Boosting Economic Growth through Foreign Direct Investment

Trainer(s):  
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Boosting Your Economy through Foreign Direct Investment

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What is FDI?

Jobs, Growth, Innovation
Defining FDI

• **Foreign Direct Investment (FDI) in the United States**: Ownership or control, directly or indirectly, by one foreign person, or entity, of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise.

• **FDI Position/Stock**: Accounts for all existing FDI from one market to the United States. Using BEA data, SelectUSA tracks FDI Position/Stock by the country of ultimate beneficiary owner (UBO).

• **FDI Flow**: Accounts for FDI between one market and the United States in a given time period (annual, quarterly, etc.). In most cases, SelectUSA uses annual bilateral flows, which are updated on March 15th of every year.

Source: U.S. Bureau of Economic Analysis
Is FDI good or bad?
Growing Acceptance of FDI

• “FDI supports a host of benefits in the United States, notably good jobs and innovation led by research and development investment.” –CEA and DOC

• “An appreciation of the benefits that FDI can bring, together with the widespread adoption of development strategies based on increased integration in the world economy, have resulted in most countries actively seeking FDI.” –World Trade Organization

Sources: Foreign Direct Investment In the United States Report October 2013: CEA and DOC
   WTO- Trade and Foreign Investment Press Release 1996
Introduction to Foreign Direct Investment:

A Global Perspective
Trends in Global FDI Flows and World Trade

Figure 1. FDI inflows, global and by group of economies, 1995–2013 and projections, 2014–2016
(Billions of dollars)

Source: WTO and World Bank
Trends in Global FDI Flows and World Trade

Figure 2. FDI inflows: top 20 host economies, 2012 and 2013 (Billions of dollars)

- United States: 186, 181
- China: 79, 75
- Russian Federation: 64, 65
- Hong Kong, China: 51, 77
- Brazil: 64, 61
- Singapore: 43, 62
- Canada: 43, 50
- Australia: 39, 56
- Spain: 26, 38
- Mexico: 18, 38
- United Kingdom: 15, 37
- Ireland: 10, 36
- Luxembourg: 10, 30
- India: 24, 28
- Germany: 13, 27
- Netherlands: 10, 24
- Chile: 20, 29
- Indonesia: 19, 23
- Colombia: 17, 20
- Italy: 16, 17

Figure 3. FDI outflows: top 20 home economies, 2012 and 2013 (Billions of dollars)

- United States: 338, 307
- Japan: 123, 101
- China: 88, 95
- Russian Federation: 49, 95
- Hong Kong, China: 82, 88
- Switzerland: 60, 88
- Germany: 58, 80
- Canada: 43, 55
- Netherlands: 35, 55
- Sweden: 33, 37
- Italy: 19, 32
- Ireland: 19, 33
- Luxembourg: 19, 33
- United Kingdom: 13, 35
- Spain: 26, 42
- Norway: 20, 20
- Taiwan Province of China: 14, 19
- Austria: 14, 17

Source: UNCTAD World Investment Report 2014
FDI Trends to Emerging Markets

[Bar chart showing capital flows to developing countries with data from 2008 to 2014, including FDI, portfolio equity, official inflows, and capital outflows. The chart includes a forecast for the years 2011 to 2014.]

Source: World Bank

*Estimate
FDI Trends From Emerging Markets

+13%  Percent change in share of all cross-border M&A investment originating in emerging markets from the periods 1997-2003 to 2004-2010

20%  Amount of all cross-border M&A investment in financial services originating in emerging markets from 2001-2010

$152 billion  Increase in greenfield investments from 2001-2009 by emerging markets

$224 billion  Increase in M&A investment from 2001-2010 by emerging markets

2447  Amount of M&A investment deals completed by emerging markets in 2010

⅓  More than ⅓ of all FDI in emerging markets comes from other emerging markets

Sources: World Bank, The Economist September 24, 2011
FDI Trends From Emerging Markets

Figure 4. Distribution of gross cross-border M&As purchases by developing and transition economy-based TNCs, 2013
(Per cent)

Source: UNCTAD.
Note: "Gross" refer to all cross-border M&As. Cross-border M&As reported by UNCTAD is on a "net" basis which takes into account divestments.
Top 20 Sovereign Wealth Funds

- Government Pension Fund Global: $818bn
- Reserve Fund: $86.4bn
- National Welfare Fund: $88bn
- Abu Dhabi Investment Authority: $773bn
- Investment Corporation of Dubai: $70bn
- International Petroleum Investment Company: $65.3bn
- SAMA Foreign Holdings: $675.9bn
- Qatar Investment Authority: $170bn
- Government of Singapore Investment Corporation: $285bn
- Temasek Holdings: $173.3bn
- China Investment Corporation: $575.2bn
- SAFE Investment Company: $576.9bn
- Hong Kong Monetary Authority Investment Portfolio: $326.7bn
- National Social Security Fund: $160.6bn
- Australian Future Fund: $88.7bn

Source: SWF Institute 2014
Foreign Direct Investment:

Impact on the United States
FDI Benefits the U.S. Economy

#1  The United States is the largest recipient of foreign direct investment in the world.

