

Foreign Direct Investment in the United States

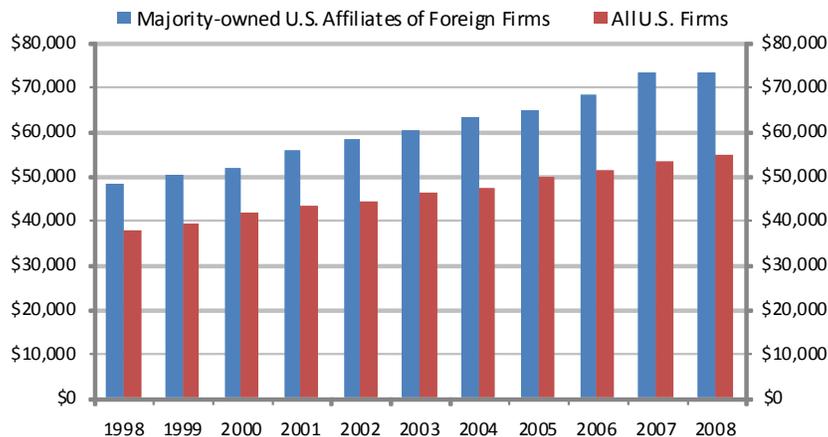
Executive Summary

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When foreign companies invest in U.S. businesses, known as foreign direct investment (FDI), it not only provides jobs, but relatively high-paying jobs – indeed, up to 30% higher-paying. Encouraging more FDI and expanding the number of countries that invest in the United States would potentially lead to more economic growth and create even more new, high-paying U.S. jobs.

- During the last ten years, majority-owned U.S. affiliates of foreign companies have employed between 5-6 million workers.
- FDI supported 2 million manufacturing jobs, which have been less affected by the sector-wide losses in employment than domestic manufacturing jobs.
- Workers at majority-owned U.S. affiliates of foreign companies receive 30% higher pay than non-FDI supported jobs. (See Figure 1 below.)
- U.S. FDI totaled \$194 billion in 2010, and \$1.7 trillion over the last ten years.
- FDI flows vary greatly year-to-year and generally follow the U.S. business cycle: FDI hit a low of \$64 billion in 2003 and then surged to an historical peak of \$328 billion in 2008.
- At present, relatively few countries invest in the United States. In fact, 84% of FDI in the U.S. in 2010 came from or through eight countries: Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands, and Canada.

Figure 1: Compensation Per Employee
U.S. dollars per year



Note: For foreign-invested firms, data prior to 2007 do not include bank employees. Employees include management staff, production workers, and other full- and part-time employees.

Source: Calculations are based on data from Bureau of Economic Analysis.

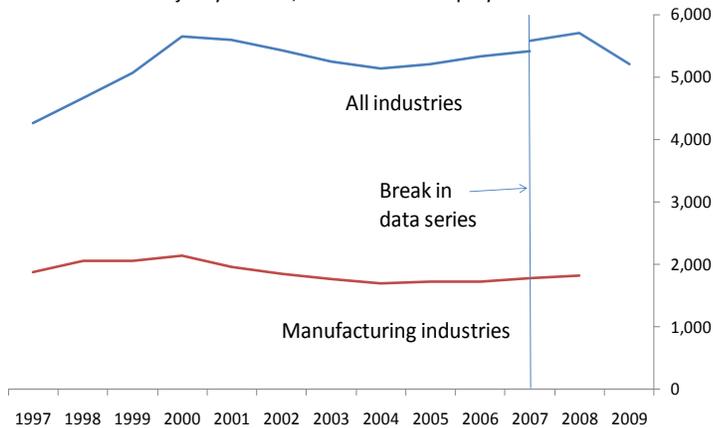
ESA
Issue Brief
#02-11

June 2011



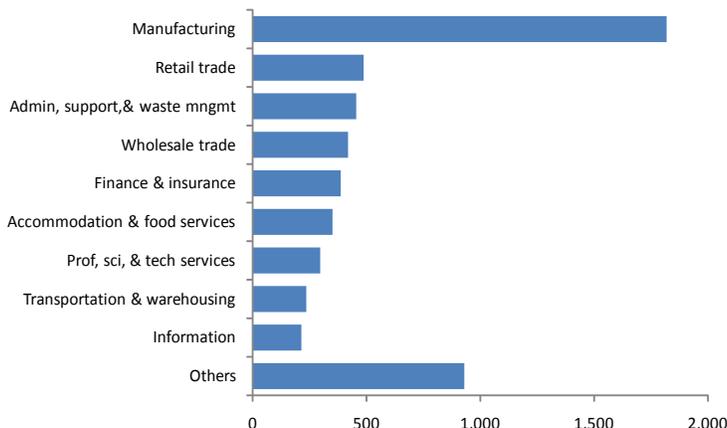
FDI Supports a Significant Number of Well-Paying U.S. Jobs

