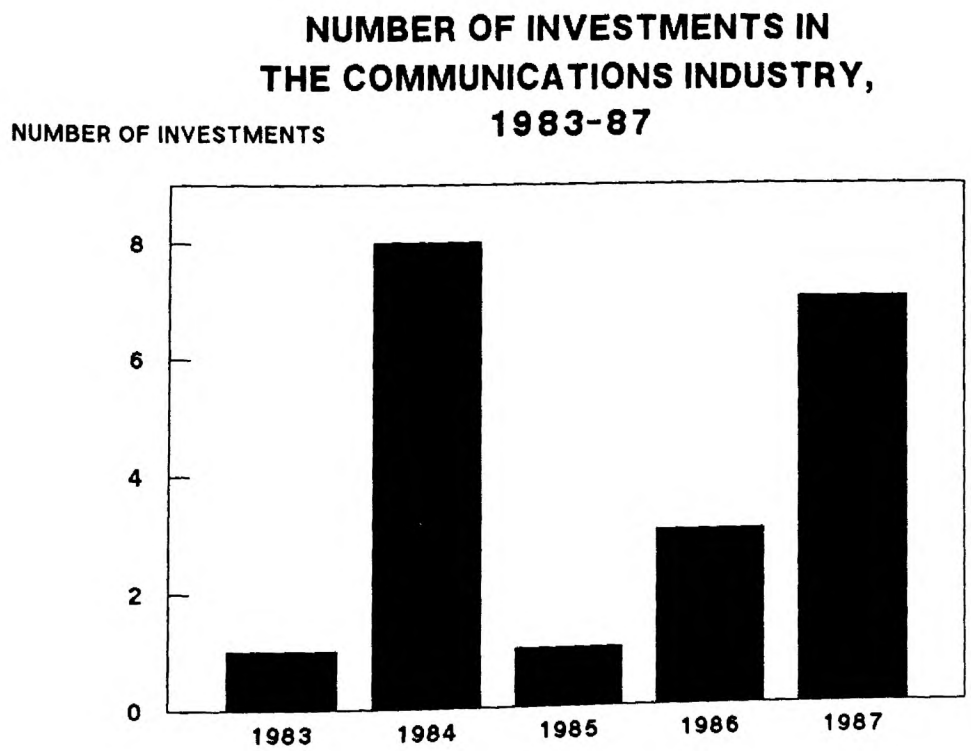


Communications (SIC 48)--Foreign firms, looking at potential markets in the United States as part of their worldwide push toward global communications networks, increased direct investment in this industry 66 percent over 1986. (Figure 22.) Five transactions, three with values worth $135.5 million, were identified.

The largest transaction was a joint telephone communications venture linking the United States, via Oahu, Hawaii, to Japan and Guam. Japan's Kokusai Denshin Denwa Co. (KDD) is the second largest partner with a 21 percent share of the project, worth $126 million. American Telephone & Telegraph Co., the primary investor, owns 56 percent of the $600 million venture.

In 1987 Japan, with three transactions, was the leading source country. Canada and Italy each accounted for one transaction. Two of the transactions were acquisitions. One transaction was recorded in each of the following categories: joint venture, new subsidiary, and office expansion. Most of the investments (4) were equally divided between two subsectors: telephone communications and television broadcasting. There was one investment in the cablevision industry.

Figure 22



Electric, Gas and Sanitary Services (SIC 49)--A growing number of foreign firms, attracted by prospects for rapid expansion, have begun increasing investment in the electric, gas and sanitary services sector. There were 14 transactions identified in 1987, more than double those of the previous year. (Figure 23.) Six transactions had a total value of $109.8 million.

The largest investment accounted for almost 73 percent of the total value. It was the $80 million acquisition of Mid-Louisiana Gas Co.. the New Orleans-based interstate pipeline subsidiary of Tenneco Inc., by Wintershall Corp. of Denver, Colorado. Wintershall is the oil and gas exploration subsidiary of Wintershall AG, Kassel, West Germany, a member of the BASF Group. Included in the sale were natural gas-producing properties in the Monroe gas field in northeastern Louisiana.

Two source countries accounted for most of the investment in this sector. Canada ranked first with six transactions followed by the United Kingdom with four transactions. West Germany, with two transactions, was in third place.

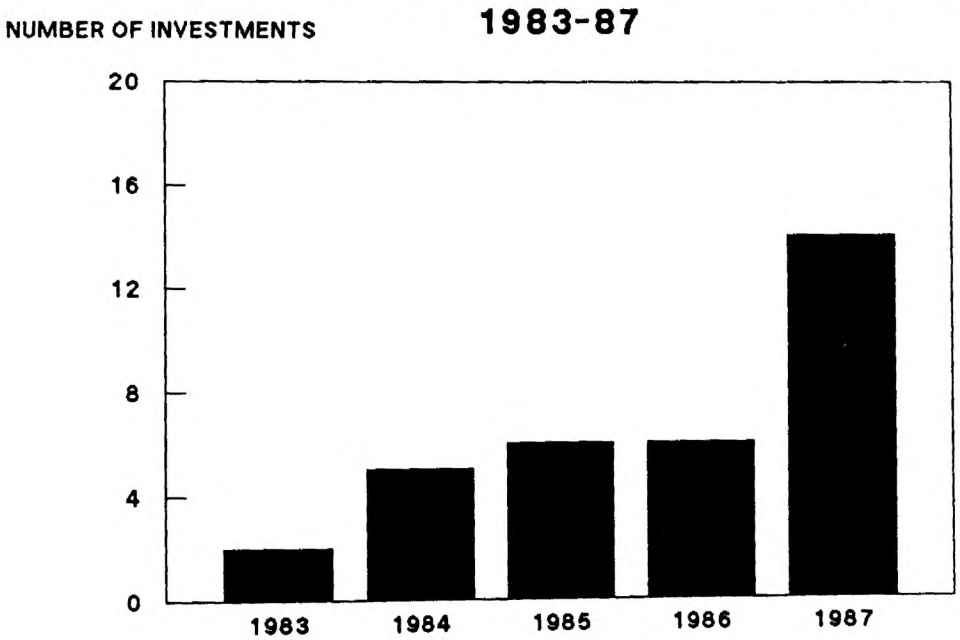
The two primary modes of investment were acquisitions (10) and joint ventures (3). Investments were made throughout the sector but concentrated in two subsectors: sanitary services (9) and gas production and distribution (3).

The most prominent investor in the sanitary service sector was Laidlaw Transportation Ltd., a Canadian transportation services and waste management services firm, controlled by Michael G. DeGroote. Through its U.S. subsidiary, Laidlaw Industries Inc., the Canadian firm acquired two chemical waste service companies and three solid waste removal companies in the United States via four investments.

The other prominent investor in sanitary services was Atwoods PLC, a London-based waste management services firm, which entered the U.S. market in November 1984. Atwoods' three 1987 acquisitions brought its holdings to five waste removal companies in south Florida where 85 percent of the British firm's business is centered.

Figure 23

NUMBER OF INVESTMENTS IN THE ELECTRIC, GAS & SANITARY SERVICES INDUSTRY, 1983-87



Retail Trade (SIC 52-59)--The size of the U.S. retail market, the initial small start-up required for sales outlets as compared to that of manufacturing facilities, and the diversity of the market continued to appeal to European investors.

Investment transactions in this industry increased about 37 percent over 1986; however, there was a decrease of about 77 percent in the reported dollar value. OTIA identified 97 transactions, with values known for 20 amounting to $1.2 billion. (Figure 24.)

Unlike last year, there was no single billion dollar transaction. There were, however, some transactions of significant value. The Dixon Group of Britain acquired Cyclops Corp., a Pittsburgh lumber and other building materials company,for $384 million. J. Sainsbury PLC, London, acquired the remaining 50 percent of Shaw Supermarket it did not already own for $261.5 million. The Ratner Group of London acquired Sterling Inc., an Ohio jewelry chain,for $210 million. The Tenglemann Family, West Germany, through it 52 percent interest in A&P, acquired 52 percent of the Waldbaum Grocery chain for $149.2 million. Network Security Corp. was acquired by Inspectorate International of Switzerland for $105 million, and Safeway sold its California Liquor Barn chain to Majestic Wine Warehouse of the United Kingdom for $100 million.

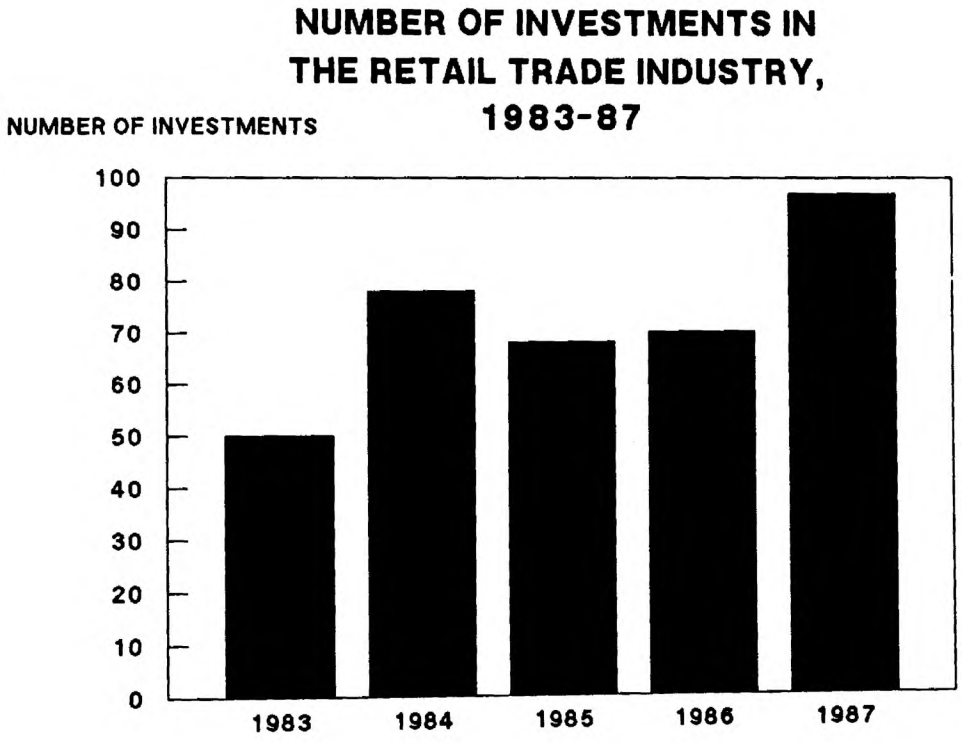
U.K., Swiss and German investors provided over 94 percent of the value, while Japanese, investors with the most transactions (27), accounted for only 2 percent of the value.

