EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

U.S. INBOUND FOREIGN DIRECT INVESTMENT

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EXECUTIVE SUMMARY

The United States welcomes the investment and the jobs supported by the U.S. affiliates of foreign-domiciled companies. These companies either build plants and other facilities in the United States, or they provide additional capital to businesses that already operate domestically. Their businesses employ millions of American workers and produce goods and services for sale throughout the United States and the world.

The key findings of the report include the following:

- Majority-owned U.S. affiliates of foreign-domiciled companies play an important role in crucial areas of U.S. economic activity. In the most recent year for which comprehensive data were available, economic contributions of U.S. affiliate activity included:

    - Producing $670 billion in goods and services, accounting for nearly 6 percent of total U.S. private output – over 42 percent of which is concentrated in the U.S. manufacturing sector.

    - Employing 5.7 million U.S. workers, accounting for 5 percent of the U.S. private workforce and over 2 million workers (13 percent) in the U.S. manufacturing sector.

    - Investing $188 billion in capital expenditures, accounting for over 11 percent of total U.S. private capital investment.

    - Investing $40.5 billion in research and development, accounting for over 14 percent of total U.S. private investment in research and development.

    - Exporting more than 18 percent of total U.S. merchandise exports.

- The United States continues to receive the most foreign direct investment (FDI) of any country in the world, helping to support millions of high-quality, well-paid U.S. jobs.

- In 2010, U.S. inbound FDI rebounded sharply and increased by 49 percent from the economic crisis level it reached in 2009.

The United States' open investment climate allows it to rank highly on cross-country and survey-based measures of FDI openness indicating that the United States remains a pre-eminent destination for investment in productive economic activity.

I. INTRODUCTION

The United States welcomes the investment and jobs supported by the U.S. affiliates of foreign-domiciled companies. These companies play an important role in the U.S. economy, as they build plants and other facilities or provide additional capital to businesses that already operate locally in the United States. They invest in knowledge creation and fund research and development.

The open nature of the U.S. economy has meant substantial investment over time. The United States continues to receive the most foreign direct investment (FDI) of any country in the world. U.S. policies and the resulting investment climate rank it highly on cross-country and survey-based measures of openness toward FDI. Establishment of the SelectUSA Initiative to facilitate additional investment reconfirms the federal government's ongoing and unwavering commitment to an open investment climate.

II. BENEFITS TO THE U.S. ECONOMY

Inbound foreign direct investment can fund production plants, research and development (R&D) facilities, sales offices, warehouses, or service centers. It can take the form of a "greenfield" establishment that creates something from scratch or a merger or acquisition of a sufficiently large stake in an existing enterprise.[1]

