ECONOMIC BEDROCK

How International Companies Boost America's Economic Advantage & Build American Opportunity

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Introduction

For years, investments in the United States by international companies have contributed significantly to economic growth, wealth creation, and higher living standards for Americans. Foreign direct investment (FDI) in the U.S. supports nearly seven million jobs at compensation levels roughly 24 percent higher than the U.S. private-sector average. These international companies' operations in the United States employ 20 percent of the U.S. manufacturing workforce and produce nearly $1 billion a day in exports, making the United States more competitive.

The United States remains the premiere destination for FDI. In 2017, the cumulative stock of FDI in the United States surpassed $4 trillion for the first time, accounting for 25 percent of the global FDI stock. U.S. affiliates of foreign-owned companies constitute an estimated 1.3 percent of the U.S. private sector. Although representing just a small share of the total number of businesses in the United States, these international companies contribute disproportionately to U.S. economic performance, raising averages across a variety of important, objective measures.

These direct contributions—as impressive as they are—provide only a partial picture of the impact of domestic investments by international companies on the U.S. economy. The full picture must consider the related economic activity these companies spur with their suppliers, vendors, and intermediate goods providers, as well as the activity generated through the spending of their employees. It must also take into consideration the effects of these companies on the U.S. economy over time through the reactions of domestic companies rising to the challenge of new competition, the residual benefits delivered through technology spillovers, the adoption of best practices in governance and workplace management, and the hybridization and evolution of ideas that make companies more efficient, more pioneering, and more exciting places to work.

In the 21st century, international companies looking to invest outside of their home market have many options. Governments are competing to lure capital investment from the world's best companies. U.S. policymakers cannot passively assume that international companies will prefer to invest in the United States over other destinations under all circumstances. We cannot be complacent or ambivalent. We must be welcoming. We must steer clear of protectionist policies, which tend to deter investment inflows and embrace policies that reinforce the attractiveness of the U.S. market.

The potential contributions to U.S. economic growth and dynamism stemming from investments in the U.S. by international companies cannot be overstated. As this report will showcase, investments by companies from around the world boost America's economic advantage and build American opportunity by:

- **Providing great jobs, better pay & retirement security**
- **Growing America's manufacturing sector**
- **Spurring U.S. productivity and generating American prosperity**
- **Reinvesting profits into American innovation and local non-profits**
- **Exporting American-made goods**
- **Supporting small businesses through domestic supply chains**

In short, international companies form a critical part of America's economic bedrock—providing a stable foundation of excellence that strengthens our economy and supports our workforce.

International Companies Are Building American Opportunity

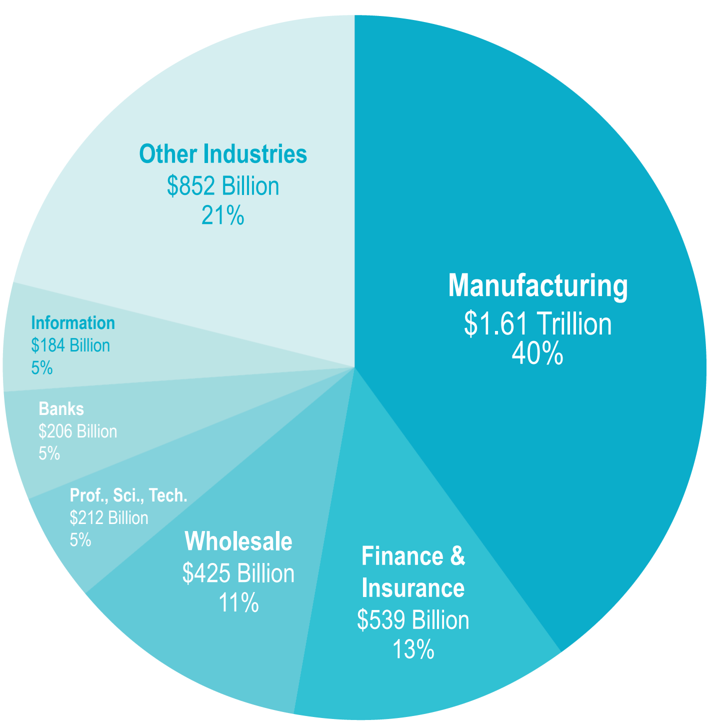
In 2017, the stock of foreign direct investment in the United States exceeded $4 trillion for the first time. Of that amount, 84 percent was held by European, Canadian, and Japanese investors. FDI in the U.S. economy is spread across all sectors, but over 40 percent of the stock—more than $1.6 trillion—is invested in U.S. manufacturing companies (see **Figure 1**). Since 2010, the value of cumulative FDI in the U.S. manufacturing sector has more than doubled.