Investors from the United Kingdom completed 22 transactions with over 76 percent of the value.

Generally, foreign investors in this industry begin by establishing small retail outlets--there were 52 in 1987. Nearly 80 percent of the value in this sector, however, came from acquisitions/mergers, of which there were 14. Specialty women's apparel stores attracted most transactions, followed by grocery store chains and restaurants, while building materials stores and general merchandise stores accounted for 78 percent of the value.

New York was the primary entry point for investment this industry; it had 27 transactions. California was in second place with 17 investment transactions. The remaining investments in this industry were spread among 24 other states.

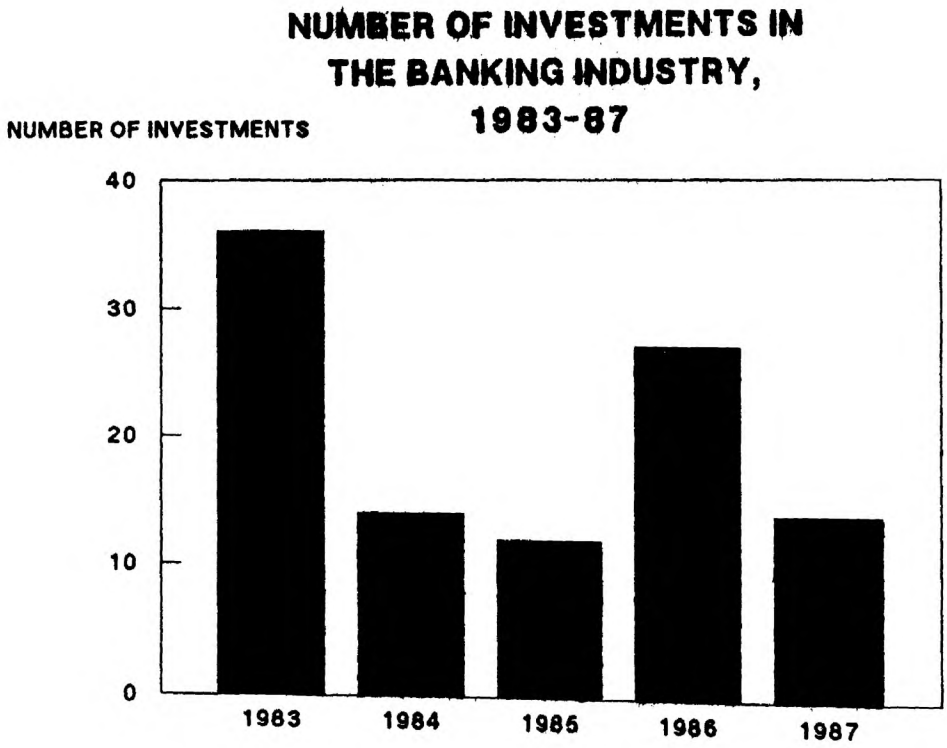
Figure 24



Banking (SIC 60)--During 1987 there were 14 identified transactions in the banking sector, 6 of which had reported values totalling $1.6 billion. The sector was dominated by the $820 million acquisition of First Jersey National, New Jersey, by Britain's National Westminster Bank Group, and the $756 million purchase by the Hong Kong Shanghai Banking Corp. of the shares of Marine Midland Banks Inc., Buffalo, New York, that it did not already own. (Figure 25.)

Japan accounted for six investments, Hong Kong for two, and six other countries, Indonesia, Australia, the United Kingdom, Italy, Saudi Arabia, and the Netherlands Antilles for one each.

Figure 25



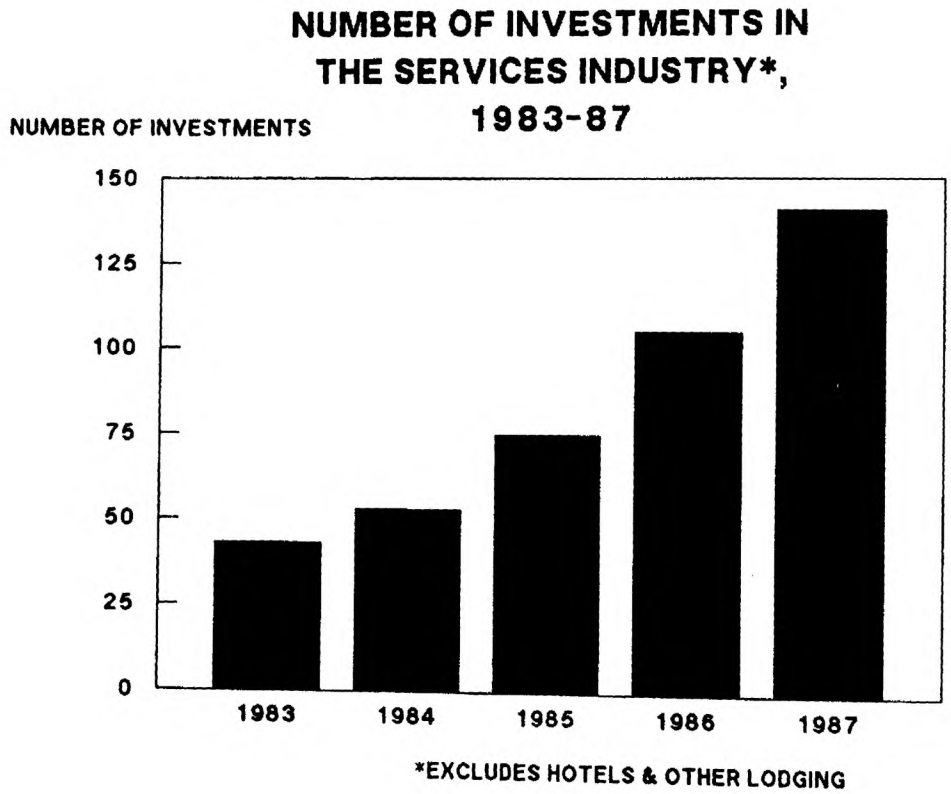
Services (SIC 72-89)--The need to become global and the declining dollar encouraged foreign investors wishing to enter into or expand in the services industry. OTIA identified 141 transactions of which 44 had a total value of more than $3.8 billion. While the value increased more than three fold over 1986, the number of transactions identified increased about 37 percent. (Figure 26.)

Substantial interest in the business services sector was directed at employment agencies (temporaries most often), one of the fastest growing service industries in the country. Foreign investors took advantage of many opportunities as U.S. companies cut costs by avoiding benefit payments to full-time employees, not just in traditional secretarial jobs but in a wide variety of professional jobs as well. There also has been a steady flow of interest by foreign investors in advertising agencies, public relations, and consultant firms, as well as information gathering services (software).

The largest transaction in this industry took place when Blue Arrow PLC, England, acquired Manpower Inc., the world's largest temporary employment agency for $1.3 billion. Other transactions with significant values were Thorn EMI PLC's, $594 acquisition of Rent-A-Centers, a Kansas lessor of household goods, and WPP Group PLC's $566.6 million acquisition of J. Walter Thompson, a New York advertising agency. Both foreign investors are from the United Kingdom. In another transaction, Compagnie des Machines Bull, controlled by the Government of France, and NEC of Japan, paid $527 million for 58 percent of a computer information service, Honeywell Information Systems. MachinesBull has a 43 percent interest and NEC has 15 percent. Finally, Britannia Holding PLC, England, acquired Alexander Proudfoot, a Florida management consultant firm, for $200 million. The British advertising agency Saatchi and Saatchi PLC was very active this year completing nearly a dozen transactions in the industry.

British investors accounted for $3 billion, or 79 percent of the total value. They also made the most investments (58). Japanese investors were second with 33 transactions; however, only six known values had a total of $57.7 million. There were 74 acquisition/mergers and 40 new facilities established of which 34 were in California and 29 in New York. Investments were also completed in another 25 states.

Figure 26



Real Property

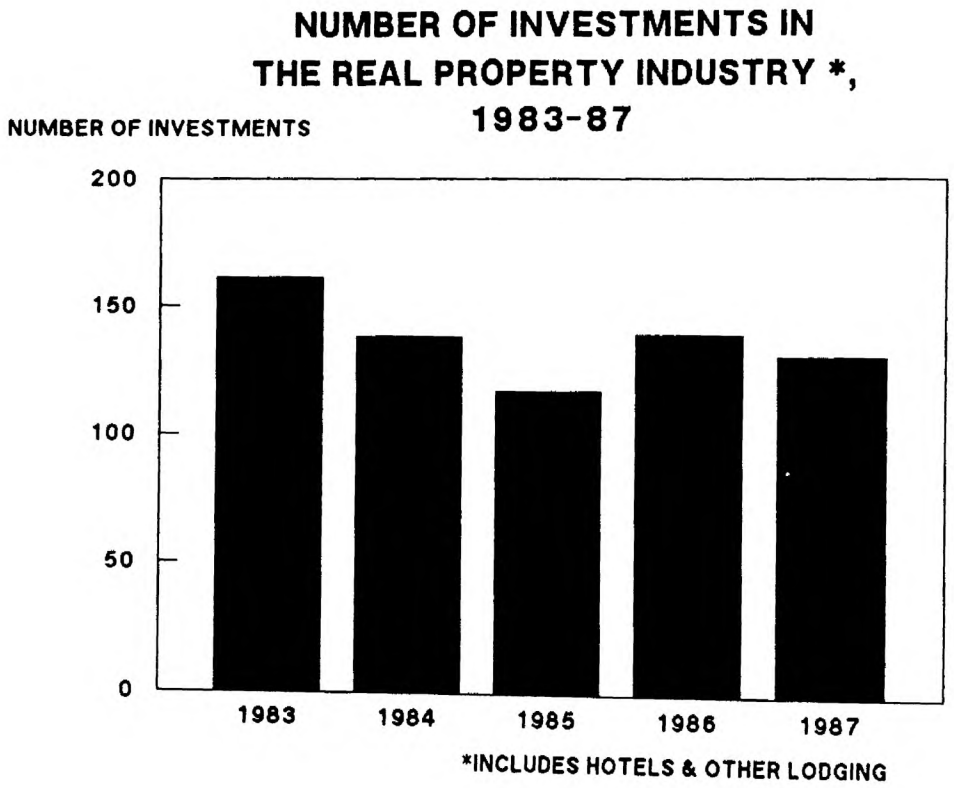
Foreign investors were identified in 1987 as having concluded 108 transactions in the commercial real estate sector, and a further 23 transactions in the hotel industry (SIC 70). (Purchases of agricultural land and individual residential real estate units are not included in this report.) Of the total 131 investments, 98 had known values totalling $7.3 billion, with 21 valued in excess of $100 million. These 21 accounted for an aggregate value of $5.6 billion, just over 76 percent of the total value. (Figure 27.)