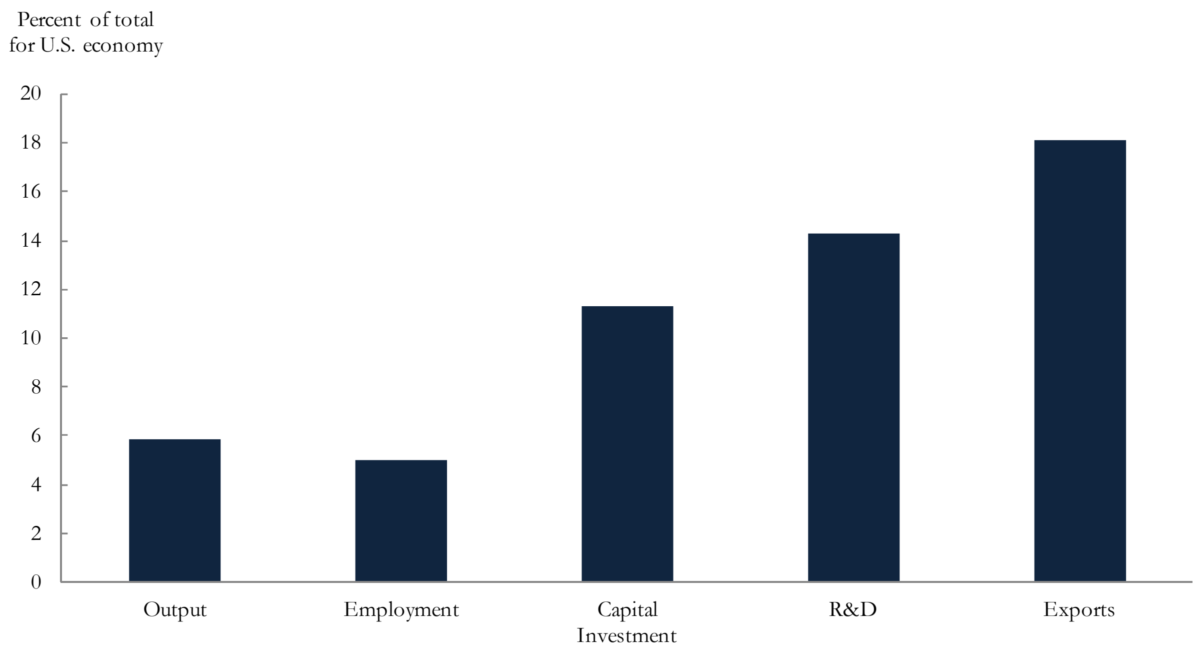
U.S. "majority-owned" affiliates of foreign corporations owned $11.7 trillion in U.S. assets and had $3.5 trillion in annual sales in 2008, according to the most recently available data from the Bureau of Economic Analysis.[2] Their value-added production within the United States was $670 billion in goods and services, which accounted for 5.9 percent of total U.S. private output. These firms employed 5.7 million U.S. workers, accounting for 5.0 percent of employment in the U.S. private workforce.

Inbound foreign direct investment provides a number of benefits to the U.S. economy. The U.S. affiliates of multinational companies are typically high-productivity firms that are major private-sector contributors to national efforts to innovate and build. Figure 1 indicates that U.S. affiliates of foreign multinationals contribute 11.3 percent of total U.S. private investment and 14.3 percent of total U.S. private R&D. U.S. affiliates are also well-integrated globally and are the source of 18.1 percent of total U.S. goods exports.

[1] Inbound FDI refers to a foreign entity, typically a foreign person or corporation, making an investment in the United States that results in an ownership of at least a ten percent stake in a U.S. domestic business entity.

[2] This section analyzes "majority-owned" U.S. inbound foreign direct investment in 2008 for reasons of data availability. The data for 2007 are comparable to the information reported here for 2008. The report does not yet rely on the 2009 data because they are not fully available and they also reflect anomalies associated with the global economic crisis. Note also that "majority-owned" U.S. inbound foreign direct investment implies a 50 percent ownership threshold, which typically is associated with a controlling stake. There are important foreign investments in U.S. businesses that involve less than a 50 percent ownership stake.

Figure 1. Economic Activities of Majority-owned U.S. Affiliates of Foreign Companies, 2008



Source: Department of Commerce, Bureau of Economic Analysis.

U.S. affiliate firms make substantial investments in capital equipment and R&D and tend to hire and train skilled workers and pay excellent wages. These firms paid out wages and other forms of compensation that averaged more than $71,000 per U.S. employee in 2008 (as compared to average earnings of $54,000 for full-time annual workers in the economy as a whole).