Figure 2: Employment by U.S. Affiliates of Foreign Firms
Majority-owned; thousands of employees



Note: Prior to 2007, data do not include U.S. affiliates of foreign banks; affiliates by industry of sales.
Source: Bureau of Economic Analysis, www.bea.gov/international/di1fdiop.htm for data to 2008.
2009 data is reported at <http://www.bea.gov/newsreleases/international/mnc/mncnewsrelease.htm>.

Figure 3: Employment by U.S. Affiliates of Foreign Firms by Industry, 2008
Majority-owned; thousands of employees



Note: U.S. affiliates classified by industry of sales.
Source: Bureau of Economic Analysis.

Employment by majority-owned U.S. affiliates of foreign companies has generally held steady over the last decade (see Figure 2), with these companies employing more than 5 million workers in the United States since 2000. Given the relative size of foreign investment in the manufacturing sector, a large portion of FDI-supported jobs – close to 2 million – are in manufacturing. FDI-supported manufacturing jobs tend to be more stable than domestic manufacturing jobs. From 1998 to 2008, total manufacturing employment fell 24 percent, while FDI-supported manufacturing jobs declined only 11 percent.

In fact, manufacturing employment of 1.8 million in 2008 accounted for 32.5 percent of total employment at majority-owned U.S. affiliates of foreign companies. In contrast, retail trade – the largest industry outside of manufacturing for employment by U.S. affiliates of foreign companies – employed 489,000 workers in 2008, followed by the administration, support, and waste management industry at 453,000. (See Figure 3.)

Compensation per employee at U.S. affiliates of foreign firms has consistently been higher than at other U.S. firms, as illustrated

DEFINITIONS

Foreign direct investment (FDI) occurs when a foreigner invests in an affiliate located in the United States. (An **affiliate** is a business in which the foreign investor has a substantial interest, defined as ownership of at least ten percent of the voting stock of the business). This is different from foreign purchases of U.S. equities that do not lead to substantial ownership or purchases of other financial instruments, which are called portfolio investments. FDI is therefore more likely to directly support U.S. jobs than portfolio investment.

The FDI described in this paper relates to financial flows, which result in changes in positions. Direct investment positions measure the outstanding levels of investment at a given time. The positions may be viewed as the cumulative amount of financing in the form of equity and debt that foreign direct investors have provided to their affiliates.

in Figure 1 on the front page.^{1,2} The compensation differential between FDI jobs and jobs as a whole has also been widening over time; growing from 28.4% in 1998 to 37.0% in 2007 before falling slightly to 33.3% in 2008.

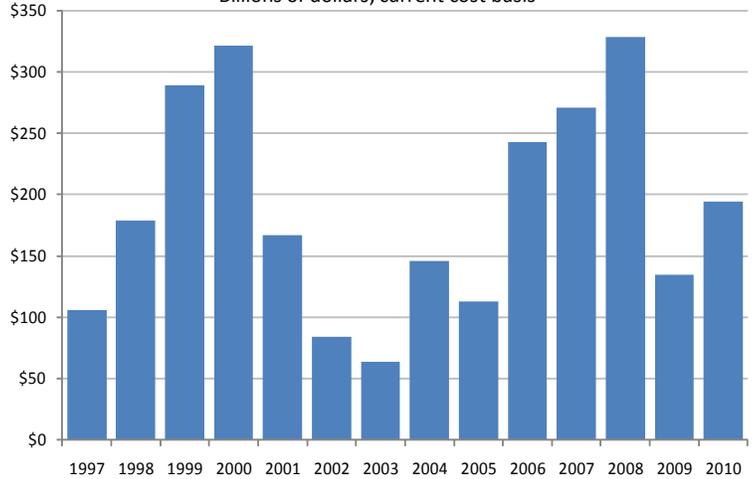
Foreign Direct Investment is Important to the U.S. Economy

Foreign Direct Investment into the United States has been an important factor in the U.S. economy for a number of years, with FDI totaling \$1.7 trillion over the last ten years.³ Figure 4 shows FDI has fluctuated with the U.S. business cycle. Investment surged to an historical peak of \$328 billion in 2008 and reached a similarly high level in 2000, though it hit a low of \$64 billion in 2003. FDI rebounded to \$194 billion in 2010.

