NATIONAL ASSOCIATION OF
Manufacturers

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Testimony

of Linda Menghetti Dempsey

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before the Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade

on Discussion Draft of H.R. __,
the Global Investment in American Jobs Act of 2013

April 18, 2013

SUMMARY OF TESTIMONY

- The National Association of Manufacturers (NAM) has a significant number of member companies that are the subsidiaries of foreign-headquartered companies. These companies create jobs, invest in research and development (R&D) and make substantial capital expenditures in the United States.
- FDI plays a critical role in manufacturing, and competition for FDI is heating up. The most recent data from 2012 show that FDI in manufacturing accounts for nearly 50 percent of total FDI last year. FDI in manufacturing is showing a rebound from the weakness in 2008 and 2009.
- This legislation builds on the longstanding “open investment policy” that successive administrations, both Republican and Democratic, have reaffirmed.
- The open investment policy in the United States is supported through various aspects of U.S. law, regulation and policy – including the bilateral investment treaty (BIT) program and the recently launched SelectUSA program.
- An interagency review of investment policies would help foster a greater understanding of the U.S. investment environment and how it can be improved. We hope the ensuing report will result in concrete legislative proposals, and we encourage Congress to carefully consider a recommendation from the President’s Council on Jobs and Competitiveness to create a National Investment Initiative to attract substantial foreign investment.
- Still, there is more that Congress to help make the United States the best place in the world to manufacture and would grow even more foreign investment here. The NAM’s 2013 *Growth Agenda* presents four goals for a manufacturing resurgence in America, with policy recommendations that would help attract – and retain – investment in the United States.

COMMENTS OF THE NATIONAL ASSOCIATION OF MANUFACTURERS

BEFORE THE

Committee on Energy and Commerce
Subcommittee on Commerce, Manufacturing and Trade

APRIL 18, 2013

Good morning, Chairman Terry, Ranking Member Schakowsky and members of the Subcommittee on Commerce, Manufacturing and Trade. I am Linda Menghetti Dempsey, vice president of international economic affairs at the National Association of Manufacturers (NAM), and I am pleased to provide testimony today on the Global Investment in American Jobs Act of 2013 as well as the broader issues involved in attracting foreign direct investment (FDI) into the United States.

The NAM is the nation's oldest and largest industrial trade association, representing small and large manufacturers in every industrial sector and in all 50 states. Its membership includes both large multinational corporations with operations in many foreign countries, as well as small and medium-sized manufacturers that increasingly engage in international trade. The manufacturing sector employs nearly 12 million Americans and is the engine that drives the U.S. economy by creating jobs, opportunity and prosperity. International trade and investment are vital to the success of manufacturing in the United States. Our members are highly integrated into complex global supply chains that rely on access to open markets and investment opportunities.

The Global Investment in American Jobs Act catalogs the importance and benefits of foreign investment in the United States, and the NAM strongly agrees with those findings. The NAM has a significant number of member companies that are the subsidiaries of foreign-headquartered companies, and they create jobs, invest in research and development (R&D) and make substantial capital expenditures in the United States. Foreign investment has long supported U.S. economic growth. U.S. subsidiaries of international companies employ 5.3 million American workers, account for 17 percent of the country's manufacturing workforce, produce nearly 18 percent of all U.S. goods exported and fund more than $40 billion of R&D activities annually.[1] Furthermore, these companies support a supplier network of countless small and medium-sized American companies.

The bill expresses the sense of Congress on the importance of FDI and urges Congress to review carefully the potential impact of legislation and regulatory policy on foreign investment in the United States. We strongly support this sense of Congress, and we welcome an interagency review that could help to bring greater understanding of the U.S. investment environment and how it can be improved.

Still, there is more that Congress can and must do to advance a policy agenda that would make the United States the best place in the world to manufacture and would grow even more foreign investment here. Congress and the Administration should move swiftly to address a host of issues that undermine U.S. competitiveness and economic growth.

Manufacturing and FDI

Manufacturing in the United States creates $1.8 trillion of value on an annual basis, representing 12.2 percent of U.S. GDP. Furthermore, manufacturing has the highest multiplier effect of any economic sector. For every $1.00 spent in manufacturing, another $1.48 is added to the economy. Manufacturers in the United States are the most productive workers in the world, leading to higher wages and living standards. As a way

[1] OFII, "Insourcing Facts," accessed at http://ofii.org/resources/insourcing-facts.html.

of putting it in perspective, if manufacturing in the United States was a separate economy, it would be the 10th largest in the world.

