

FDI in Manufacturing

Advancing U.S. Competitiveness in a Global Economy

2017 Release

Investment Analysis
SelectUSA

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INTRODUCTION

The manufacturing sector in the United States is a significant driver of U.S. economic growth, with a higher gross output than any other private sector industry. Gross output of the U.S. manufacturing sector reached more than \$5.8 trillion in 2015, an increase of nearly \$1.3 trillion since 2009.¹

Foreign investment plays a major role in strengthening the position of the U.S. manufacturing industry:

- Total stock of foreign direct investment (FDI) in manufacturing reached \$1.2 trillion in 2015, which is higher than any other sector.
- FDI in manufacturing is growing at an average annual rate of nearly 9 percent, the second fastest growth rate in the country.
- More than 2.4 million U.S. jobs in manufacturing are supported by FDI.

This brief will explore trends in foreign investment in the manufacturing sector, sources of manufacturing FDI, components of the manufacturing sector, impact of FDI, and reasons why the United States is attractive to investors in this sector. The data shows that robust foreign investment in the U.S. manufacturing sector is crucial to the advancement of U.S. global competitiveness.

FOREIGN DIRECT INVESTMENT IN MANUFACTURING



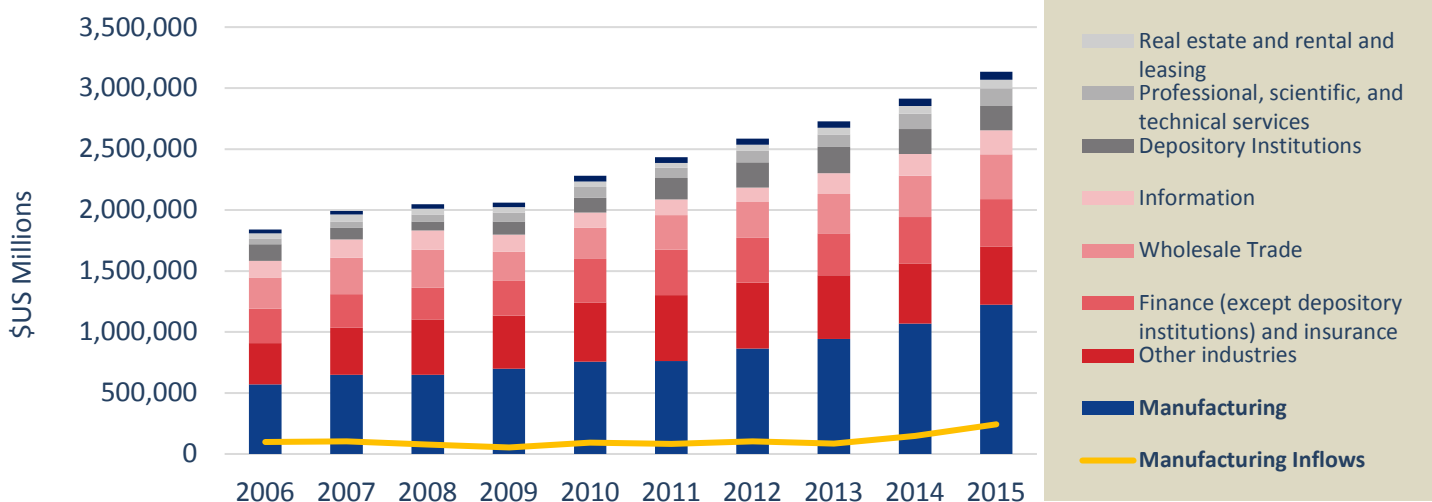
\$1.2 TRILLION | 2015 FDI POSITION IN U.S. MANUFACTURING SECTOR

The manufacturing sector in the United States has consistently been the largest recipient of FDI, attracting more FDI in the past 10 years than any other U.S. sector (see Figure 1).² FDI stock in the manufacturing sector totaled \$1.2 trillion at the end of 2015, a 14 percent increase from 2014. According to the latest available 2015 data, the stock of FDI in manufacturing represented 39 percent of all FDI in the United States, more than any other individual industry. Foreign investment in manufacturing has grown at an average rate of nearly 9 percent over the past 10 years, higher than any other sector except professional, scientific, and technical services.

Though FDI inflow figures are more volatile than stock figures, trends show that FDI inflows into the manufacturing sector have remained positive throughout the past decade. The average FDI inflow into the U.S. manufacturing sector over the past five years (2011-2015) was \$132.9 billion.

FIGURE 1: FDI POSITION IN THE UNITED STATES

BY UBO*, HISTORICAL-COST BASIS



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016, <http://www.bea.gov/international/di1fdibal.htm>

*UBO : Ultimate Beneficial Owner; the entity at the top of an affiliate's ownership chain

¹ U.S. Bureau of Economic Analysis. "GDP by Industry" (accessed January 9, 2017).

