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McLernon: Foreign Direct Investment Is Key to Recovery

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What does it take to attract the best companies from around the world to invest and create jobs in America?

That is the question at the heart of new bipartisan legislation introduced by a diverse coalition of Members of the House and Senate earlier this month.

The Global Investment in American Jobs Act directs the Department of Commerce to lead an interagency effort to explore this very question by scrubbing U.S. laws and policies that serve as barriers to inward foreign direct investment. The resulting "competitiveness assessment" report to Congress would include a range of policy recommendations to make the U.S. more appealing to global companies seeking to expand beyond their borders.

The bill's prime backers, including Sens. John Kerry (D-Mass.) and Bob Corker (R-Tenn.) and Reps. Robert Dold (R-Ill.), Gary Peters (D-Mich.), Peter Roskam (R-Ill.) and John Barrow (D-Ga.), understand that America's ability to compete globally for foreign direct investment is a key ingredient in the recipe of economic recovery. Our nation needs this kind of forward-leaning focus on job creation that embraces the benefits of a global economy.

The legislation comes at a critical time. The value of cross-border investment has grown dramatically. Global inward investment is now approaching $1.2 trillion, and worldwide sales of foreign affiliates are just less than $30 trillion, well exceeding world trade flows.

However, America has not benefited from this growth in cross-border activity at even close to the same level as it did in decades past. Just more than 10 years ago, the United States attracted more than 41 percent of global foreign investment. Today that number has fallen to 18 percent, a steep, costly and unacceptable decline.

At least part of the fall in the U.S. share of FDI is the direct result of policy complacency. The Organization for Economic Co-Operation and Development recently ranked the United States in the bottom half of its 2012 FDI Regulatory Restrictiveness Index, placing us 34th in FDI openness among 55 countries examined — behind the likes of Turkey, Latvia and Egypt. Additionally, in a benchmark OECD survey measuring the liberalization of FDI restrictiveness from 1997 to 2010, 36 of the 42 countries measured successfully eased regulatory barriers over time. The United States was one of six countries where FDI restrictiveness showed no improvement.

The positive effect of FDI on the U.S. economy is highlighted in a recent PwC study: “Economic Impact of U.S. Subsidiaries.” According to PwC, 21 million American jobs are attributable to U.S. subsidiaries — 12 percent of our nation’s total employment.

This includes the more than 5 million Americans working directly for U.S. subsidiaries, plus the additional jobs at domestic suppliers and other local businesses that depend on those companies. These organizations are particularly concentrated in the manufacturing sector, directly employing 2 million Americans — 17 percent of all American manufacturing jobs. Better still, for every manufacturing job at a U.S. subsidiary, an additional five jobs pop up in the economy, making them especially desirable.

A tangible example of the PwC study is found in Marysville, Ohio. McAuliffe Brothers hardware store opened there in 1920. When a Japanese automaker opened a new plant in Marysville, McAuliffe benefited greatly, as did many other local businesses. Their new customer, Honda, started buying tools and renting equipment from the small business. Today, the company, which is now called McAuliffe’s Industrial, boasts sales of more than $16 million — $10 million of which is directly attributed to Honda. The company’s employment roll has quadrupled since the automaker came to town, with more than 70 employees today.

The Honda and McAuliffe’s Industrial situation is just one among countless examples in small towns and big cities all across the country. These symbiotic relationships account for more than $2 trillion, or 14 percent of gross domestic product. The Global Investment in American Jobs Act seeks to add to these numbers and to reverse the decline in the U.S. share of worldwide investment flows.

Never before has the United States conducted such a rigorous review of the policies and practices that impede our ability to compete for global investment. This country offers tremendous strategic, geographic, technological and operational advantages to global companies seeking expansion. To take advantage of these obvious strengths, we must ensure that outdated, ineffective and ill-advised policies do not stand in the way of regaining our global competitiveness.

The legislation would demonstrate that America is committed to improving its FDI appeal and tackling all obstacles that stand in its way. Passing the Global Investment in American Jobs Act is a step in the right direction and sends a powerful message to the world: America is not just open for business, but we are also a great place to do business.

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