CAFTA-DR Facts

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Benefits of U.S. Free Trade Agreements for Investment

Engaging globally is good for the United States, its companies, and its workers.

- Engagement in the global economy through increased trade and investment has contributed to rising average living standards in the United States. Firms engaged in international commerce are more productive, have higher employment growth, and pay higher wages than domestically oriented firms.

- Foreign direct investment (FDI) flows into the United States benefit the U.S. economy by stimulating growth, creating jobs, and financing the current account deficit. FDI flows into the United States also stimulate investment in research and development (R&D) in high-technology areas, which promotes innovation and competitiveness.

- U.S. direct investment in other countries provides an important link to foreign markets. U.S. companies with multinational trade and investment activities contribute substantially to productivity growth, job creation, and rising living standards in the United States.

- The data on international economic engagement by U.S. companies are strongly positive:

    - Each $10 that U.S. firms invest in other countries is associated with $15 in additional U.S. domestic investment, and each $10 in additional foreign employee compensation is associated with $18 in additional U.S. domestic employee compensation.

    - U.S. companies that have foreign affiliates pay their employees more than do U.S. companies that do not have foreign affiliates.

Earnings from U.S. investment overseas were $245 billion in 2005, up 93 percent since 1999. In that period, half of the earnings from overseas investments were returned to the United States.

Most U.S. foreign investment goes to higher-wage, developed countries, not lower-wage, developing countries.

Most U.S. foreign direct investment (FDI) is in developed countries. In 2005, 71 percent of U.S. outbound FDI stock was in high-income countries; less than 1 percent was in China. Investors more frequently invest overseas to gain access to major consumer markets than to gain access to low-paid workers. They also favor political and economic stability, the rule of law, and good governance. If investors were primarily interested in finding low-wage labor, then the United States would not have the largest stock of FDI (by more than $800 billion in 2005), nor would FDI-supported jobs in the United States pay more than the average U.S. job.

FTAs <u>will not</u> encourage U.S. companies to move jobs overseas.

U.S. investment agreements reduce or eliminate discrimination against American investors in overseas markets. These agreements help increase economic efficiency and real incomes in the United States, and expand U.S. trade in goods and services. As with other economic activities, cross-border direct investment may sometimes lead to job dislocations. The loss of any job is painful, often disrupting families and communities. However, some points are worth bearing in mind:

- In the extremely dynamic U.S. economy, job creation exceeds job elimination. In general, the U.S. economy creates roughly 17 million new jobs per year, while eliminating roughly 15 million jobs.

- Put another way, the U.S. economy creates about 54 new jobs for every job sent overseas.

- When multinational firms expand their employment abroad, they also generally expand employment here at home. Over the last two decades (1984-2004), U.S. multinationals expanded employment in their foreign affiliates by 3.8 million and in their parents by 3.2 million.[1]

- The attention paid to "off-shoring" – the shifting of production to lower-wage foreign countries – greatly exceeds its actual impact on job loss. Only about two of every 100 U.S. jobs eliminated, are lost to import competition or off-shoring. New technologies, competition among domestic companies, changes in demographic and consumer tastes, and other factors account for the vast majority of job losses, and as noted above, the changing U.S. economy (and society) likewise generates new jobs.

- Even in cases of layoffs involving more than 50 employees, less than three percent of the lost jobs are due to off-shoring or import competition.

When people do lose jobs, it is more sensible to help them benefit from an expanding economy through training and other forms of support than to resort to economic isolationism. After all, even though innovation eliminates many jobs, we don't seek to limit innovation. Like trade and investment, it's too important for overall economic growth.

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[1] There have been short-run anomalies largely reflecting business cycles here and abroad. For instance, between 1990 and 2000, for each job U.S. multinational firms created abroad they created nearly two at home. Between 2000 and 2003, U.S. multinationals continued to expand employment abroad, albeit at a slower pace, while decreasing their U.S. payrolls. Since 2003, employment has risen both in the parent companies of U.S. multinationals and in their foreign affiliates.

Finally, data do not support the claim that U.S. multinationals set up foreign production plants to serve as export platforms back to the United States. In 2004, sales by foreign affiliates of U.S. multinationals totaled $3.2 trillion. Most of these sales were to customers outside the United States; 89.6 percent of total sales were to foreign customers and 10.4 percent were to U.S. customers.

Investing overseas <u>does not</u> reduce domestic investment and lower the wages of American workers.

The investment provisions of our free trade agreements help create U.S. jobs not only by facilitating the overseas expansion of U.S. companies, but also by attracting foreign investment into the United States. The growth-enhancing effects of foreign investment in the United States tend to exceed those of domestic investment because of greater technological spillover, which provides a powerful spur to innovation and enhanced domestic investment.

Here is what the data show:

- The 5.1 million Americans employed by affiliates of foreign companies make up less than 5% of the total U.S. workforce but account for more than 19% of all U.S. goods exports.

In addition, employees of foreign-owned companies in the United States are paid, on average, 30% more than those of U.S.-owned companies.