21% of U.S. Exports  In 2013, U.S. subsidiaries of foreign-owned firms accounted for 21 percent of all U.S. goods exports.

~6 million U.S. jobs  In 2013, subsidiaries employed 6.1 million U.S. workers.

Average annual wage  In 2013, subsidiaries contributed $456 billion in wages to U.S. employees.

$78,900

R&D Investments  In 2013, subsidiaries invested $48 billion in research and development in the United States.

Investments in Fixed Assets  In 2011, subsidiaries owned $1.6 trillion in gross property, plant, and equipment (PP&E). They invested more than $200 billion in PP&E improvements in 2013, alone.

Sources: Bureau of Economic Analysis; UN Conference on Trade & Development
Why Is FDI Important?

• FDI employs 5.8% of Americans.
• Contributes 6.3% of value added to GDP
• Increases U.S. productivity growth by 12%
• Increases capital investment by 15.2%
• Funds 18.9% of corporate R&D

Source: Brookings report on FDI in U.S. Metro Areas
Global FDI Trends

22 largest country recipients by FDI stock in 2013; Currency displayed at current market value.
Source: UN Conference on Trade and Development
The US Share of Global FDI is Declining

FDI Stock in Select Economies as Percentage of Total World Stock
Source: UNCTADStat

Currency displayed at market values. Source: UN Conference on Trade and Development
Why is Chinese FDI Controversial?
The US as a Location for Growth
# US FDI Trends

## Largest Sources of FDI in the United States (by UBO)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Market</th>
<th>2014 Position in USD millions</th>
<th>Share of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United Kingdom</td>
<td>$465,795</td>
<td>16.1%</td>
</tr>
<tr>
<td>2</td>
<td>Japan</td>
<td>$374,720</td>
<td>12.9%</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>$312,898</td>
<td>10.8%</td>
</tr>
<tr>
<td>4</td>
<td>Canada</td>
<td>$311,383</td>
<td>10.7%</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>$240,212</td>
<td>8.3%</td>
</tr>
<tr>
<td>6</td>
<td>The Netherlands</td>
<td>$185,053</td>
<td>6.4%</td>
</tr>
<tr>
<td>7</td>
<td>Ireland</td>
<td>$159,515</td>
<td>5.5%</td>
</tr>
<tr>
<td>8</td>
<td>Switzerland</td>
<td>$151,721</td>
<td>5.2%</td>
</tr>
<tr>
<td>9</td>
<td>Spain</td>
<td>$54,745</td>
<td>1.9%</td>
</tr>
<tr>
<td>10</td>
<td>Australia</td>
<td>$53,058</td>
<td>1.8%</td>
</tr>
<tr>
<td>11</td>
<td>Sweden</td>
<td>$48,085</td>
<td>1.7%</td>
</tr>
<tr>
<td>12</td>
<td>Belgium</td>
<td>$36,460</td>
<td>1.3%</td>
</tr>
<tr>
<td>13</td>
<td>South Korea</td>
<td>$34,821</td>
<td>1.2%</td>
</tr>
<tr>
<td>14</td>
<td>Norway</td>
<td>$31,701</td>
<td>1.1%</td>
</tr>
<tr>
<td>15</td>
<td>Mexico</td>
<td>$31,448</td>
<td>1.1%</td>
</tr>
</tbody>
</table>

