Testimony of Nancy L. McLernon

President & CEO

Organization for International Investment

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Committee on Energy and Commerce

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Summary

- OFII and its member companies strongly support the "Global Investment in American Jobs Act of 2013."
- Foreign direct investment (FDI) is a catalyst for economic growth that fuels American manufacturing, innovation, trade, and overall job creation.
- U.S. subsidiaries employ 5.3 million workers in the United States and account for 5.8 percent of private sector GDP. As a business community, these companies generate the types of high-value jobs and economic activities that enhance U.S. competitiveness.
- While the United States remains the top location for foreign direct investment, its share of world FDI stock has dropped significantly over the past decade, falling from 41% in 1999 to just 17% in 2011.
- Emerging markets such as China, India, and Brazil have now overtaken the developed world in share of global FDI.
- If the United States can improve in key policy areas and embrace a more proactive approach to inbound investment, it could successfully unleash new investment capital here in the United States.
- The Global Investment in American Jobs Act would provide policy makers with a long-term, strategic understanding of what kinds of policies and best practices will position the U.S. to successfully recruit global companies to our shores.
- The legislation advances U.S. leadership in promoting open investment policy around the world.
- If enacted, OFII believes this legislation would send a powerful message at home and abroad that the United States is working to elevate its competitiveness for FDI in a thoughtful and bipartisan manner.

Introduction and Overview

Good morning. Chairman Terry, Ranking Member Schakowsky, and distinguished Members of the Subcommittee, I want to thank you for the opportunity to testify this morning. I applaud your leadership in holding this timely hearing on legislation to enhance our nation's ability to attract and retain foreign direct investment (FDI).

My name is Nancy McLernon and I am President and CEO of the Organization for International Investment (OFII). OFII is a business association exclusively comprised of the U.S. subsidiaries of global companies. We advocate for fair and non-discriminatory treatment in U.S. law and regulation for these companies and the millions of Americans they employ. Our mission is to ensure that the United States remains the most attractive location for global companies looking to expand around the world.

This hearing comes at a time when the United States is at a crossroads, facing serious economic and fiscal challenges at home as well as an increasingly competitive global landscape abroad. While the United States remains the top location for foreign direct investment, its share of world FDI stock has dropped significantly over the past decade. This is a national challenge, one that impacts every state and district represented here this morning. Simply put, it is no longer enough for the U.S. to merely be "open" to global investment; we must have a proactive strategy to leverage all the tools within our reach if we hope to remain competitive for high-value FDI. For this reason, OFII and its member companies strongly support the "Global Investment in American Jobs Act of 2013."

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

According to the most recent U.S. government data, U.S. subsidiaries employ 5.3 million workers in the United States and account for 5.8 percent of private sector GDP.

As a business community, these companies generate precisely the types of high-value jobs and economic activities that enhance the competitiveness of the national economy. Some notable examples include:

- Wages: U.S. subsidiaries support an annual payroll of over $400 billion with an average salary of more than $77,000 – roughly a third higher than the private sector average. In the manufacturing sector, the average salary rises to over $85,000, compared the sector-wide average of $74,534.
- Manufacturing: Manufacturing is the top sector for inward FDI, accounting for over one third of cumulative foreign investment in the United States. U.S. subsidiaries of global companies employ nearly two million workers in the American manufacturing sector – roughly 17% of that sector's workforce. Not only are these jobs well-paying, they have a positive ripple effect throughout the U.S. economy. An economic study commissioned by OFII last year found that each manufacturing job at a U.S. subsidiary supports five additional jobs in the broader economy.
- Research & Development: FDI is a tremendous catalyst for American innovation, employing tens of thousands of scientists and engineers throughout the country. U.S. subsidiaries underwrite 14 percent of all research and development (R&D) activity in the United States, spending over $40 billion annually on U.S. R&D.
- Exports: Inbound investment is closely linked to outbound trade. In addition to investing in the U.S. to access the domestic market, many foreign-based firms use their U.S. operations to service new markets around the world. In fact, nearly 18 percent of all U.S. exports are produced by foreign-owned companies, which provide $229.3 billion in American goods and services annually to customers around the world.