International companies have long been an important foundation of the U.S. economy. The international companies that establish operations in the United States are, in effect, conduits for global best practices. The direct and residual effects of their participation in the U.S. economy are highly beneficial, not only to their own workers and shareholders, but to domestic competitors, consumers, entities up and down their supply chains, the local communities in which they operate, and the overall economy more broadly.

Whether by establishing new businesses or acquiring existing ones, foreign direct investment aligns the economic interests of international companies and the United States. Usually, these companies are world-class operations that have succeeded first in their home markets and risen to the top of their respective industries. Their value-added activities spur residual and complementary commercial activities.

Figure 1

Cumulative FDI in the United States by Industry



Their higher-than-average employee wages, benefits, and profit-sharing contributions, along with the infusion of new skills and know-how, increase the returns to U.S. workers. They tend to be reliable commercial and industrial anchors committed to the U.S. economy, making large capital investments, reinvesting earnings in U.S. operations, expanding relationships with domestic intermediate goods suppliers, and conducting increasing amounts of research and development in the United States.

Welcoming these companies and encouraging them to operate here strengthens the U.S. economic ecosystem. It also gives nations around the globe a stake in America's economic success and makes the U.S. economy more resilient to downturns.

Comparing the data for international companies ("Affiliates") to the private-sector U.S. economy as a whole ("Economy-Wide") reveals a great deal about the attributes of international companies and their contributions to the U.S. economy. The tables to follow reflect the most recent official data for a variety of important metrics.

Providing Great Jobs, Better Pay & Retirement Security

The direct participation of U.S. affiliates of foreign-headquartered companies in the United States as manufacturers, wholesalers, retailers, tech companies and financial service providers contributes meaningfully to the quality and value of U.S. output. But this dynamic is particularly beneficial to U.S. workers. When companies intent on succeeding enter new markets, they want to attract, train, and retain the best workers they can find. Offering better compensation and more generous benefits is a proven strategy for attracting the best workers, and that competition tends to have ripple effects through labor markets and the economy.