The Japanese were the most active investors in this sector for the third year in a row. During 1987, 75 Japanese investments were identified, with 50 values totaling $5.7 billion, 77 percent of the total aggregate value. The Citicorp building in New York City was acquired by Japan's Dai-Ichi Mutual Life Insurance Co. for $670 million; 1000 Wilshire Blvd. in Los Angeles was bought by Sumitomo Life Insurance Co. at a cost of $560 million; Sumitomo Real Estate Development Co. paid $500 million for 666 Fifth Avenue, New York City; and, with an estimated $750 million, AOKI Corp. participated in the acquisition of the Westin Hotels and Resorts chain of Seattle.

The Japanese far outdistanced other foreign investors, with the British coming second with $356.9 million invested, and the Dutch third at $276.7 million.

Hotels were popular, as 23 instances of foreign investment in this area were identified. There were, of course, more than 23 hotels acquired--all the hotels in the Westin Hotels and Resorts chain, for instance, as mentioned above, as well as the seven Holiday Inns, essentially in the Southeast, acquired by BASS PLC of the United Kingdom for $175 million. Nearly half (11) of the investments were made by Japanese.

Figure 27



MAJOR SECTORAL DEVELOPMENTS

The section on industrial sectors focuses on major investment transactions trends in those sectors where foreign direct investment was concentrated.

In 1988 there were 21 industrial sectors that had noticeable foreign direct investment activity. In 15 of these sectors, there was more than $1 billion worth of foreign direct investment transactions.

Other sectors have been singled out for various reasons such as a particular investment pattern or a noteworthy transaction.

Oil & Gas Extraction (SIC 13) -- In 1988, with the dollar down and stock prices low, companies and properties in the U.S. oil and gas extraction industry became extremely attractive to foreign investors both public and private. Some foreign firms purchased U.S. exploration and production properties, while others formed joint ventures with U.S. companies to develop domestic reserves. The number of foreign direct investments rose almost 35 percent over the 1987 level. Thirty-one investment transactions were identified; 21 of them had a total combined value of more than $2 billion. (Figure 5.)

Investors from five major source countries accounted for over half of the oil and gas transactions. Investors from the United Kingdom made seven investments followed by Japanese investors who completed three investments. Investors from Canada, France, and the Netherlands accounted for two investments apiece.

The three largest investment transactions accounted for almost 75 percent of the total oil and gas extraction value. The largest was the $612 million acquisition of CSX Oil and Gas Corp. of Houston, Texas by Total Minatome Corp., the Texas-based subsidiary of Total-CFP of France. Total-CFP is controlled by the Government of France.

The second largest transaction, worth $510 million, was the acquisition of Tenneco Inc.'s Gulf Coast oil and gas reserves by American Petrofina Inc. of Dallas, Texas. This purchase of reserves, the largest ever for American Petrofina, more than doubled the company's hydrocarbon reserves, ensuring its already profitable position in the U.S. refining and chemicals markets. American Petrofina is 85 percent owned by Petrofina SA of Belgium.

The third largest transaction was the $390 million acquisition of 165 oil and gas leases in the Chukchi Sea off the northwest coast of Alaska by Shell Oil Co.'s Shell Western E&P Inc. subsidiary bidding alone and with Conoco and Elf Aquitaine Inc. Shell Oil is a subsidiary of the Royal Dutch Shell Group of the Netherlands. Elf Aquitaine Inc. is a subsidiary of Elf Aquitaine SA, France's largest oil company, which is controlled by the French Government. Conoco Inc., a subsidiary of DuPont Co., is 22 percent held by Seagram Ltd. of Canada through its holdings in DuPont. The Bronfman family of Montreal has the controlling interest in Seagram.

There were three types of oil and gas exploration investments in 1988. Seventeen were acquisitions; 7 were joint ventures, and 7 were equity increases. These investments were in three subsectors: 28, in oil and gas exploration and development (SIC 1311); 2, in oil and gas field services (SIC 1389); and 1, in oil and gas field exploration services (SIC 1382).

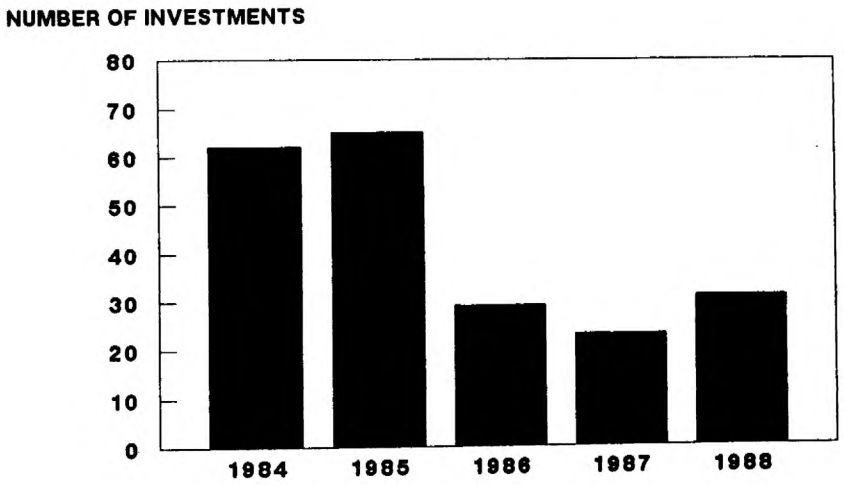
More than two-thirds of the investment transactions were located in five states. Texas had seven transactions, followed by Alaska with six. Colorado and Louisiana had four transactions apiece, while California had three transactions.

Thirteen percent of the investments in the oil and gas extraction industry were made by companies owned or controlled by foreign governments, including the Governments of France (two), Kuwait (one) and Japan (one).

The two most visible foreign corporate investors in this sector in 1988 were the British Petroleum Co. PLC of the United Kingdom and the Royal Dutch Shell Group of the Netherlands. Each of these firms accounted for two transactions. The most prominent individual investor, who accounted for three transactions, was Abdullah Taha Bakhsh of Saudi Arabia. His investments were made through Traco International NV of the Netherlands Antilles, which holds an interest in Harken Oil and Gas Inc. of Bedford, Texas.

Figure 5

NUMBER OF INVESTMENTS IN THE OIL & GAS EXTRACTION INDUSTRY, 1984 - 88



Food & Kindred Products (SIC 20) -- Investment activity by foreigners in the U.S. food and kindred products sector declined by 15 percent in the number of transactions and by 16 percent in total value for 1988. There were 40 transactions identified in 1988; 15 of them had an aggregate value of $3.6 billion (Figure 6).

The three largest transactions accounted for 83 percent of the total value identified in the foods industry. Tate & Lyle PLC, a British-based sugar refiner, paid $1.5 billion for corn sweetener producer Staley Continental Inc. of Rolling Meadows, Illinois. This acquisition gave Tate & Lyle a dominant role in the worldwide corn sweetener market.

The second largest transaction in the foods industry for 1988 was by Seagram Ltd. of Montreal, Canada. Broadening its product line, Seagram acquired Tropicana Products Inc. for $1.2 billion. Tropicana, a Bradenton, Florida company, is the second largest producer of orange juice in the United States and currently has a 29 percent share of the ready-to-serve orange juice market. Seagram is controlled by the Bronfman family of Canada.

The third largest investment was a $310 million purchase of New York-based Amstar Sugar Corp. by Tate & Lyle PLC. Amstar Sugar is the largest cane sugar refiner in the United States.

Foreign companies, taking advantage of attractive U.S. economic conditions and the benefits of operating in the United States, were active in the U.S. soft drinks and carbonated water industry (SIC 2086) in 1988. Japanese companies, with an eye on Japan's recently opened domestic beverage market, were particularly visible investors. Kirin Brewery Company bought the remaining 75 percent of Coca-Cola Bottling Co. of Northern New England Inc. it did not already own. The price for the South Portland, Maine firm was $46.5 million. Suntory Ltd., a major producer of whiskey and soft drinks, acquired Polar Water Co. of Pittsburgh, Pennsylvania, the fifth largest bottled-water producer in the United States.

Compagnie Generale des Eaux, a major French holding company, also acquired a leading bottled-water producer. The Paris-based firm purchased Sierra Spring Water Co. of California for $38 million.

Acquisitions of U.S. food and kindred products manufacturers continued to be the most prominent type of investment. Foreign companies made 25 acquisitions, 14 of which had a value of $3.6 billion or 99 percent of the total industry investment value. There were also seven new outlets, four joint ventures, two new plants, one plant expansion, and one equity increase.

Geographically, 15 transactions were located on the East Coast and 14 transactions took place on the West Coast. The remaining investments were located throughout the central portion of the United States. California experienced the most activity with 10 transactions.