## Fastest-Growing Sources of FDI in the United States (by UBO)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Market</th>
<th>2014 Position in USD millions</th>
<th>CAGR 2009-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>$10,169</td>
<td>38.5%</td>
</tr>
<tr>
<td>2</td>
<td>Luxembourg</td>
<td>$23,822</td>
<td>26.8%</td>
</tr>
<tr>
<td>3</td>
<td>Brazil</td>
<td>$22,404</td>
<td>25.2%</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>$10,706</td>
<td>22.1%</td>
</tr>
<tr>
<td>5</td>
<td>Malaysia</td>
<td>$1,587</td>
<td>19.6%</td>
</tr>
<tr>
<td>6</td>
<td>South Korea</td>
<td>$34,821</td>
<td>19.4%</td>
</tr>
<tr>
<td>7</td>
<td>Switzerland</td>
<td>$151,721</td>
<td>18.2%</td>
</tr>
<tr>
<td>8</td>
<td>United Arab Emirates</td>
<td>$27,618</td>
<td>18.1%</td>
</tr>
<tr>
<td>9</td>
<td>Colombia</td>
<td>$2,517</td>
<td>16.5%</td>
</tr>
<tr>
<td>10</td>
<td>Norway</td>
<td>$31,701</td>
<td>16.5%</td>
</tr>
<tr>
<td>11</td>
<td>Venezuela</td>
<td>$5,537</td>
<td>13.8%</td>
</tr>
<tr>
<td>12</td>
<td>Chile</td>
<td>$1,154</td>
<td>13.0%</td>
</tr>
<tr>
<td>13</td>
<td>Denmark</td>
<td>$12,544</td>
<td>12.0%</td>
</tr>
<tr>
<td>14</td>
<td>Hong Kong</td>
<td>$19,582</td>
<td>11.9%</td>
</tr>
<tr>
<td>15</td>
<td>South Africa</td>
<td>$3,697</td>
<td>11.6%</td>
</tr>
</tbody>
</table>

Source: Bureau of Economic Analysis. UBO refers to Ultimate Beneficial Owner. CAGR refers to Compound Annual Growth Rate.
Foreign Direct Investment:
The Impact on US Cities
Do you know how many jobs exist in your city as a result of FDI?
FDI in Cities

The average large U.S. metro area hosts FDI from 33 different countries and 77 different city-regions across the globe.

For more information: “FDI in U.S. Metro Areas: The Geography of Jobs in Foreign-Owned Establishments” and the companion infographic on the framing of U.S. jobs in FOEs are available here: http://www.Brookings.edu/MetroFDI

Sources: Brookings analysis of National Establishment Time-Series and Bureau of Economic Analysis data.
FDI in Cities

The 1.4 million U.S. workers employed by FDI in advanced industries are located throughout the country’s clusters and regions.

### Advanced Industries with the Largest Number of Jobs in FOEs

<table>
<thead>
<tr>
<th>Industry</th>
<th>Jobs</th>
<th>Top Metro Destinations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motor vehicle parts manufacturing</td>
<td>219,500</td>
<td>Detroit, MI</td>
</tr>
<tr>
<td>Computer systems design and related services</td>
<td>121,800</td>
<td>Knoxville, TN, Indianapolis, IN</td>
</tr>
<tr>
<td>Pharmaceutical and medicine manufacturing</td>
<td>114,300</td>
<td>New York, NY, Philadelphia, PA, Boston, MA</td>
</tr>
<tr>
<td>Motor vehicle manufacturing</td>
<td>88,700</td>
<td>Detroit, MI, Portland, OR, Toledo, OH</td>
</tr>
<tr>
<td>Navigational, measuring, electromedical, and control instruments manufacturing</td>
<td>81,600</td>
<td>Boston, MA, New York, NY, San Diego, CA</td>
</tr>
</tbody>
</table>

Sources: Brookings Analysis of National Establishment Time Series and BEA data
FDI Job Creation in the U.S.A

- Allentown, PA: 20,780 (118,577)
- Austin, TX: 29,180 (885,400)
- San Francisco, CA: 89,120 (837,442)
- Washington, DC: 126,210 (658,893)
- Philadelphia, PA: 137,040 (1,553,000)
- New York City, NY: 490,290 (8,406,000)

Source: Brookings report on FDI in U.S. Metro Areas, U.S. Census Bureau
Case Studies: FDI in U.S. Cities

• Samsung 2012: Austin, TX
  – Manufacturing Plant
  – $4 billion investment
  – 2500 jobs

• Continental Tire 2016: Mississippi
  – $1.45 billion investment
  – 2500 American jobs

• Allianz 2016: New Mexico
  – Investing in Wind Farms
  – 200 million Euros
  – Power 170,000 households

Source: ofii.org
BREAK
Attracting FDI
Understanding the Investor

- Determinants of FDI
- Trends in Investment
- Trends by Industry
Why are Companies Investing Across Borders?
The “Typical” Investment Process

- **Greenfield (1)**: Foreign companies create U.S. operations for the first time.
- **Greenfield (2)**: Foreign company expands existing operations within the U.S.
- **Brownfield**: Foreign company or government entity purchases existing production facilities to launch a new production activity.
- **M&A**: One entity acquires another’s existing assets.
- **FTZ**: Investments made more appealing by foreign trade zones.
The “Typical” Investment Process