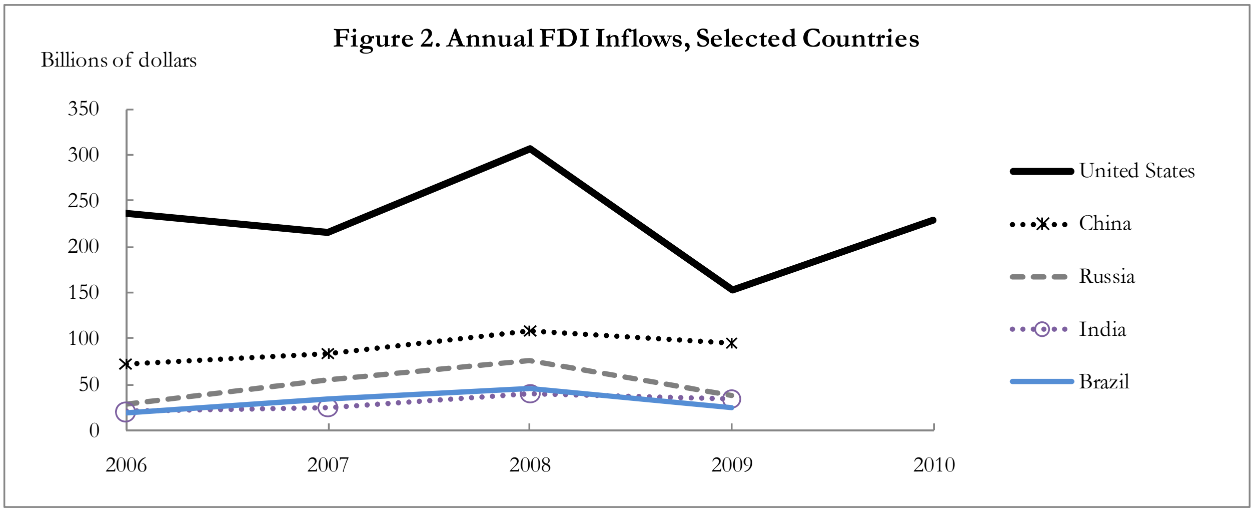
U.S. affiliates of foreign multinationals are particularly important for the American manufacturing sector. Over 42 percent of the U.S. affiliates' total value-added production was concentrated in the U.S. manufacturing sector. Roughly one third of the 5.7 million U.S. employees of these affiliates worked in the manufacturing sector. Put differently, the U.S. affiliates of foreign multinationals employed 13 percent of the entire manufacturing sector workforce in the United States.

III. U.S. OPENNESS TOWARD INBOUND FDI

The United States is an extremely open economy with very low barriers to foreign direct investment. This is reflected in both the size of the FDI inflows received and in the evidence from surveys.

According to the latest data available across FDI-receiving countries from UNCTAD, the United States had the largest annual flow of inbound foreign direct investment of any economy in the world in every year between 2006 and 2009. The growth of a number of emerging economies such as Brazil, Russia, India, and China and the ongoing process of their integration into the global economy has led to large relative increases in the flows of new foreign direct investment making its way to these markets. But this is only in relative terms (Figure 2).

The United States remains the largest destination for new FDI inflows. This continued even during the height of the global economic crisis in 2009 when foreign direct investment flows shrank dramatically for almost all countries around the world. Total worldwide FDI flows in 2009 were roughly 50 percent less than their 2007 levels. As the economy recovered from the recession, inbound FDI in the United States increased by 49 percent in 2010 compared to 2009. As Figure 2 also illustrates, in many of the years prior to 2009, the United States welcomed more than twice as much new FDI as even a large emerging-market recipient like China.