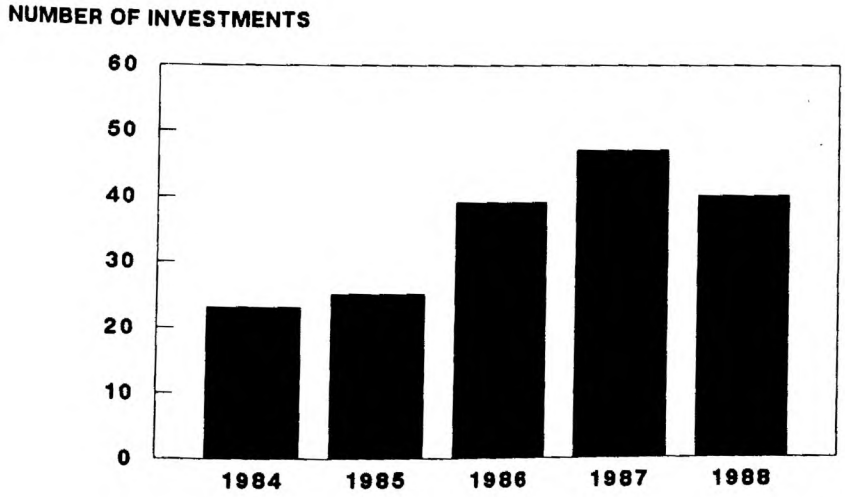
Companies from Japan and the United Kingdom were the leading investors in foods and kindred products, accounting for 70 percent of all transactions identified in 1988. Japanese investors completed 20 transactions, while investors from the United Kingdom had 8 transactions. Other investors were from France (six transactions) and West Germany, Canada, Indonesia, the Netherlands, and Israel (one transaction each).

Although Japanese companies made the most individual investments in the foods sector, as a group they ranked fourth in reported value at $108 million. Investors from the United Kingdom accounted for the largest dollar value of investments--$2 billion. They were followed by Canadian investors with $1.2 billion and Indonesian investors with $260 million.

A notable development in the food and kindred products industry in 1988 was the $260 million acquisition of the Van Camp Seafood Division of the Ralston Purina Co. by PT Mantrust, a privately held Indonesian holding company. This is the first investment by an Indonesian firm in this industry since the International Trade Administration has been monitoring foreign investment in the United States.

Figure 6

NUMBER OF INVESTMENTS IN THE FOOD INDUSTRY, 1984 - 88



Printing & Publishing (SIC 27) -- In 1988 foreign media companies again actively pursued investments in U.S. book, magazine and newspaper publishers. This activity resulted in 35 transactions with 19 values that totaled a record $5 billion (Figure 7).

Five source countries accounted for the majority of investment transactions in this industry. The United Kingdom, with 14 transactions, had the most investments, followed by Canada with 9 and France with 4 transactions. West Germany and Japan had three investments each.

Ten transactions, or 29 percent of the investments in the printing and publishing industry, had values of at least $100 million in 1988. Two of the three largest investments were made by British publisher Robert Maxwell. The first one was the $2.5 billion acquisition of major U.S. book publisher MacMillan Inc. by Mills Acquisition Co., a U.S. subsidiary of Maxwell Communication Corp. PLC. The second largest investment was Maxwell Communication Corp.'s $750 million acquisition of Official Airline Guides Inc., the airline guide publishing business of the Dun and Bradstreet Corp.

The third largest investment was also an acquisition. Hachette Publications Inc., the New York-based subsidiary of Hachette SA, a French media conglomerate, purchased Diamandis Communications Inc., a New York magazine publisher for $712 million. This transaction followed Hachette's earlier $448.6 million acquisition of Grolier Inc., a major publisher of reference and educational materials and books. Hachette is controlled by two French businessmen, Jean-Luc Lagardere and Daniel Filipacchi.

The most utilized form of investment in the printing and publishing industry in 1988 was the acquisition. More than 70 percent or 25 transactions were acquisitions. Seven transactions were classified in the other category; this includes investments such as new subsidiaries and new offices. There were also two equity increases and one joint venture.

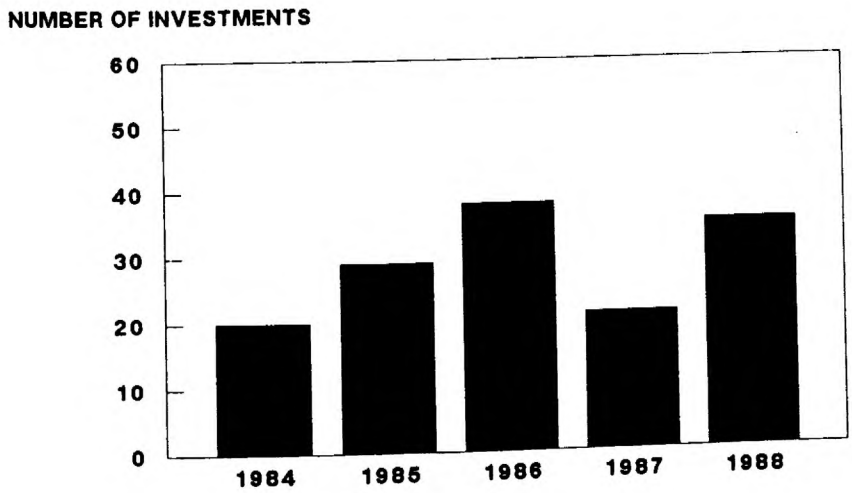
As in 1986 and 1987, periodicals publishing (SIC 2721), with 15 transactions and 6 values totaling $1.7 billion, was the subsector that attracted the largest number of investments. Book publishing (SIC 2731) was in second place with eight transactions, but had the highest total value--six values totaled $3.4 billion. The newspaper publishing subsector (SIC 2711) was the third most attractive; there were six transactions with four values totaling $403 million.

As the center for the U.S. publishing industry, New York was once again the state with the most investment activity. Thirteen investments were located there. California followed with four transactions, while Connecticut, Illinois and Maryland had two transactions apiece.

The year 1988 marked not only a record year for foreign acquisitions and expansion in the U.S. printing and publishing industry as a whole, but also marked a period in which foreign media companies firmly established a presence in the lucrative area of educational publishing. Three major investments were Maxwell Communication's $2.5 billion purchase of MacMillan Inc., Hachette's $448.6 million purchase of Grolier Inc., and Pearson's $283 million purchase of Addison-Wesley Publishing Co.

Figure 7

NUMBER OF INVESTMENTS IN THE PRINTING & PUBLISHING INDUSTRY, 1984 - 88



Chemicals & Allied Products (SIC 28) -- The U.S. chemical industry continued to attract foreign investors, but at a somewhat slower pace than 1987. Investments were smaller than the previous year when U.S. manufacturers in this industry were restructuring and divesting themselves of unprofitable units.

In 1988 there were 62 transactions completed by foreign investors in the chemical industry (compared with 80 in 1987) with known values for 28 transactions totaling nearly $2.9 billion (Figure 8). The number of transactions decreased 23 percent and the known value of the transactions decreased 67 percent from the 1987 figures.

The most active investors in the chemical industry were the Japanese, who completed 16 transactions--7 of which were acquisitions. Ten of these transactions had a total value of just over $1 billion. British firms were the next most active investors; they had 13 transactions, 7 of these were also acquisitions. Eight of the British investments had a total value of almost $1.5 billion, the largest amount from any country.

In 1988 there were five major investments in the chemicals and allied products industry. The largest transaction was the acquisition of Koppers Co. Inc. by BNS for approximately $1.7 billion. BNS is an investor group that is 54 percent owned by Beazer PLC of the United Kingdom, making the British building and construction firm's share of the transaction worth $923.4 million. Koppers is a Pittsburgh manufacturer of thermo plastic resins and other plastic products, which also has interests in highway and street construction.

Fisons PLC, another British firm had the second largest investment. The Ipswich-based pharmaceutical manufacturer acquired the pharmaceutical division of Pennwalt Corp. for $460 million.

Two Japanese firms had the third and fourth largest investments. Kao Corp. acquired Andrew Jergens Co., an Ohio-based hand-care products manufacturer, for $350 million and Shiseido Co. Ltd., a major cosmetics producer, acquired Zotos International Inc., a hair-care products firm in Darien, Connecticut, for $341 million.

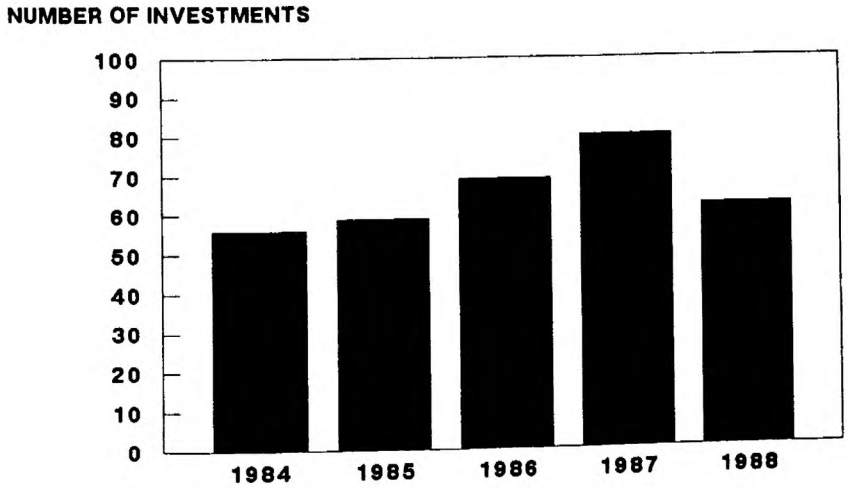
The majority of transactions (33) in this industry were acquisitions. Other prominent investment modes included nine plant expansions, eight new plants, and seven joint ventures.

Half of the industry's investments were in four subsectors. Twelve were in plastics material, synthetic resins and nonvulcanizable elastomers (SIC 2821), and eight were in pharmaceuticals (SIC 2834). There were also six investments in chemicals and chemical preparations, NEC (SIC 2899), and five investments were made in the industrial inorganic chemicals subsector (SIC 2819).