A significant portion of FDI goes to the U.S. manufacturing sector. (See Figure 5.) In 2010, \$78 billion of FDI, or 41 percent of total FDI, was spent on the manufacturing sector.⁴ Over the past 14 years, manufacturing's share of FDI has varied from a low of 15 percent in 2004 to a high of 81 percent in 1998, averaging 39 percent. Other sectors that have received significant FDI over time include the wholesale and retail sector (21 percent in 2010) and financial-related industries (14 percent in 2010).⁵ Since 1997, about two-thirds of the remaining investment has been in information, mining, utilities, and non-bank holding companies.⁶ Very little FDI goes to construction, transportation services and other service industries.

Figure 4: Foreign Direct Investment into the U.S.

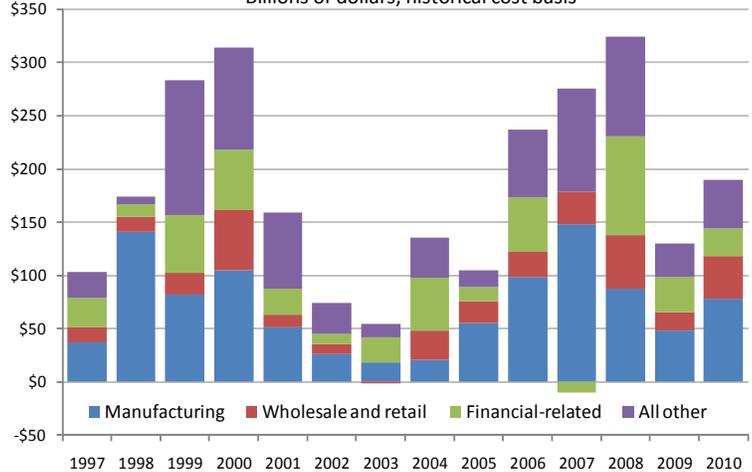
Billions of dollars, current cost basis



Source: Bureau of Economic Analysis, www.bea.gov/international/di1fdibal.htm.

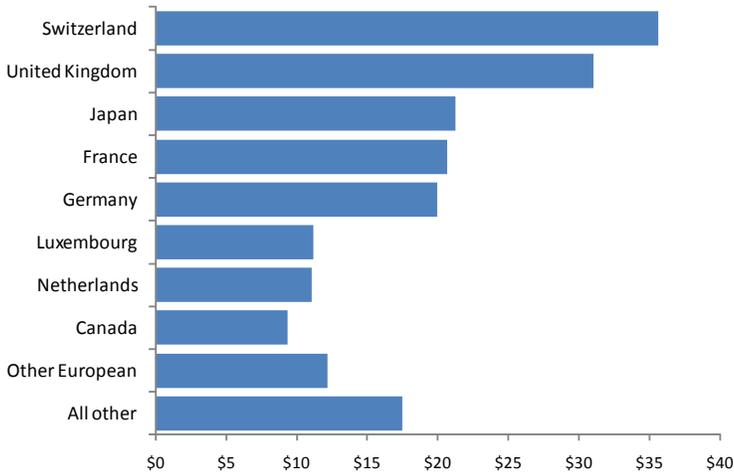
Figure 5: Foreign Direct Investment into the U.S.

Billions of dollars, historical cost basis



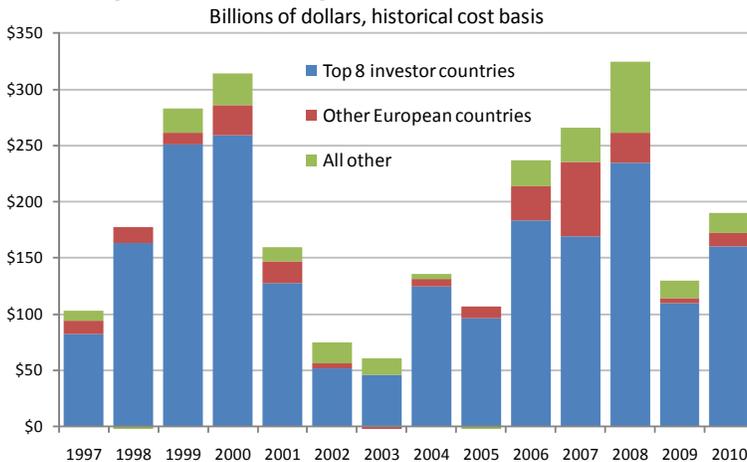
Source: Bureau of Economic Analysis.