International Companies Provide Great Jobs, Better Pay

Table 1

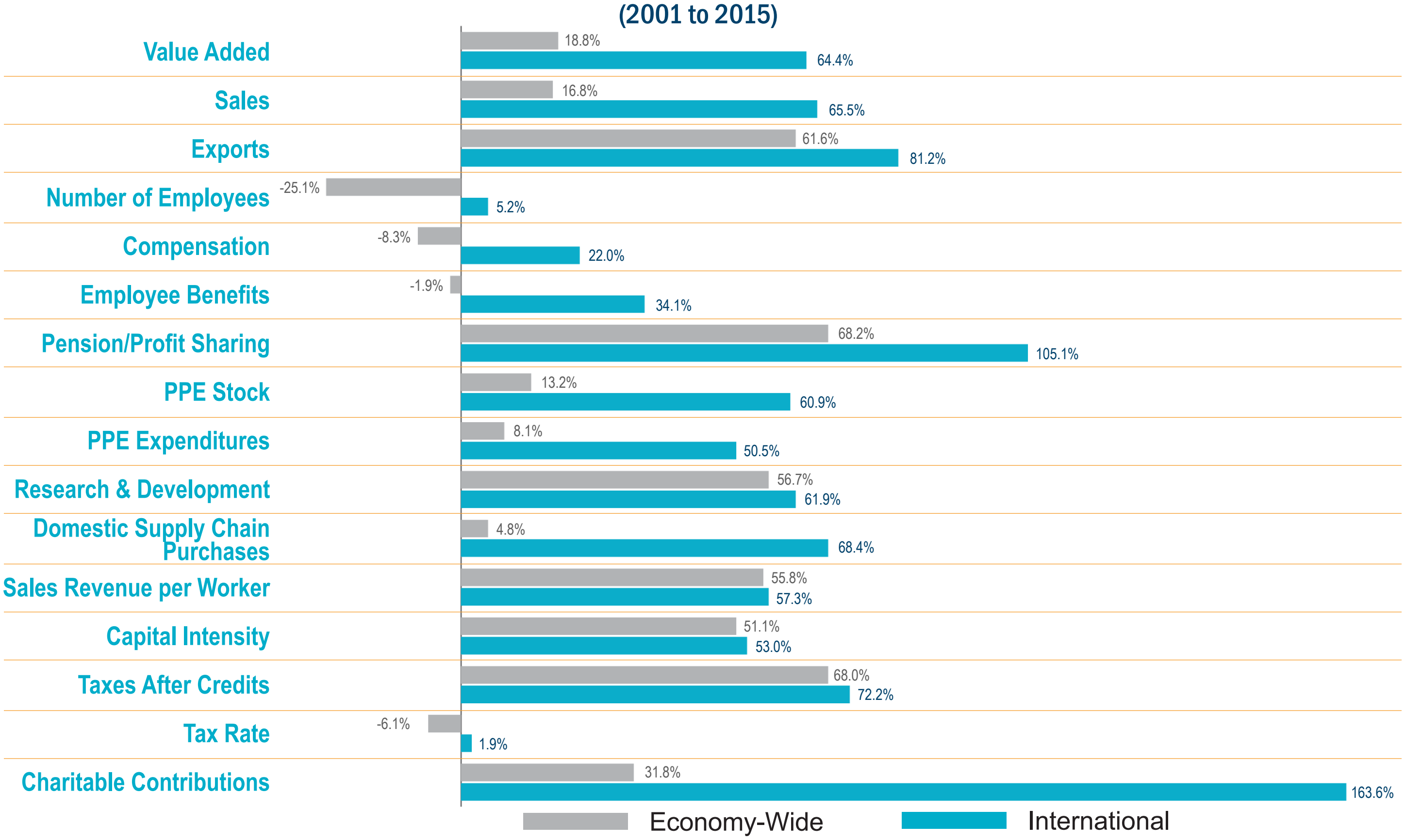
All Industries

Measure (in millions)	Group	2001	Affil. 2001	2015	Affil. 2015
Employees (Thousands)	Affiliates	5,767	5.1%	6,821	5.5%
	Economy-Wide	114,095		123,593	
Compensation (Millions)	Affiliates	$326,821	6.6%	$539,105	6.9%
	Economy-Wide	$4,934,300		$7,858,700	
Comp. Per Worker (Actual)	Affiliates	$56,666	131.0%	$79,040	124.3%
	Economy-Wide	$43,247		$63,585	
Employee Benefits (Millions)	Affiliates	$27,149	11.0%	$53,779	14.8%
	Economy-Wide	$245,747		$364,305	
Pension/Profit Sharing (Million)	Affiliates	$8,747	10.2%	$21,430	13.4%
	Economy-Wide	$85,524		$159,580	

International Companies Are Growing America's Manufacturing Sector

Figure 2

Economy-Wide vs. International Company Manufacturing Growth in Selected Metrics
(2001 to 2015)



As the data in **Table 1** reveal, average per worker compensation of $79,040 at international companies is 24 percent higher than the U.S. private sector overall. Meanwhile, the growth in employee benefits and pension/profit sharing expenditures at international companies has dramatically outpaced growth in the private sector overall.