- Supply Chain, Reinvestment, and Expansion: The effects of FDI are felt "downstream" as well. U.S. subsidiaries support a vibrant network of U.S. suppliers, purchasing hundreds of billions of dollars in goods and services every year from small businesses and local companies to sustain and grow their U.S. operations. Additionally, U.S. subsidiaries reinvest $87.4 billion of their annual earnings back into their U.S. operations and spend $149 billion on new property, plant construction, and equipment to help upgrade and expand their businesses. These investments demonstrate a substantial commitment to the long-term success and vitality of their U.S. operations.
- Taxes Paid: U.S. subsidiaries also comprise a significant portion of the U.S. corporate tax base, paying roughly 14% of total corporate income taxes.

In spite of the vital contributions of U.S. subsidiaries of global companies, the extent of their impact throughout the U.S. economy is not widely understood. FDI has traditionally occupied something of a blind spot in U.S. policy, overshadowed by a much greater level of focus on trade. While trade will remain an indispensable priority, the growing importance of global cross-border investment makes it essential for FDI promotion to play a more prominent role in U.S. economic policy in the years ahead.

Local Success Stories

In the midst of continued economic challenges, foreign investment is having a dramatic impact on local communities throughout the United States.

Consider the recent investment of UK-based Rolls-Royce in Prince George County, Virginia. In May 2011, Rolls-Royce North America opened its 1,000-acre "Crosspointe" campus to develop, manufacture, and export aero engine disks and jet-engine components. It is the company's first manufacturing facility built from the ground up in the United States and includes a 120-acre supplier park and new R&D facility. The facility exports key components to the UK and Singapore to power such revolutionary aircraft as the Airbus A350 and the Boeing 787. Crosspointe is an especially noteworthy example of recent FDI thanks to the innovative way Rolls-Royce is recruiting suppliers to co-locate on site, while also partnering with state universities and local community colleges to establish world-class workforce training programs and bring STEM education to local schools. The company has also teamed with 13 other manufacturers to establish a public-private research partnership with local universities including Virginia Tech and the University of Virginia known as the Commonwealth Center for Advanced Manufacturing.

Foreign direct investment is also helping to revive local communities hit hard by the loss of manufacturing jobs. Nestlé, a company based in Switzerland, made the largest single capital investment in the company's history with a $650 million manufacturing project in Anderson, Indiana, a city that was devastated by an exodus of automotive jobs. Nestlé's investment has created close to 800 new jobs since 2006 and is providing new hope and opportunity to the local community.

There are countless stories like these all across the country: Michelin's tire plant in the Upstate of South Carolina; the new Astellas pharmaceutical R&D facility in Northbrook, Illinois; Case New Holland exporting union-built tractors from Racine, Wisconsin; Philips Healthcare developing advanced medical imaging technologies in Highland Heights, Ohio. In every state and every industry sector, U.S. subsidiaries of global companies are woven into the fabric of our economy, providing high-quality jobs and much-needed investment.

Challenging Global Trends

Though foreign investment remains a catalyst for economic growth and prosperity, recent global economic trends underscore that the U.S. cannot afford to become complacent due to past success. Competition to attract and retain global investment has never been stronger, providing companies with an unprecedented array of options when looking to expand into new markets around the world.

The U.S. has seen its competitive position erode rapidly as other nations have become more sophisticated in their efforts to attract FDI. After a sharp rise during the 1990s, U.S. share of global FDI has experienced a severe and prolonged decline, falling from 41% in 1999 to just 17% in 2011 – a drop in world share of more than 50% in just over a decade.

Meanwhile, developing nations like the BRICS have claimed a steadily growing share of the world's investment. 2011 marked the second time – and the second year in a row – that emerging markets such as China, India, and Brazil captured a greater share of global FDI than the developed world.

Some of these shifts are well beyond the control of policymakers. However, it is clear that other nations are outpacing the United States in revamping policies to better recruit global business. For example, the Organization for Economic Co-Operation and Development (OECD) recently ranked the United States 34th out of 55 countries examined in its 2012 FDI Regulatory Restrictiveness Index, which measures a country's openness to FDI. In a related benchmark survey from 1997 to 2010, the OECD found that the vast majority of countries measured were successful in reducing barriers to FDI over time. The United States was one of only six countries that either lost ground or stood still.