FDI plays a critical role in manufacturing. Based on data from the Commerce Department's Bureau of Economic Analysis, FDI inflows in manufacturing equaled nearly $83.4 billion in 2012, accounting for almost 50 percent of total FDI inflows. FDI in manufacturing has shown substantial growth since 2003 and is showing a rebound from the weakness in 2008 and 2009.

About 95 percent of all FDI in the United States comes from developed countries, starting with the United Kingdom. While the share fluctuates yearly, a substantial portion of such investment since 2005 has been in the manufacturing sector. The most recent data from 2012, which are still preliminary, show that FDI in manufacturing accounts for nearly 50 percent of total FDI that year.

While the United States has remained the largest recipient of FDI through 2012, competition for FDI is rising. With global FDI experiencing an 18 percent decline in 2012 and significant risks that may prevent rebounds in coming years, more countries will be seeking fewer FDI opportunities. The United States, like Europe, experienced substantial FDI declines in 2012, with total FDI into the United States dropping about 26 percent (although FDI in manufacturing sustained only an 8 percent decline). Meanwhile, developing countries held their own and absorbed greater FDI inflows than developing countries.[2] In 2012, the United States welcomed 11 percent of global FDI inflows, while China received about 9 percent. Clearly, there is room to grow the U.S. share of FDI.

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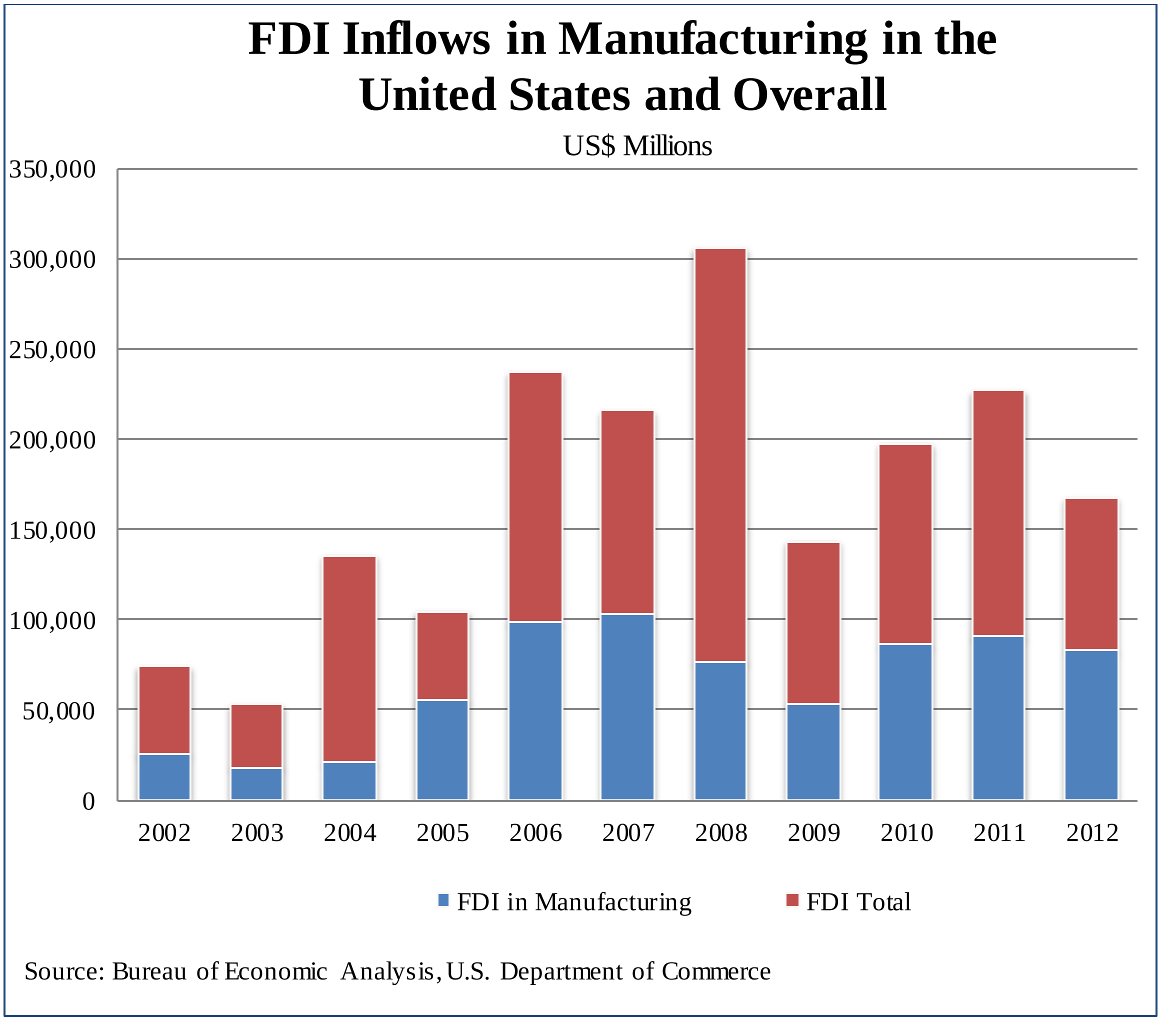
[2] See UNCTAD, *Global Investment Trends Monitor* (Jan. 23, 2013).