Between 2001 and 2015, international companies:

- Increased annual compensation from $327 billion to $539 billion, or by **26.9 percent** in real terms.
- Increased expenditures on employee benefits from $27 billion to $54 billion, or by **61.4 percent** in real terms.
- Raised their contributions to employee pensions and profit-sharing programs from $8.7 billion to $21.4 billion, or by **99.7 percent** in real terms.

Growing America's Manufacturing Sector

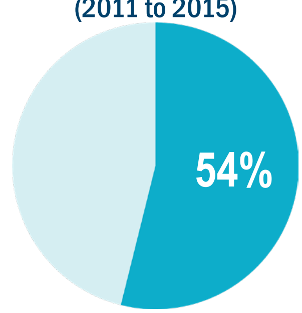
Much has been written about declining employment in the U.S. manufacturing sector. Manufacturing jobs peaked in the United States at 19.4 million in 1979 and have been—for most of the time since—on a downward trajectory. Since the Great Recession, however, the overall rate of job attrition has slowed—even reversed in the past couple of years—thanks in large measure to international companies in the manufacturing sector, which have been creating new U.S. manufacturing jobs at a relatively robust rate while also adopting new technologies that increase productivity (see **Figure 2**).

Between 2010 and 2015, while the overall rate of manufacturing job growth was seven percent, U.S. manufacturing employment at international companies grew by nearly **22 percent**. Without job creation at international companies, U.S. manufacturing job growth would have been a mere three percent.

International Companies Make America's Economy More Resilient

Figure 3

Share of New U.S. Manufacturing Jobs Created by International Companies
(2011 to 2015)



Over that period, international manufacturers:

- Increased annual compensation from $145 billion to $220 billion, or by **22.0 percent** in real terms.
- Increased expenditures on employee benefits from $15 billion to $25 billion, or by **34.1 percent** in real terms.
- Dramatically upped their contributions to employee pensions and profit-sharing programs from $4.5 billion to $11.4 billion, or by **105.1 percent** in real terms.

International companies employ 20 percent of America's manufacturing workforce. However, **54 percent** of the U.S. manufacturing jobs created in the past five years came from international companies (see **Figure 3**).

Good Corporate Citizens

When international companies establish operations and immerse themselves in the communities they have adopted, they stimulate local commerce and drive demand for more homes, shops, schools and restaurants. They expand the tax base and contribute charitably to schools, local parks, and partake in community causes and local culture, which all helps to allure new economic activity to the region (see **Table 2**). This ripple effect helps explain why governors, mayors and economic development officials are so eager for foreign direct investment.

International Companies Are Major Contributers

Table 2 All Industries

Measure (Millions)	Group	2001	Affil. 2001	2015	Affil. 2015
Taxable Income	Affiliates	$76,069	12.0%	$192,566	15.3%
	Economy-Wide	$635,257		$1,258,483	
Tax Rate (%)	Affiliates	28.6%	109.1%	26.0%	111.6%
	Economy-Wide	26.2%		23.3%	
Charitable Contributions	Affiliates	$960	8.4%	$2,627	15.8%
	Economy-Wide	$11,415		$16,674	

International companies appear to be carrying a larger load of the tax burden than the average U.S. private sector company—an **11.6 percent higher effective rate** than the domestic rate. They also account for an outsized and growing share of all corporate charitable giving.

Between 2001 and 2013, international companies:

- Increased their tax payments from $21.7 billion to $50.1 billion, or by **87.4 percent** in real terms.
- Increased their charitable contributions from $960 million to $2.6 billion, or by **122.9 percent** in real terms.

In the manufacturing sector, international companies are even bigger contributors than the manufacturing-sector average.

From 2001 to 2013 international manufacturers:

- Increased their tax payments from $8.9 billion to $18.6 billion, or by **72.2 percent** in real terms.
- Increased their charitable contributions from $503 million to $1.6 billion, or by **163.6 percent** in real terms.
- Saw their effective tax rate premium increase from 25.2 percent higher than the manufacturing sector average to 35.8 percent higher.