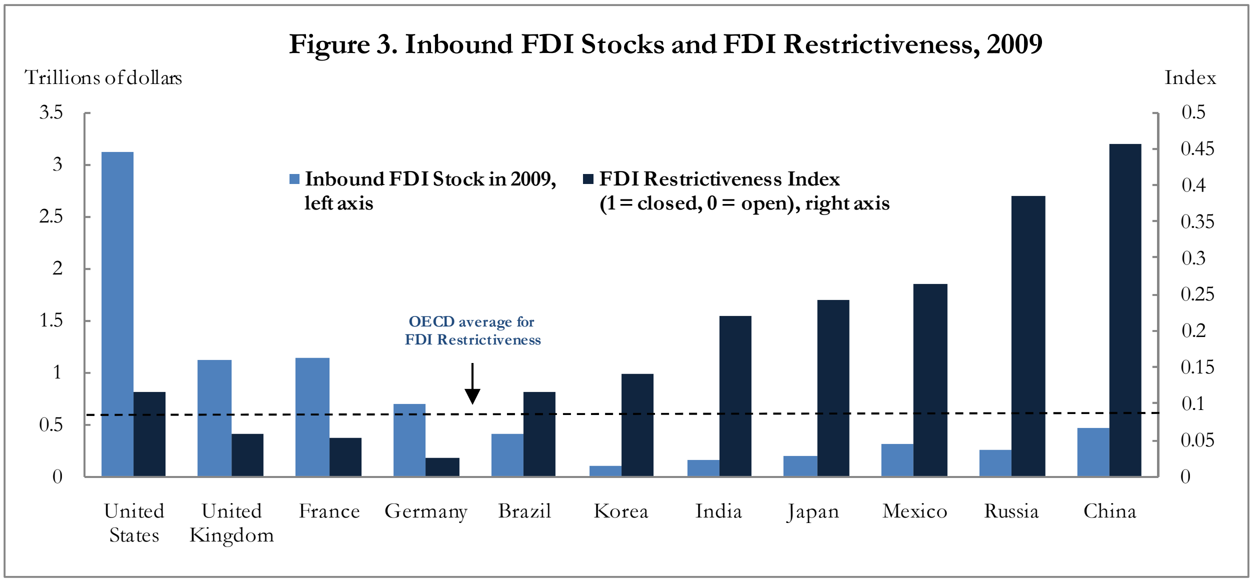
Sources: UNCTAD and Bureau of Economic Analysis. Non-U.S. data for 2010 are not yet available.

The vast majority of FDI in the United States stems from firms domiciled in other advanced economies. In particular, almost 90 percent of the U.S. inbound FDI flows in 2010 came from firms domiciled in Canada, Europe and Japan. Only 2.1 percent of the total came from firms domiciled in Brazil (1.2 percent), China (0.6 percent), and India (0.4 percent).

Survey data support the attractiveness of the United States as a place to invest. One particular survey of Chinese enterprises conducted jointly by a private-sector organization in China, the European Commission, and UNCTAD indicates the United States as the most desirable investment location of any major economy in the world.[3]

As Figure 3 indicates, at $3.1 trillion in 2009, this U.S. stock of inbound FDI (the cumulative investment over time) was nearly three times larger than stocks for each of the next largest recipients (France and UK) and more than six times the amount of China's inbound FDI stock ($473 billion).

[3] China Council for the Promotion of International Trade, European Commission, and UNCTAD (2010) "Survey on Current Conditions and Intention of Outbound Investment by Chinese Enterprises," April.



Sources: FDI Restrictiveness Index is from OECD; Inbound FDI Stocks is from UNCTAD.

According to the OECD's Foreign Direct Investment Restrictiveness Index, the United States is close to the OECD average of "openness" toward inbound foreign direct investment. According to this index, and as illustrated in Figure 3, the United States is much more open to FDI than emerging economies like India, Russia, China, and Mexico.[4]

IV. CONCLUSIONS

Inbound foreign direct investment has long played an important role in the U.S. economy. Foreign companies with operations in the United States invest billions of dollars here. They employ millions of U.S. workers and offer higher-than-average levels of compensation. Their investments help to modernize the U.S. capital stock, and they are important contributors to the U.S. manufacturing sector. Furthermore, evidence from continued high levels of flows of inbound FDI, as well as cross-country comparisons and firm-level surveys, reveal that the United States has a very open investment climate and remains an attractive destination for investment.

[4] Most of the countries that are ranked as more open than the United States are smaller European countries; for many of them, presumably much of their inbound foreign direct investment stems from encouragement and incentives resulting from intra-European Union ties.