NAM Priorities for a Manufacturing Resurgence in America

The NAM's 2013 *Growth Agenda* presents four goals for a manufacturing resurgence in America.[3] The NAM's first goal is very much the subject of today's hearing: to make the United States the best place in the world to manufacture and to attract FDI. I want to focus directly on the legislation before this subcommittee and FDI promotion generally, but I will also address broader issues that the United States must tackle to be the best place in the world to manufacture.

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[3] National Association of Manufacturers, *A Growth Agenda: Four Goals for a Manufacturing Resurgence in America* (2013), accessed at http://www.nam.org/~/media/39CF92351DD24DED8EC0663CBA8021AF.ashx.

Welcoming and Promoting FDI in Manufacturing in the United States

The goal of the Global Investment in American Jobs Act of 2013 is an important one: to spur policy improvements that will help the United States further attract FDI. This legislation builds on the longstanding "open investment policy" that successive administrations, both Republican and Democratic, have reaffirmed. The importance of FDI into the United States – for all the reasons cited in this bill, including promoting jobs, R&D, capital investment and exports – was recognized in 1983 when President Reagan stated:

> A world with strong foreign investment flows is the opposite of a zero-sum game. We believe there are only winners, no losers, and all participants gain from it. . . . A free and open international investment climate will play a key role not only in sustaining our own economic recovery here at home, but also in resolving many of the current international debt problems.[4]

More recently, President Obama made the following statement on international investment on June 20, 2011:

> The United States reaffirms our open investment policy, a commitment to treat all investors in a fair and equitable manner under the law, and I encourage all countries to pursue such a policy. My Administration is committed to ensuring that the United States continues to be the most attractive place for businesses to locate, invest, grow and create jobs. We encourage and support business investment from sources both at home and abroad.[5]

The reasons for this broad support is clear when you consider the important economic and commercial benefits of FDI to the United States, as laid out in this legislation. The Council of Economic Advisers detailed in more depth the important

[4] White House, Statement on International Investment Policy (Sept. 9, 1983), accessed at http://www.presidency.ucsb.edu/ws/?pid=41814.

[5] White House, Statement by the President on United States Commitment to Open Investment Policy (June 20, 2011), accessed at http://www.whitehouse.gov/the-press-office/2011/06/20/statement-president-united-states-commitment-open-investment-policy. See also President Bush's Statement on Open Economies (May 10, 2007), accessed at http://georgewbush-whitehouse.archives.gov/news/releases/2007/05/20070510-3.html.

benefits of FDI to the United States at the time of President Obama's June 2011 statement:

> 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.[6]

The Global Investment in American Jobs Act highlights the need to do more to attract foreign investment in the United States, requiring an interagency review of policies and best practices and a report on U.S. policies, with recommendations for further action. This review, as well as the report, would be beneficial for policymakers. We hope the report will result in concrete legislative proposals, and the NAM encourages the subcommittee to consider further strengthening the bill's provisions in this area. From the NAM's perspective, we encourage Congress to carefully consider the recommendations from the President's Council on Jobs and Competitiveness, which released a report last year that called for a National Investment Initiative to attract $1 trillion in foreign investment over the next five years.[7] This initiative would leverage local "innovation investment zones" near major universities, establish supply chain partnerships, improve SelectUSA and U.S. immigration policies and explore tax reforms that would enhance U.S. competitiveness.