- **Greenfield (1):** Hankook Tire
- **Greenfield (2):** Nestlé
- **Brownfield:** Novo Nordisk Pharmaceuticals
- **M&A:** L’Oréal
- **FTZ:** Samsung
Creating and Refining FDI Strategies
Have you defined a strategy for attracting FDI to your city?
The Globalization Audit

• Collection of Data
• Allows cities to prioritize markets and industries
• Contributes to a strategy that can be executed in a collaborative manner, within a budget.
The Globalization Audit

• Get a sense for economic activity (4-way trade & investment):
  – Inbound FDI
  – Outbound FDI
  – Exports
  – Imports
The Globalization Audit

• Research a list of current foreign investors
  – Create a list of current top countries for region’s exports and current top countries for region’s inbound investment
Foreign Direct Investment (FDI):
BRAZIL

#3 Third fastest-growing source of FDI in the United States in 2014 (by UBO)

Supporting U.S. Jobs
70,500
Number of U.S. workers employed by U.S. affiliates of Brazilian-owned firms in 2013.

Investing in Innovative R&D
$25 million
Value of research and development (R&D) spending by U.S. affiliates of Brazilian-owned firms in 2013.

Expanding U.S. Exports
$5.6 billion
Total contribution to U.S. goods exports by Brazilian-owned firms operating in the United States in 2013.

Source: SelectUSA
Foreign Direct Investment (FDI):

**MEXICO**

$31.4B

Total stock of FDI from Mexico in the United States in 2014 (by UBO)

- **Supporting U.S. Jobs**
  - 74,400 Number of U.S. workers employed by U.S. affiliates of Mexican-owned firms in 2013.

- **Investing in Innovative R&D**
  - $68 million Value of research and development (R&D) spending by U.S. affiliates of South and Central American-owned firms in 2013.*

- **Expanding U.S. Exports**
  - $1.1 billion Total contribution to U.S. goods exports by Mexican-owned firms operating in the United States in 2013.

Source: SelectUSA

#NLCDC
Foreign Direct Investment (FDI): GERMANY

#3 Third largest source of FDI in the United States in 2014 (by UBO)

- **Supporting U.S. Jobs**: 641,100
  - Number of U.S. workers employed by U.S. affiliates of German-owned firms in 2013.

- **Investing in Innovative R&D**: $6.4 billion
  - Value of research and development (R&D) spending by U.S. affiliates of German-owned firms in 2013.

- **Expanding U.S. Exports**: $44.4 billion
  - Total contribution to U.S. goods exports by German-owned firms operating in the United States in 2013.

Source: SelectUSA
Foreign Direct Investment (FDI): COLOMBIA

#9 Ninth fastest-growing source of FDI in the United States in 2014 (by UBO)

Supporting U.S. Jobs

- 3,800
- Number of U.S. workers employed by U.S. affiliates of Colombian-owned firms in 2013.

Investing in Innovative R&D

- $68 million
- Value of research and development (R&D) spending by U.S. affiliates of South and Central American firms in 2013.*

Expanding U.S. Exports

- $21 million
- Total contribution to U.S. goods exports by Colombian-owned firms operating in the United States in 2013.*

Source: SelectUSA
The Globalization Audit

• Create a list of current top industries for region’s exports and current top industries for region’s inbound investment

• Research a list of all foreign entities or globally-oriented organizations, including:
  – foreign consulates
  – church groups going on mission
  – foreign student groups
## Free Trade Agreements

<table>
<thead>
<tr>
<th>Year Entered into Force</th>
<th>FTA Signatory Markets</th>
<th>Signatory’s 2012 Nominal GDP* (million USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1985</td>
<td>Israel</td>
<td>240,900</td>
</tr>
<tr>
<td>1994</td>
<td>NAFTA: Canada, Mexico, United States</td>
<td>2,376,000</td>
</tr>
<tr>
<td>2004</td>
<td>Chile</td>
<td>268,200</td>
</tr>
<tr>
<td>2004</td>
<td>Singapore</td>
<td>276,500</td>
</tr>
<tr>
<td>2005</td>
<td>Australia</td>
<td>1,542,000</td>
</tr>
<tr>
<td>2006</td>
<td>Bahrain</td>
<td>27,030</td>
</tr>
<tr>
<td>2006</td>
<td>Morocco</td>
<td>97,530</td>
</tr>
<tr>
<td>2007</td>
<td>Peru</td>
<td>199,000</td>
</tr>
<tr>
<td></td>
<td>CAFTA – DR: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic, United States</td>
<td>206,730</td>
</tr>
<tr>
<td>2009</td>
<td>Oman</td>
<td>76,460</td>
</tr>
<tr>
<td>2010</td>
<td>Jordan</td>
<td>31,210</td>
</tr>
<tr>
<td>2011</td>
<td>Colombia</td>
<td>366,000</td>
</tr>
<tr>
<td>2011</td>
<td>Panama</td>
<td>36,250</td>
</tr>
<tr>
<td>2012</td>
<td>South Korea</td>
<td>1,156,000</td>
</tr>
<tr>
<td>Proposed: TPP</td>
<td>Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, Vietnam</td>
<td>11,873,630</td>
</tr>
<tr>
<td>Proposed: TTIP</td>
<td>European Union and United States</td>
<td>16,417,100</td>
</tr>
</tbody>
</table>