Chemical investments were located in 25 states, with 5 states accounting for almost half of the transactions. Ohio, with seven transactions, was the host state with the most transactions, followed by California with six transactions. In addition, Michigan, North Carolina, and Texas had five transactions apiece.

Figure 8

NUMBER OF INVESTMENTS IN THE CHEMICAL INDUSTRY*, 1984 - 88



*INCLUDES ALLIED PRODUCTS

Petroleum Refining & Related Industries (SIC 29) -- In 1988, the Office of Trade and Investment Analysis identified eight investment transactions in the petroleum refining industry. Seven transactions had reported values totaling $3.4 billion (Figure 9). Although the number of foreign direct investment transactions declined by 20 percent in this sector in 1988, some of the world's largest oil producing nations acquired or bought shares of U.S. refineries. Two OPEC producers, the Government of Saudi Arabia and Venezuela, accounted for three of the eight investments identified in U.S. petroleum refining.

The United Kingdom and Venezuela were the most prominent of the five source countries. Investors from the United Kingdom accounted for three transactions worth $664.5 million, while Venezuelan investors had two transactions worth $775 million. Moreover, half of the investment transactions in the petroleum refining and related industries sector were made by companies owned by foreign governments, including the Governments of Saudi Arabia, Venezuela and, for the first time, the Government of the People's Republic of China.

The largest investment in this sector was worth $1.3 billion. It was a joint refining and marketing venture between a subsidiary of Texaco Inc. and Saudi Refining Inc., a subsidiary of government-owned Saudi Arabian Oil Co. Saudi refining contributed $812 million in cash and 30 million barrels of oil worth almost $500 million to the venture, Star Enterprise, which is equally owned and has headquarters in Houston, Texas. The company will refine and distribute petroleum products in 23 East and Gulf Coast states as well as in the District of Columbia.

The second largest investment was the acquisition of 50 percent of Unocal Corp.'s Lemont, Illinois refinery for $700 million by Petroleos de Venezuela (PDVSA), Venezuela's state-owned oil company. Unocal and PDVSA subsequently formed a joint venture to refine and distribute petroleum in 12 Midwestern states. The third largest investment was the $693 million acquisition of Clark Oil and Refining Corp. and certain other assets from parent company Apex Oil Co. The investment was made by Horsham Corp., a Toronto-based investment concern controlled by gold mining financier Peter Munk.

As in past years, the majority of investments were acquisitions (five). There were also two joint ventures and one equity increase. All of the transactions but one were in the petroleum refining subsector (SIC 2911); the remaining transaction was in the lubricating oils and gases subsector (SIC 2992).

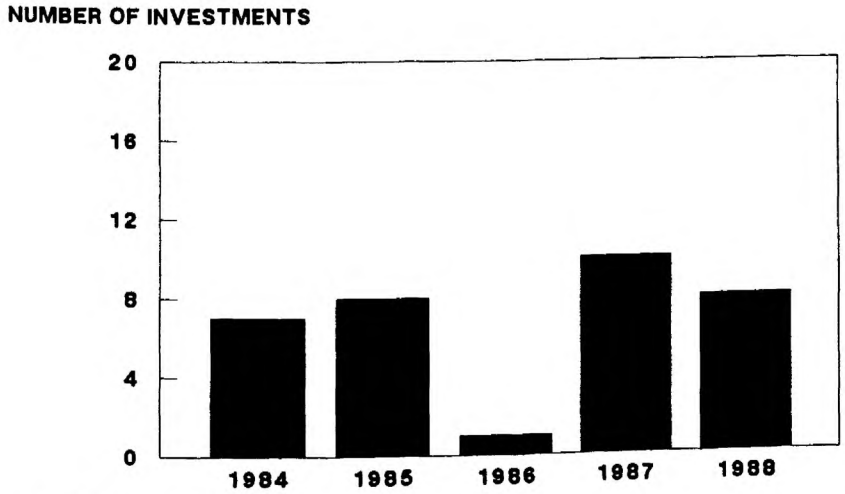
Texas was the location for two investments. Other host states were California, Delaware, Illinois, Michigan, Missouri and Washington with one investment each.

The two investments made by Petroleos de Venezuela SA in 1988 gave Venezuela its third U.S. refining venture and strengthened its presence in the U.S. oil market. In addition to the Unocal joint venture, PDVSA bought half of a refinery from Citgo Petroleum Corp. for $540 million in 1986 and in 1988 purchased the remaining 50 percent of a jointly owned Corpus Christi refinery from Champlin Petroleum Corp. for $75 million. The initial 50 percent acquisition of the Champlin refinery for $90 million was the third largest foreign direct investment in petroleum refining in 1987.

A noteworthy divestiture in the oil refining subsector in 1988 was the sale of a U.S. refinery and related assets belonging to John Deuss, a Dutch oil trader, for $513 million to Sun Oil Co., a U.S. firm based in Radnor, Pennsylvania. Mr. Deuss had acquired the 130,000 barrel-a-day Philadelphia refinery and related facilities from Atlantic Richfield Co. in September 1985 for $420 million. This was the largest transaction in the petroleum refining industry in 1985.

Figure 9

NUMBER OF INVESTMENTS IN THE PETROLEUM REFINING INDUSTRY*, 1984 - 88



* AND RELATED INDUSTRIES

Rubber & Miscellaneous Plastics Products (SIC 30) -- In 1988, the number of foreign investments in the U.S. rubber and miscellaneous plastics products industry increased by 22 percent. Thirty-three completed transactions with 18 known values totaling $3.1 billion were identified in 1988, compared to 27 transactions with 14 values totaling $877.6 million in 1987. (Figure 10.)

Japanese investors were the most prominent with 16 transactions, followed by investors from West Germany and the United Kingdom with 4 each and Canada with 3. A Japanese company made the largest foreign investment in the rubber and miscellaneous plastics industry in 1988. It was also the largest foreign investment ever made in the U.S. tire industry. Bridgestone Corp., a Tokyo-based tire manufacturer, paid $2.6 billion for Firestone Tire and Rubber Co. of Akron, Ohio. This investment gave Bridgestone a 13 percent share of the U.S. passenger tire market.

The second largest investment in the rubber and miscellaneous plastics products sector was also in the tire industry. Armtek Corp., as part of a restructuring program, sold its Armstrong Tire Co. subsidiary to Pirelli SpA of Italy for $197 million. Pirelli SpA is controlled by the Pirelli family of Milan, Italy.

Bridgestone U.S.A., a subsidiary of Bridgestone Corp., completed a second major investment with an $80 million expansion of its factory in LaVergne, Tennessee to make radial tires for passenger cars.

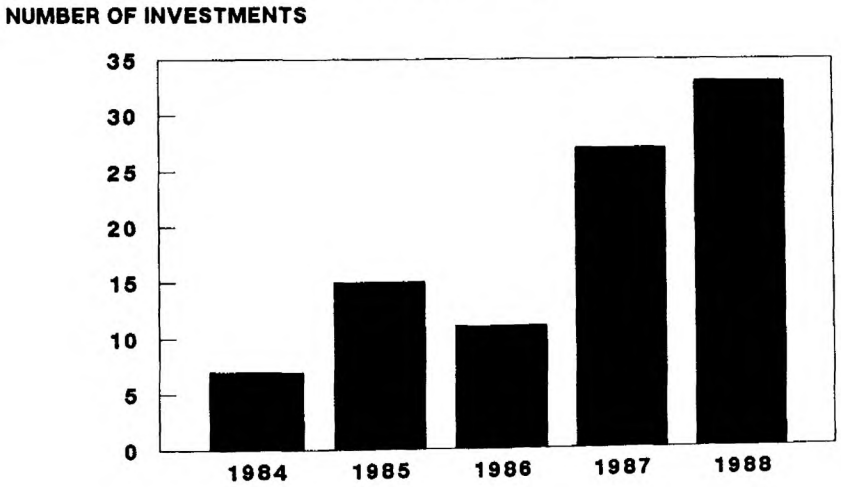
Acquisitions (nine) were the most utilized investment mode in the rubber and plastics industry. Other types of investment included six new plants, six joint ventures, and nine transactions in the "other" category which includes modes such as subsidiaries and outlets.

Almost 70 percent (23) of the transactions in this industry were in three subsectors. Fifteen transactions were identified in the plastics products subsector (SIC 3089). Six investments by Japanese firms enabled them to establish U.S. manufacturing units located near automotive manufacturers. Other foreign firms investing in this subsector were from the United Kingdom (four transactions), followed by West Germany (two transactions) and Canada, France and Italy (one transaction apiece). There were four transactions in the tires and inner tubes subsector (SIC 3011) and four transactions in the laminated plastics plate, sheet and profile shapes subsector (SIC 3083).

Geographically, more than 90 percent of the investments in this industry were concentrated on the East Coast or in the Southeast.

Figure 10

NUMBER OF INVESTMENTS IN THE RUBBER & MISCELLANEOUS PLASTICS PRODUCTS INDUSTRY, 1984 - 88



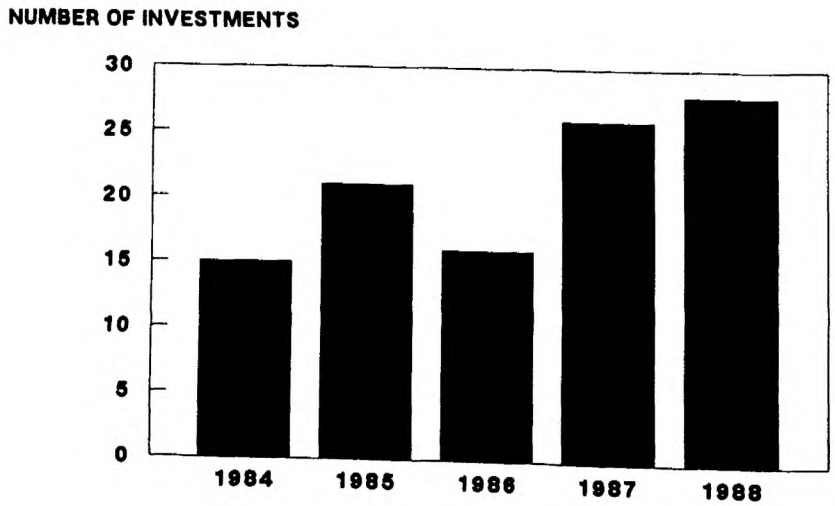
Stone, Clay & Glass Products (SIC 32) -- In 1988, interest in the U.S. cement products and building materials industry continued as many foreign investors increased their efforts to expand globally. Twenty-eight transactions were confirmed, 17 of which had a total value of $1.5 billion (Figure 11). The number of transactions increased almost 8 percent and total identified value increased by 69 percent over the 1987 level.