Policy and Promotion

While there are no magic formulas, enhancing U.S. competitiveness for FDI will certainly require progress in key areas of U.S. policy, including reforming an uncompetitive tax code, advancing a more expansive free trade agenda, modernizing America's ageing infrastructure, implementing a pro-growth energy policy, and developing a workforce that can compete for the jobs of the future. These are among the issues OFII member company executives most frequently cite when discussing the challenges of winning approval for new investment in the United States.

The U.S. must also avoid the negative consequences of policies and regulations that disproportionately harm or discriminate against companies headquartered abroad. For example, attempts to block U.S. subsidiaries from fair competition for government contracting are self-defeating and undermine U.S. leadership in advancing open investment policies around the world. Discriminatory and isolationist policies here at home often invite retaliatory measures against U.S.-based companies abroad, providing a convenient excuse for those countries looking to close their markets to U.S. competitors.

Presidents from both parties over the last thirty years, including President Obama, have consistently reaffirmed the longstanding commitment of the United States to upholding and promoting open investment policy. In 2011, the Obama Administration took an important step in establishing the SelectUSA initiative through Executive Order. Housed in the Department of Commerce, SelectUSA is the first federal agency focused on recruiting global business investment to our shores. In addition, the President's Council on Jobs and Competitiveness issued a recommendation that year calling for a "National Investment Initiative" to improve U.S. competitiveness in attracting FDI. The Council's recommendation aligns closely with the goals of the draft legislation under discussion today.

U.S. commitment to open investment policy is not a matter of altruism; it provides significant long-term economic benefit to the U.S. economy and workforce. Given the pervasive challenges facing the U.S. economy today, we must not jeopardize our ability to attract global business investment through inaction on key issues or a retreat from key principles.

New Sources of FDI

Foreign direct investment in the United States comes predominantly from developed economies, namely Europe, Canada, and Japan. In 2010, firms domiciled in those locations accounted for nearly 90% of U.S. inbound FDI flows. However, the rise of developing economies has created significant new sources of global FDI. For example, Indian outbound investment rose from $514 million in 2000 to nearly $20 billion in less than a decade. China increased its outbound investment from $915 million in 2000 to nearly $70 billion in 2010. In spite of this boom in outbound investment, firms based in the developing world still account for only a small fraction of global investment in the United States. While there are unique and important challenges associated with investment from emerging markets, this presents a significant opportunity for the United States to benefit in news ways from the rise of developing economies.

There is also enormous potential for the United States to capitalize on the cash reserves global corporations have been holding in the wake of the global economic downturn. As the world economy recovers, businesses continue to hold back on investments and now post record cash holdings. The United Nations estimates that multinational companies currently hold some $5 trillion in cash. If the U.S. can improve in key policy areas and embrace a more proactive approach to inbound investment, it could successfully draw that capital to the United States, creating new, high-paying American jobs and boosting the U.S. economy.

Comments on the Global Investment in American Jobs Act

Given its unique advantages, the United States is fully capable of improving its competitive edge for FDI. The U.S. has an enormous domestic market, an educated workforce, abundant natural resources, strong rule of law and a culture of innovation and productivity. We need to couple those advantages with a better understanding of what kinds of policies and best practices will position the U.S. to successfully recruit global companies to our shores. "The Global Investment in American Jobs Act" seeks to do just that.

This legislation recognizes that the United States cannot compete for 21st century investment with a 20th century policy mindset. It aims to equip policymakers with a forward-thinking, strategic approach to capture new investment in this increasingly competitive – yet opportunity-rich – global environment.

First, this bill would direct the Secretary of Commerce to lead the first comprehensive, multi-agency assessment of FDI in the United States. The review would examine economic trends, best practices in investment promotion, and policies that are closely linked to U.S. competitiveness for FDI. The resulting report and recommendations would provide Congress with a roadmap for further action to attract global manufacturers, service providers, and innovators to our shores.

If enacted, OFII believes this legislation will send a powerful message at home and abroad that the United States is working to elevate its competitiveness for FDI in a thoughtful and bipartisan manner.

Conclusion

I want to again thank the Subcommittee for the opportunity to testify on the role of FDI in the U.S. economy. OFII and its member companies look forward to working closely with you on this important legislation.