International Companies Are Boosting America's Economic Advantage

Spurring U.S. Productivity, Generating American Prosperity

International companies are among the most successful businesses in the world, having proven their mettle in their home markets, outperforming competitors, and then moving on to compete on the global stage. Along the way, these companies and their management have accumulated invaluable institutional knowledge, industry know-how, and refined senses of management best practices. They have learned how to get the most from their human, physical and financial capital. When these companies invest in the United States, they "import" this knowledge and these best practices.

Tables 3 and 4 include variables that speak to the aggregate economic performance of international companies and the broader economy. How much value added are they creating? How much revenue are they generating? Is that revenue being generated in a sustainable way—by consuming more inputs of labor, materials, and overhead (rather than by charging higher prices), and by integrating operations into the broader economy? Are the companies focused on cultivating markets, not only in the United States, but abroad?

Between 2001 and 2015, international companies as a whole increased their:

- Contribution to U.S. GDP from $434 billion to $895 billion, or by **58.7 percent** in real terms.
- Sales revenues from $2.2 trillion to $4.0 trillion, or by **37.4 percent** in real terms.
- Cost of goods sold from $1.6 trillion to $3.3 trillion, or by **67.2 percent**.
- Value of U.S. exports from $145.5 billion to $352.8 billion, or by **86.5 percent** in real terms.
- Increased value added per worker in the United States from $75 billion to $131 billion, or by **34.2 percent** in real terms.

With respect to these performance metrics, the relative importance of international companies to U.S. manufacturing is even more pronounced.

International Companies Spur U.S. Productivity

Table 3 All Industries

Measure (in millions)	Group	2001	Affil. 2001	2015	Affil. 2015
Value Added	Affiliates	$433,806	5.4%	$894,533	6.5%
	Economy-Wide	$8,049,348		$13,745,971	
Sales	Affiliates	$2,237,846	13.5%	$3,996,503	14.5%
	Economy-Wide	$16,552,600		$27,537,184	
Cost of Goods Sold	Affiliates	$1,627,725	14.7%	$3,338,611	19.5%
	Economy-Wide	$11,041,533		$17,140,894	
Exports	Affiliates	$145,525	19.9%	$352,822	23.5%
	Economy-Wide	$731,026		$1,503,101	

Table 4 Manufacturing

Measure (in millions)	Group	2001	Affil. 2001	2015	Affil. 2015
Value Added	Affiliates	$200,506	14.9%	$409,364	20.7%
	Economy-Wide	$1,343,900		$1,982,191	
Sales	Affiliates	$817,244	21.0%	$1,679,713	29.8%
	Economy-Wide	$3,893,400		$5,644,669	
Cost of Goods Sold	Affiliates	$718,064	21.1%	$1,685,423	28.5%
	Economy-Wide	$3,402,033		$5,921,224	
Exports	Affiliates	$89,759	13.7%	$201,926	15.3%
	Economy-Wide	$656,453		$1,317,019	

Between 2001 and 2015 international manufacturers increased their:

- Contribution to U.S. manufacturing-sector GDP from $201 billion to $409 billion, or by **64.4 percent** in real terms.
- Sales revenues from $817 billion to $ 2.0 trillion, or by **65.5 percent** in real terms.
- Cost of goods sold from $718 billion to $1.7 trillion, or by **93.5 percent** in real terms.
- Value of U.S. exports from $89.8 billion to $201.9 billion, or by **81.2 percent** in real terms.

Reinvesting Profits, Fueling American Innovation & Supporting Small Businesses

International companies assign high priorities to establishing, broadening, and deepening their physical presence and commercial relationships in the United States and are deeply committed to their U.S. operations.

The data suggest that international companies (especially in the manufacturing sector) are investing heavily—and at a much higher rate of increase than are domestic companies—in fixed capital, research and development, and domestic supplier relationships.

This commitment by international companies to producing in the United States now and in the future should be heartening to Americans. It provides a counterforce to the anemic overall rate of real growth in capital investment that might otherwise negatively affect future U.S. output, wealth creation, and living standards.