In 1988, as in 1986 and 1987, British and Japanese investors completed the most transactions in this industry with eight and seven transactions, respectively. Investors from France were third with four transactions. The Japanese, however, had a minor position when measured by value of investment. Japanese investors, with less than 5 percent of the identified transactions value, ranked sixth behind Australia, France, the United Kingdom, Sweden, and Spain in that order.

The largest transaction for this industry was by CSR Ltd., an Australian investor that acquired Florida-based Rinker Materials Corp. for $515 million. The second largest transaction was an equity increase by the French Government-controlled building materials firm, Compagnie Saint Gobain. The Paris-based company increased its interest in Certain-Teed Corp. to 97 percent from 57 percent at a cost of $334 million. Certain-Teed makes fiberglass and other building materials products.

More than half of the 28 transactions in the stone, clay and glass industry were acquisitions (16). Also, there were four investment transactions in each of the new plant and equity increase categories. One-third of the investments were concentrated in two subsectors. Concrete products (SIC 3272) had five transactions and ready-mixed concrete (SIC 3273) had four transactions.

Figure 11
NUMBER OF INVESTMENTS IN THE STONE, CLAY, & GLASS INDUSTRY, 1984 - 88



Fabricated Metal Products (SIC 34) -- In 1988, the number of foreign direct investment transactions in the fabricated metal products industry declined to 17 from 22 in 1987. Eight of the 17 completed transactions had a total value of $1.4 billion, more than three times the 1987 total value of $419.7 million (Figure 12).

As in 1987, the three major source countries were Japan, Canada, and Germany. Japanese firms had nine transactions, Canadian and German firms had two transactions each. Together these three countries accounted for three quarters of the investment activity in this industry.

The largest investment in the fabricated metal products sector accounted for 91 percent of the total reported value. This transaction was the $1.3 billion acquisition of New York-based Triangle Industries Inc., the world's largest consumer packaging concern, by Pechiney SA, a French conglomerate with headquarters in Paris, France. Pechiney, which is owned by the Government of France, renamed the company Pechiney Packaging Corp. after completion of the transaction.

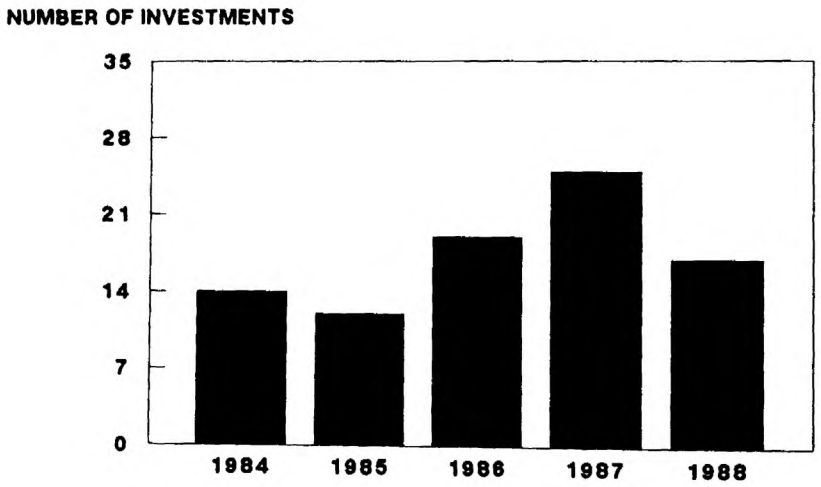
The second largest investment was the establishment of a $60 million automotive parts factory in West Jefferson, Ohio by Kikuchi Metal Stamping Co. Ltd. of Tokyo, Japan and Tako Kogyo Co. of Koga, Japan. The new enterprise, Jefferson Industries, will employ 200 workers to make components for the Honda Motor Co. plant in Marysville, Ohio.

Most of the investments (seven) were acquisitions. The other two primary forms of investment were new plants (four) and joint ventures (four). Only three subsectors had more than one investment transaction. Hardware (SIC 3429), sheet metal work (SIC 3444), and automotive stampings (SIC 3465) had two transactions apiece.

Geographically, investments continued to be concentrated in and around major automobile and automotive parts production centers such as Ohio (two) and Michigan (two); Illinois, Indiana and Kentucky each had one investment. Massachusetts also had two investments, neither of which was specifically related to the automotive industry.

Figure 12

NUMBER OF INVESTMENTS IN THE FABRICATED METAL PRODUCTS INDUSTRY, 1984 - 88



Machinery & Equipment, Except Electrical (SIC 35) -- Although foreign investment activity in the U.S. nonelectrical machinery and equipment industry declined marginally in 1988 the Office of Trade and Investment Analysis still recorded 98 transactions with the 48 known values totaling $3.6 billion (Figure 13).

The machinery industry continues to be attractive to major foreign competitors. Three countries--Japan, United Kingdom, and West Germany--accounted for more than two-thirds of the transactions. Japanese investors made more than half of all the investments (50 transactions) identified in the industry. Twenty-five known values totaled nearly $2 billion. The United Kingdom was the second leading investor country with 11 transactions ($577 million), followed by West Germany with 8 transactions ($464 million).

Japanese investors accounted for the two largest transactions identified in the machinery industry. Nippon Mining Co. Ltd., through a U.S. subsidiary, acquired Gould Inc. for $1.1 billion. Also, Ryobi Ltd. purchased Singer Co.'s Motor Products Division, which manufactures power tools and floor-care equipment, for $325 million.

Two other investment transactions were also noteworthy. As part of a restructuring program, TRW sold its TRW Reda Pump, producer of submersible pumps, and TRW Oilwell Cable Division, an electronics cable maker, to Pearson PLC for $300 million. Moreover, Heidelberger Druckmaschinen AG, a West German manufacturer of printing machinery, acquired the Harris Graphics Web Press Group from AM International for $300 million. Heidelberger, based in Heidelberg, is owned by Rheinisch-Westfalisches Elektrizitatswerk AG.

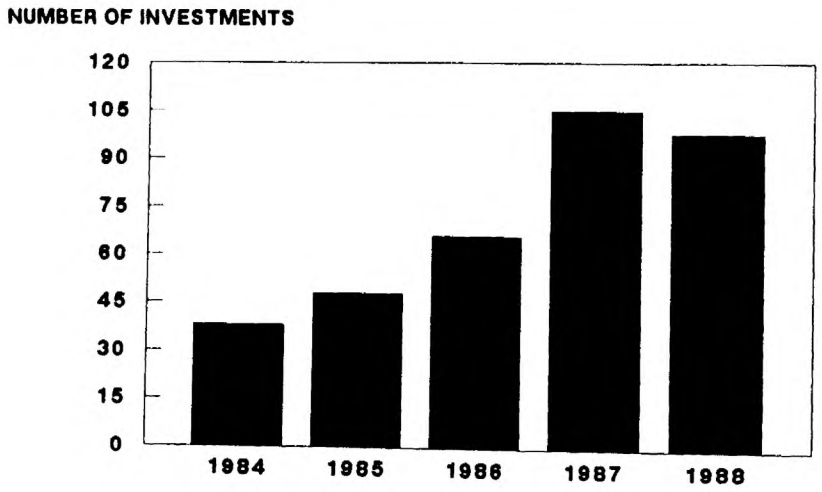
Acquisitions, 48 in all, continued to be the most favored mode of investment in this field. The other principal forms of investment included new plants (10), plant expansions (10), equity increases (8) and joint ventures (7).

Japanese investors, with five transactions, accounted for most of the investments and virtually the entire value in the most active subsector, electronic computing equipment (SIC 3573). Japanese companies were also responsible for three of the seven investments in the next most active subsector, special industry or machinery (SIC 3559).

Geographically, six states attracted more than half of the foreign investments in industrial machinery and equipment. California had 17 investments, followed by Illinois with 13; North Carolina, 8; Michigan, 6; and Georgia and Texas with 5 each.

Figure 13

NUMBER OF INVESTMENTS IN THE MACHINERY INDUSTRY, 1984 - 88



Electrical and Electronic Equipment (SIC 36) -- Foreign investment activity in the U.S. electrical and electronic equipment industry fell 34 percent compared with 1987. The Office of Trade and Investment Analysis identified 68 completed transactions, 33 of which had a cumulative value of almost $3 billion (Figure 14).

Companies from Japan continued to dominate new investment in the electrical and electronic equipment industry. They had 40 transactions with 20 identified values that totaled $1.5 billion.

In 1988, investors from Japan, Canada, and West Germany completed the three largest transactions in the industry. Paloma Industries Ltd., a Japanese manufacturer of hot water heaters and stoves, acquired Pace Industries Inc. for $825 million. The Pace acquisiton, Paloma's first overseas manufacturing investment, made Paloma the world's largest producer of hot water heaters. Paloma is owned by the Kobayashi family.

The second largest transaction was the Singer Co.'s $550 million sale of its Link Flight Simulation & Training System Division to CAE Industries Ltd. of Canada. CAE manufactures electronic and aviation equipment and is a leading producer of flight simulators for commercial airlines.

The third largest transaction was the $270 million purchase of Gould's Industrial Automation Division by AEG AG of West Germany. AEG, an electrical engineering company, is a unit of Daimler-Benz AG.