Our open investment policy is supported through a number of different aspects of U.S. law, regulation and policy. The United States generally treats FDI on a non-discriminatory basis, as compared with domestic investment, unless there is a threat to

[6] Council of Economic Advisers, U.S. Inbound Foreign Direct Investment (June 2011), accessed at http://m.whitehouse.gov/sites/default/files/microsites/cea_fdi_report.pdf.
[7] President's Council on Jobs and Competitiveness, National Investment Initiative, accessed at http://www.jobs-council.com/recommendations/launch-a-national-investment-initiative/.

national security as determined by the Committee on Foreign Investment in the United States (CFIUS). In 2007, Congress amended the underlying legislation that created CFIUS to ensure greater congressional oversight and extend reviews of transactions involving foreign-controlled corporations.[8]

The U.S. open investment policy is also supported through the U.S. bilateral investment treaty (BIT) program, which began about four decades ago to secure reciprocal open investment frameworks with interested countries. The United States has in place 38 BITs, including most recently with Rwanda, that seek to promote similar open investment policies on a reciprocal basis. The Obama Administration completed its review of the model BIT template a year ago and is negotiating with countries in Asia and Africa to secure strong commitments from other governments to adopt open economy approaches. The BIT program helps secure U.S. investment abroad, which, like FDI in the United States, is largely focused on reaching new customers. An often overlooked fact about U.S. investment overseas is that those investments are a major driver of U.S. exports, as well as R&D and capital expenditures here in the United States. A robust BIT negotiation program is a vital part of the U.S. open investment policy and one that will provide important benefits to accessing markets overseas. President Obama also launched the SelectUSA program in 2011 to promote and facilitate investment in the United States, in partnership with state governments.

Making the United States the Best Place in the World to Manufacture

Given the substantial benefits that FDI provides for the United States and the increasingly competitive environment for FDI, the United States cannot presume that it will continue to remain the largest recipient of FDI by mere routine. From the manufacturing perspective, the United States faces significant challenges of our own

[8] Foreign Investment and National Security Act of 2007, Pub. L. 110-49 (July 26, 2007).

making. According to figures from the Manufacturing Institute,[9] it is 20 percent more expensive to manufacture in the United States than in other industrialized nations based on an analysis of tax, tort, energy and regulatory policies (and excluding the cost of labor). Unfortunately, the United States continues to have the highest tax rates among major industrial countries, and two-thirds of all manufacturers pay taxes at individual rates. The lack of a strong, permanent R&D tax credit and high tort costs fuel the cost disadvantage.

To make the United States the best place in the world to manufacture and invest, Congress and the Administration should work together to do the following:

- Create a national tax climate that promotes manufacturing.
- Embrace an “all-of-the-above” approach to energy.
- Modernize and invest in infrastructure.
- Ensure and independently verify that the benefits of regulations justify their costs.
- Implement common-sense legal reform.
- Reduce health care costs for patients and providers.

The United States must also ensure robust export opportunities for manufacturers in the United States. We urge Congress to work with President Obama to pursue an aggressive trade policy agenda that will open further access to fast-growing markets overseas, ensure competitive export financing, prioritize trade facilitation in our import and export processing, encourage our trade partners to protect and enforce intellectual property rights and guarantee that our competitors – and customers – dare playing by the rules.

[9] The Manufacturing Institute, the Manufacturers Alliance for Productivity and Innovation and the National Association of Manufacturers, 2012 Facts About Manufacturing (Oct. 2012), accessed at http://www.themanufacturinginstitute.org/Research/Facts-About-Manufacturing/Facts-2012.aspx.

Only by addressing the multitude of policies that shape U.S. global competitiveness will our nation be able to increasingly attract and retain the kind of foreign investment that will sustain and grow jobs.

Conclusion

I want to thank the Subcommittee on Commerce, Manufacturing and Trade for this opportunity to testify on the FDI issues that are vital to the manufacturing sector in the United States. The NAM looks forward to working with you as the subcommittee moves forward on this legislation and other activities to promote U.S. competitiveness.

Thank you.