Between 2001 and 2015, international companies:

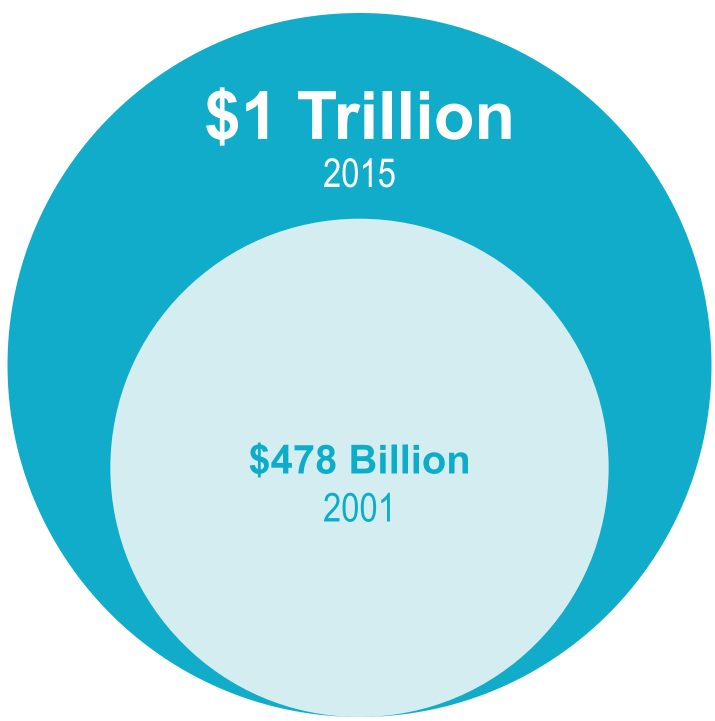
- Increased their stock of property, plant, and equipment in the United States from $1 trillion to $2.2 trillion, or by **67.1 percent** in real terms.
- Increased PPE expenditures from $123 billion to $254 billion, or by **58.6 percent** in real terms.
- Raised their annual spending on research and development from $26.5 billion to $56.7 billion, or by **70.7 percent** in real terms.
- Increased the amount of business they do with domestic suppliers of intermediate goods from $1.5 trillion to $2.4 trillion, or by **28.8 percent** in real terms.
- Increased the capital intensity (or PPE per worker) from $177 billion to $325 billion, or by **41.3 percent** in real terms.

In fact, over that same period, international companies in the U.S. manufacturing sector increased the amount of business they do with U.S. suppliers, including small businesses, from $478 billion to $1.0 trillion, or by **68.4 percent** in real terms (see **Figure 4**).

International Manufacturers Grow Domestic Supply Chains

Figure 4

International Manufacturers Have Increased Purchases from U.S. Suppliers by 68 Percent



Conclusion

The analysis suggests a strong relationship between inward foreign direct investment and U.S. economic performance. International companies contribute in myriad positive ways to that performance. The data make a compelling case that international companies perform above the economy-wide average with respect to the metrics one would consider when evaluating the efficacy of economic policy. At a minimum, inflows of foreign direct investment have benefited the U.S. economy and helped raise industry and economy-wide aggregates. As long as creating value, growing GDP, and providing well-paying jobs for U.S. workers remain objectives of public policy, international companies should be encouraged to come and establish operations.

About the Author

Daniel J. Ikenson is an economist and director of the Cato Institute's Herbert A. Stiefel Center for Trade Policy Studies. The views expressed in this report are his own.

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OFII is the only organization focused exclusively on supporting the international business community. Representing the U.S. operations of many of the world's leading international companies, OFII ensures that policymakers at the federal, state and local level understand the critical role that foreign direct investment (FDI) plays in America's economy. OFII advocates for fair, non-discriminatory treatment of foreign-based companies and promotes policies that will encourage them to establish U.S. operations, which in turn increases American employment and U.S. economic growth.

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