Figure 6: Foreign Direct Investment into the U.S. by Country, 2010
Billions of dollars, historical cost basis



Source: Bureau of Economic Analysis.

Figure 7: Flow of Foreign Direct Investment into the U.S.



"Top 8 investor countries" are the same as in the table: the United Kingdom, Japan, Netherlands, Canada, Germany, Switzerland, France, and Luxembourg. Source: Bureau of Economic Analysis.

FDI Comes from a Relatively Small Set of Countries

Currently, the vast majority of FDI into the U.S. comes from a relatively small set of countries. In 2010, 84% of FDI into the United States came from firms based in eight countries: Switzerland, which invested the most, followed by the United Kingdom, Japan, France, Germany, Luxembourg, the Netherlands and Canada (Figure 6). In addition, 6 percent came from other European countries and 10% from other countries/regions such as the Caribbean, Brazil, Australia, etc.⁷

Figure 7 shows how the concentration of these investment positions has changed over time. Though there has been some fluctuation in the importance of the "top 8" investor countries over the past 14 years, these 8 have nevertheless contributed to 81 percent of total FDI. Of the remaining 19 percent, 9 percent derives from other European (mostly West European) countries, and 10 percent comes from all other countries.

Increasing FDI from a wider array of countries could have significant payoffs for the U.S. economy and American jobs. The question then becomes, are there legitimate prospects for increasing FDI into the United States?

Based on the data in this report, the answer is yes, and there are four primary avenues for doing so. The first is to obtain a larger portion of the total foreign investments being made by the "top 8." Another approach is to cultivate new investment from other developed countries that are outside the "top 8" traditional investors. For example, when FDI increased in 2007, part of the growth was due to increasing investment from countries such as Sweden, Australia, Spain and Belgium. These four countries were all in the top eight investor countries that year, investing a total of \$66.5 billion.

However, in 2010, their investment declined back to prior levels, (cumulatively \$16.6 billion), leaving new investment to the traditional “top 8” countries.

A third option for increasing FDI in the United States is to look to those countries that run a trade surplus with the U.S. China tops this list, with a trade surplus of \$273 billion in 2010. The Organization of Petroleum Exporting Countries (OPEC) had a combined surplus of \$96 billion in 2010, and Mexico also had a surplus of \$66 billion. None of these countries are typical FDI investors in the U.S.

Finally, countries that are holding large amounts of liquid U.S. assets are another strong potential source of additional FDI. China also tops this list of countries (\$1,611 billion in liquid U.S. assets as of June 2010), yet its investment in the U.S. private sector has been relatively small. Similarly, Belgium, with substantial liquid assets, is not among the traditional “top 8” foreign investors.⁸

Given the power of FDI as an economic engine and the quality of jobs it supports, there is great potential benefit from broadening and deepening foreign direct investment in the United States.

Endnotes

¹ Employees include management staff, production workers, and other full- and part-time workers.

² The compensation differential between FDI and other jobs is both the result of FDI concentrating in higher paying industries as well as supporting better paying comparable jobs.

³ This includes current cost adjustment, which generally slightly increases the total value of FDI to reflect current prices of plant and equipment, land, and inventories. Without current cost adjustment, the total was \$190 billion in 2010, which reflects the historical cost of investment. Data by industry and by country are only available without current cost adjustment, which is why all the charts following Figure 1 only show totals without the current cost adjustment.

⁴ Manufacturing share is calculated as a percent of the total without current cost adjustment (see endnote #1).

⁵ Financial-related industries consist of finance, insurance, and depository institutions.

⁶ Holding companies hold the securities of other companies. The industry categorization of these other companies is not reported.

⁷ It might be argued that, since countries such as Switzerland, the Netherlands and Luxembourg are large financial centers, these data give a misleading picture of the true scope of the number of countries that invest in the U.S. However, looking at FDI by country of the “ultimate beneficial owner” (UBO) of the investment does not significantly change the overall picture of investment being concentrated in a few countries or significantly change the identity of those countries. See UBO tables at <http://www.bea.gov/international/di1fdibal.htm>.

⁸ Table 5 in “Report on Foreign Portfolio Holdings of U.S. Securities as of June 30, 2010,” Department of the Treasury, Federal Reserve Bank of New York, Board of Governors of the Federal Reserve System, April 2011, p. 9. <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/shla2010r.pdf>

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