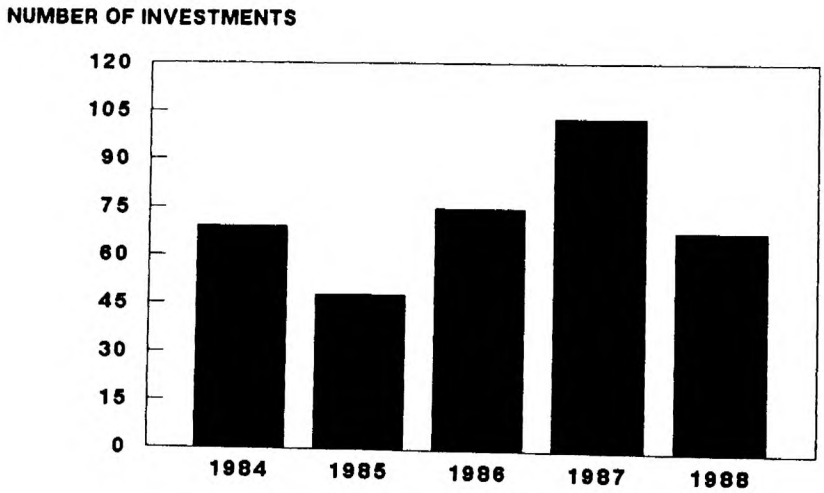
Investors from major source countries accounted for two-thirds of the acquisitions (28) in the electronics sector. Specifically, Japanese and British investors had eight transactions each, followed by French investors with five and three each from Canadian and West German investors. The other investment modes were new plants (15), plant expansions (9), new subsidiaries/outlets/offices (7), equity increases (5), and joint ventures (4).

As in 1987, the most active subsector in the electrical and electronic industry was electronic components (SIC 3679), with 11 investment transactions, 6 of which were made by Japanese investors. The second most active subsector was semiconductor and related devices (SIC 3674) where investors from Japan accounted for six of the eight completed transactions.

Four states were recipients of more than half of the 68 transactions. California attracted more investors than any other state with 14 completed transactions, followed by New York (10), Massachusetts (6) and Georgia (5).

Figure 14

NUMBER OF INVESTMENTS IN THE ELECTRICAL INDUSTRY, 1984 - 88



Transportation Equipment (SIC 37) -- Despite continued interest in the U.S. transportation equipment sector from Japanese firms in 1988, there was a decrease both in the number of investment transactions (to 35 from 45 in 1987) and in the total identified value (to $1.3 billion from $1.5 billion in 1987). The 1988 figures in this industry were 35 transactions identified with 20 known values totaling $1.3 billion (Figure 15).

Seventy-one percent of the number of transactions and 90 percent of the value was attributed to Japanese firms who made two major investments. Honda Motor Company began building a second auto manufacturing plant in East Liberty, Ohio for $380 million and Toyota Motor Corp. undertook a $300 million expansion of its facility in Kentucky to produce engines.

Motor vehicle parts and accessories (SIC 3714) had the largest number of investment transactions (23). Many Japanese firms were motivated to invest by the yen's continued appreciation against the dollar and the prospect of losing North American business due to the short turnaround time desired by automotive manufacturers.

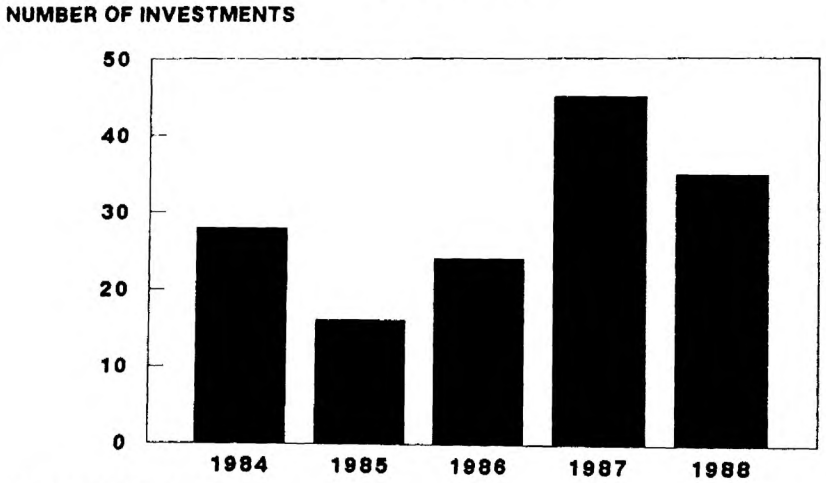
The only other investment transaction with a significant value was made by a firm from the United Kingdom. The British Charterhouse Group, controlled by Jacob Rothschild, acquired AP Parts Company, an Ohio auto parts manufacturer for $130 million.

The establishment of new plants (15), especially in the auto parts subsector, was the most prevalent form of investment. Other modes identified were joint ventures and plant expansions (seven each). Most investments occurred near existing Japanese automotive manufacturers. Ohio had nine investment transactions, Indiana had six, and Tennessee had four.

The outlook for foreign investment in this industry continues to be influenced largely by the plans of Japanese automobile and truck manufacturers and their traditional parts suppliers.

Figure 15

NUMBER OF INVESTMENTS IN THE TRANSPORTATION INDUSTRY*, 1984 - 88



* SPECIALITY EQUIPMENT

Instruments & Related Products (SIC 38) -- This industry includes a wide range of professional instruments and equipment. There were 34 transactions identified with values for 21 totaling $1.8 billion (Figure 16). This represented a decrease of six investment transactions, but an increase of $39 million from 1987.

Most investments (eight) occurred in the surgical and medical instruments and apparatus subsector (SIC 3841). The photographic equipment and supplies (SIC 3861) subsector attracted six foreign investors, some of whom, showing interest in the U.S. entertainment/motion picture industry, acquired peripheral companies with advanced photographic and video duplicating capabilities.

Japanese companies had the most transactions (13) with known values for 8 totaling $137 million. British investors had 10 transactions with known values for 8 totaling $702 million. Swiss investors, however, had only three investment transactions, one of which had a value of $800 million, the largest total value for any group of foreign investors.

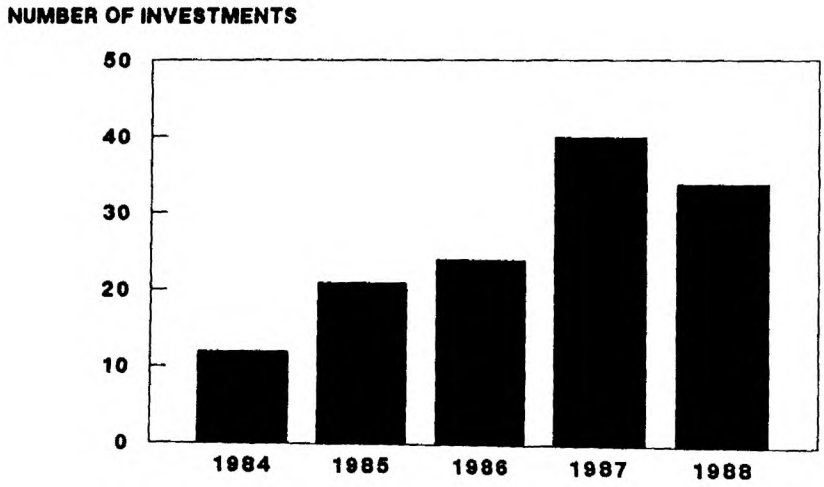
Moreover, the acquisition of Intermedics, a Texas manufacturer of implantable medical devices, by Sulzer Brothers Ltd. of Switzerland for $800 million was the largest transaction identified for this industry. Other large transactions include the acquisition of Singer Co.'s Electronic Systems Division by Plessey Company, of the United Kingdom for $310 million, and the acquisition of Singer's American Meter Division (gas meter manufacturers) by Ruhrgas AG of West Germany for $132.5 million.

The mode of investment used most often was acquisition (20); 13 of them were in the medical equipment subsector. There were seven new plants established and four expansions of existing plants.

Except for California with six transactions and New Jersey with three, none of the other 19 states with investment activity had more than two transactions.

Figure 16

NUMBER OF INVESTMENTS IN THE INSTRUMENTS & RELATED PRODUCTS INDUSTRY, 1984 - 88



Textile Mill Products (SIC 22) -- Investment activity by foreign investors in the U.S. textile mill products sector experienced a 41 percent decline in the number of transactions recorded for 1988 compared with the previous year. The Office of Trade Investment and Analysis identified 13 transactions with 5 known values totaling $323.9 million, as compared with 22 transactions and 11 known values totaling $674.5 million in 1987.

The Japanese were the most active investors with five transactions, two of which totaled $99 million. Canada had two investments and Belgium, Denmark, France, Italy, South Korea, and West Germany all had one investment apiece.

Given the concentration of the textile industry in the Southeast, it is not surprising that North Carolina, had the most transactions (six). There were also two transactions in Georgia, and one each in South Carolina and Tennessee.

Three major foreign investments in the textile mill products industry in 1988 were concerned with the sale of certain assets by Burlington Industries of Greensboro, North Carolina, which completed the sale of two divisions and one plant. Porcher Textile SA-France, acquired Burlington's Glass Fabrics Division for $128 million and Burlington's polyester and cotton-blended fabrics plant in Ramseur, North Carolina was sold to TAL Apparel Ltd., Hong Kong, a subsidiary of Toray Industries Inc., Tokyo, Japan, for an undisclosed amount. Also, Burlington's Industrial Fabrics Division, which produces heavy synthetic fabrics, was sold to Takata Corp., Tokyo, Japan, for $79 million.

Another major investment was made by a Danish textile firm. Nordisk Fjerfabrik AS (Northern Feather Ltd.), seeking its first major expansion in the United States, purchased Chatham Manufacturing Co. for $92.4 million. The family-owned Elkin, a North Carolina producer of blankets, upholstery and apparel, is one of the oldest textile firms in the state.

Primary Metal Industries (SIC 33) -- In 1988 U.S. metals companies continued to recover from their weak performance of 1982-86. Down-sized, modernized, and revitalized, they have increased productivity and brought about an impressive economic turnaround. Strong worldwide demand, a weak dollar and notable productivity gains all contributed to the economic expansion of this industry sector which attracted increased foreign investment in 1988. There were 29 investment transactions compared with 22 in 1987. Twenty-three transactions had a total value of $793.9 million.