*U.S. nominal GDP was $15.7 trillion in 2012.

Source: CIA World Factbook

Source: SelectUSA
U.S. exports in June [2013] increased to an all-time high. While most of the big coastal cities did well, metropolitan areas on the Gulf stand out for their thriving oil and gas business.

In Export Boom, U.S. Cities Sell to the World

Source: Dorothy Gambrell August 08, 2013, Bloomberg Businessweek
The Globalization Audit

• Compile a list of assets useful in recruitment, including:
  – Universities
  – Utilities
    • domestic & foreign
    • business incubators
    • soft-landing sites
    • business associations
    • ethnic-based associations
The Globalization Audit

• Drafting process
• Engaging Stakeholders
• Varied outcomes are possible
The Globalization Audit

• Once a strategy is created and agreed-upon, it must be properly **executed**:
  – New staff may need to be hired, or tasks added to existing staff.
  – Expectations should be set in-line with dedicated budget and staff time.
  – It’s useful to have a support network, use EDOs in the state or region, or even at the national level.
Aftercare

• Eight Fundamentals of Aftercare:
  – Create an organizational mindset
  – Engage top leadership
  – Conduct the “globalization audit”
  – Ensure capacity and expertise
  – Give foreign companies a “go-to”
  – Deliver value-added services
  – Engage continually
  – Measure return on investment
Global Engagement and Partnership Building

• Provide an initial one-stop international business center for companies looking to enter the market and make the services easy to understand
• Raise the international IQ of local decision makers through periodic presentation, research and social media posts
• Highlight success stories with the local media, emphasizing local impact
• Support local education efforts to infuse international education into curriculum
• Identify and maintain local resources such as lawyers and accountants with international business expertise
Partnership Building

• Bilateral Export Agreements
  – Missouri Governor Jay Nixon
  – Canada, Colombia, Peru
• Investment Agreements
  – Florida Governor Rick Scott
  – Chile, Spain, United Kingdom
• Using Trade Agreements
  – NAFTA, TTIP, TPP
• Low-Budget Relationship Building
Foreign Trade Zones

• FTZs present a holistic solution to the uncertainties of inbound investment:
  – Relief from Tariffs
  – Speeds up supply chain velocity by eliminating third parties
  – Exemptions from certain taxes, with a tradeoff of increased local investment
EB-5 Immigrant Investor Program

• EB-5 Regional Program Center

• US Citizenship and Immigration Services (USCIS)

• Increasingly popular
U.S. Views on FDI: Federal and State-Level Policies
Does the United States have an official position on foreign direct investment (FDI)?
Open Investment Policy

“The United States reaffirms our open investment policy, a commitment to treat all investors in a fair and equitable manner under the law.”

- Statement by the President of the United States, June 20, 2011
Open Investment Policy

• Upheld by administrations throughout U.S. history
• Core obligation in bilateral investment treaties (BITs).
• Ensures investors and investments receive treatment no less favorable than a country affords to its own investors and investments.
Federal: CFIUS

• “[t]o ensure national security while promoting foreign investment and the creation and maintenance of jobs.”
  – Threat analysis
  – Vulnerability analysis
  – Risk analysis
Federal: Immigration

• Comprehensive reform needed
• Politics
• Not Unique to FDI

Source: https://www.whitehouse.gov/issues/immigration/economy
Federal and State-Level: Buy America

- Supply chain regulations
- Increases taxpayer costs
- Penalizes small and large employers
State-Level: Tax Havens

• Intended to limit tax avoidance by multinational corporations
• The blacklist approach
• Misaligned with federal tax treaties
• Could decrease FDI within the state
Questions?
Please Keep in Touch

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