As in 1987, Japan and the United Kingdom were the leading investor countries. Japanese firms were the most active investors, increasing their number of investments by almost two-thirds. They had 18 transactions with 15 values totaling $415.6 million in 1988 compared with 11 transactions with 8 values totaling $420.8 million in 1987. Investors from the United Kingdom more than doubled their investment transactions in primary metal firms; they had seven transactions with six values that totaled $323.8 million compared with three transactions with two values totaling $191.8 million in 1987.

The largest transaction was the $210 million acquisition of a 25 percent interest in two aluminum plants, Eastalco Aluminum Co. of Frederick, Maryland and Intalco Aluminum Corp. of Ferndale, Washington, by Mitsui and Co. Ltd. joined by Yoshida Kogyo KK and Toyo Sash Co. Ltd. of Japan. The second largest investment was the $149.6 million acquisition of Bundy Corp., a Warren, Michigan maker of steel tubing and engineered plastic products, by TI Group PLC, a British engineering firm.

In 1988, there was also a noteworthy divestiture. British investor Alan Clore, Chairman of Kaisertech Ltd. (formerly Kaiser Aluminum and Chemical Co.), sold his controlling shares in the nation's fourth largest aluminum producer, ending his two-year attempt to take over the firm. The shares were sold to the Maxxam Group, a subsidiary of Los Angeles-based MCO Holdings Inc. Kaiser Aluminum and Chemical Co. was listed in both the 1986 and 1987 transactions reports. The 1987 transaction--a $151.8 million equity increase by Mr. Clore in the company--was the second largest investment in this industry sector for that year.

Miscellaneous Manufacturing (SIC 39) -- There were 17 transactions in the miscellaneous manufacturing category in 1988 with values reported for six transactions totaling nearly $2 billion. Japanese investors completed the largest number of transactions (11) followed by investors from the United Kingdom (5) and West Germany (1). However, one British investor accounted for about 90 percent of the known value ($1.8 billion). That investment was the acquisition by Hanson Trust PLC of Kidde Inc., a New Jersey manufacturer of products ranging from safety equipment to aircraft parts. One other significant transaction in this sector was the acquisition of John O. Butler of Illinois for $163 million by Sun Star Inc. of Japan. Both companies produce cosmetics and toiletries.

General Merchandise Stores (SIC 53) -- Foreign direct investment activity in the U.S. general merchandise stores sector was highlighted by one very large investment transaction in 1988. Eight investment transactions were listed, but only

one transaction value was identified. This was the $8.8 billion acquisition of Federated Department Stores by the Robert Campeau Corp. of Canada.

Investors from six countries completed transactions in this industry. Canadian investors (two) and French investors (two) accounted for half of the transactions. Investors from Australia, the Netherlands, Saudi Arabia and the United Kingdom had one transaction apiece.

Apparel and Accessory Stores (SIC 56) -- Foreign investors purchased some well-known U.S. apparel retailers in 1988. They completed 12 investment transactions, 3 of which had known values totaling $711 million.

Three source countries accounted for almost 60 percent of the investment transactions identified. They were Japan (three), France (two) and the United Kingdom (two). Investors from Australia, Canada, Italy, Venezuela, and West Germany were represented with one transaction apiece.

The three largest investment transactions in this industry were all acquisitions. The first was the $325 million purchase of The Talbots Inc., a Massachusetts-based women's clothing store chain by Jusco Co. Ltd. of Japan. The second largest transaction was the $260 million acquisition of Eddie Bauer Inc., a Redmond, Washington outdoor apparel retail chain, by German textile manufacturer, Otto-Versand GmbH, through its catalogue sales company, Spiegel Inc. The third largest investment was the acquisition of a 66 percent interest in Parisian Inc., an Alabama specialty retailer, for $126 million by Hooker Corp. of Australia. Hooker Corp. is controlled by George Herscu, an Australian real estate developer.

Finance, Insurance, and Real Estate (SIC 60, SIC 65, SIC 67) -- In 1988 15 investment transactions with 3 known values totaling $916 million were identified in the U.S. finance, insurance and real estate (firms) sector. In the depository institutions subsector (SIC 60) there were three transactions. The largest transaction in the subsector and in the finance, insurance, and real estate firms industry was the $750 million acquisition of Union Bank of California by the Bank of Tokyo.

In the U.S. real estate (firms) subsector (SIC 65), investors from Australia, Canada, Hong Kong, Japan and the United Kingdom completed six investments, with a single identifiable value of $135 million in 1988. That transaction was the acquisition of the Omni Hotels Group, a real estate management firm with headquarters in New York City, by World International Ltd., a Hong Kong-based investment firm.

In the holding and other investment offices subsector (SIC 67), there were six investment transactions with one reported value worth $31 million. That transaction was an equity increase by the Belzberg family of Vancouver, Canada in First City Industries Inc., a New York City holding company.

Investors from seven countries were active in this sector in 1988. Japanese investors completed four transactions, while investors from Australia and the United Kingdom each accounted for three investment transactions. Canadian investors had two transactions and investors from Hong Kong, Sweden and West Germany completed one transaction apiece.

Motion Pictures (SIC 78) -- Economic strength, technological innovation and cultural interest in the U.S. motion picture industry attracted foreign investors in 1988. Nine transactions took place in this industry with seven reported values, totaling more than $1.3 billion. The most prominent investors were British companies, which accounted for four transactions that had a total value of $1.1 billion. Australian investors made two acquisitions for $130 million.

The largest transaction was the $780 million acquisition of Technicolor Holdings Inc., the Los Angeles, California orginator of color film processing and a leading maker of video cassettes, by Carlton Communications PLC, the largest independent supplier of television services in the United Kingdom. Another British company, Television South PLC, made the second largest investment in this industry when it acquired MTM Entertainment Inc., an independent television producer in Studio City, California, for $320 million.

The largest Australian investment and the third largest transaction in the motion picture industry in 1988 was Qintex Ltd.'s $70 million acquisition of HRI Group Inc., a Hollywood, California motion picture producer. Qintex Ltd. is an Australian operator of a commercial television network and resorts.

Real Property -- In 1988, investments by foreigners in U.S. real property continued a decline that began a year earlier. There were 15 fewer identifiable transactions, and expenditures totaled $2 billion less than for 1987.

Foreign investors in 1988 concluded 91 commercial real estate transactions and 25 transactions in the hotel industry (SIC 70). Values were reported for 60 commercial real estate transactions ($3.9 billion) and 20 hotel transactions ($1.5 billion) (Figure 17). (Purchases of agricultural land and individual residential real estate units are not included in this report.) For 1987, there were 108 commercial real estate and 23 hotel investments with reported values for 78 commercial real estate transactions ($5.4 billion) and 20 hotel transactions ($2 billion).

The Japanese were the most active investors in the real property sector for the fourth year in a row. During 1988, 55 Japanese investment transacctions were identified; 38 had values totaling $3.4 billion (65 percent of the total industry aggregate value).

The largest commercial real estate transactions identified in 1988 were all acquisitions by Japanese investors: The Exchange Place Building in Boston acquired by Nomura Securities Co. Ltd. for $490 million; the IBM Tower in Atlanta bought by Sumitomo Life Insurance Co. for $300 million; and the Mobil Oil Building in New York City purchased by Takara-Gumi for $250 million.

The Japanese, with $3.4 billion invested, greatly outspent other foreign investors. The Canadians invested the second highest amount, $438 million, and the British were third with a total outlay of $129 million.

Foreign investors completed 25 transactions in the hotel sector. As in commercial real estate, the largest hotel transactions were made by Japanese investors. Kato Kagako Co. Ltd. purchased the Hyatt Regency in Chicago for $260 million and a Japanese real estate partnership bought the Marriott Hotel and other properties in Anaheim, California for $256 million. Japanese investors also accounted for more than half of the aggregate purchase price of all hotels acquired by foreign purchasers and they had the seven largest real property investment transactions identified in 1988.

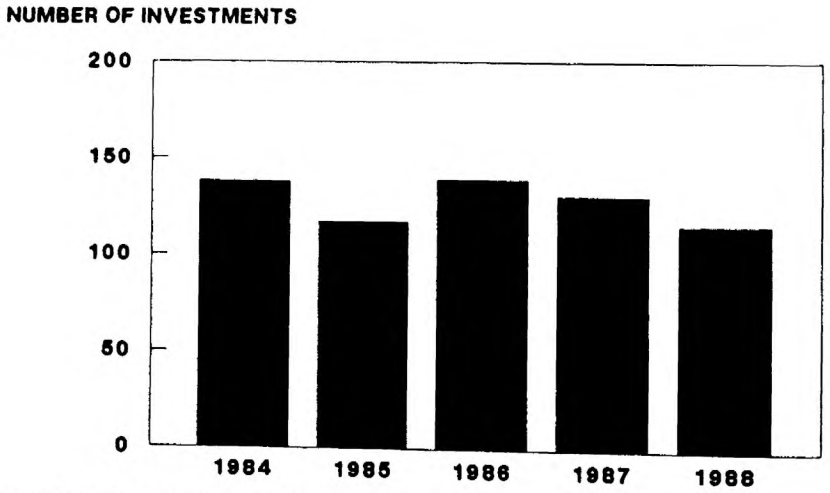
The geographic pattern of real property transactions showed a concentration of investment in five states. The state of preference in 1988 was California with 20 real property investments. The second highest concentration was in Hawaii and Georgia with 16 transactions each, followed by New York

with 10 and Florida with 7. As a group, these five states represented almost 60 percent of the total real property transactions.

Perhaps, due in part to their geographic closeness, 25 of Japan's 55 real property investments in the United States were located in Hawaii (13) and California (12). Comparatively, there were just 11 other real property investment transactions in these two states by investors from other foreign countries.

Figure 17

NUMBER OF INVESTMENTS IN THE REAL PROPERTY INDUSTRY*, 1984 - 88



* INCLUDES HOTELS & OTHER LODGING