² U.S. Bureau of Economic Analysis. "Direct Investment and Multinational Enterprises (MNEs)" (accessed October 5, 2016). Unless otherwise noted, all information presented in this brief uses the latest official U.S. Bureau of Economic Analysis Direct Investment data. Updated 2016 FDI data is expected June 28, 2017.



Sources of FDI in the U.S. manufacturing sector have maintained a high level of diversity through time. The majority of investment in 2015 was shared fairly evenly between four countries (measured by their share of total manufacturing FDI stock): the United Kingdom (19 percent), Ireland (14 percent), Germany (11 percent), and Japan (10 percent) (See Figure 2).

FDI from the United Kingdom continues to strengthen. It represents a higher share of FDI in U.S. manufacturing now than in 2006. Growth in FDI stock from Ireland over the last 10 years has also been strong. Ireland had a larger share of U.S. manufacturing investment at the end of 2015 compared to the 1.5 percent share it held in 2006. Germany, Japan, and France remain significant contributors though their share of manufacturing FDI now is slightly less than the nearly 12 percent they each contributed in 2006.

MANUFACTURING SECTOR BREAKDOWN

 **CHEMICALS INDUSTRY** | LARGEST DESTINATION FOR FDI WITHIN U.S. MANUFACTURING SECTOR

Since the manufacturing sector encompasses a number of different industries, a deeper breakdown of the sector is warranted in order to get a clearer picture of the impact of FDI.

The Bureau of Economic Analysis (BEA) identifies eight industries within the manufacturing sector:

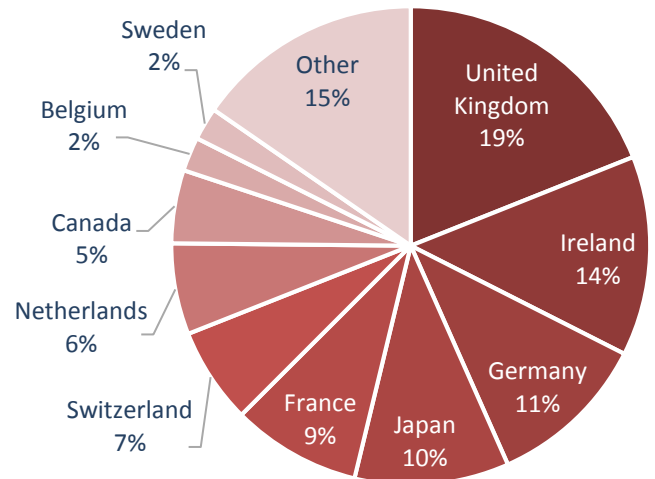
- food
- chemicals
- primary and fabricated metals
- machinery
- computers and electronic products
- electrical equipment, appliances, and components
- transportation equipment
- other manufacturing

At the end of 2015, the chemicals industry received \$475.7 billion, or 39 percent, of manufacturing FDI, making it the largest manufacturing FDI industry. During 2015, it was also the fastest-growing industry, experiencing compound annual growth of nearly 25 percent from 2010-2015 (See Figure 3). Other fastest-growing manufacturing FDI industries during this time period include Food (18 percent), Electrical Equipment, Appliance and Components (10 percent), and Transportation Equipment (8 percent).

The chemicals manufacturing industry includes basic chemicals, resins and synthetic rubber, soaps, cleaning compounds, plastics and rubber products, nonmetallic mineral products, and pharmaceuticals and medicines (See Figure 4).

FIGURE 2: SOURCES OF MANUFACTURING FDI IN THE UNITED STATES

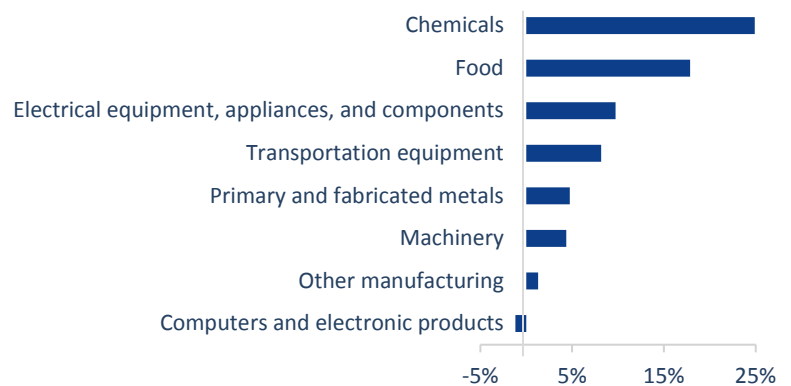
SHARE OF TOTAL MANUFACTURING FDI STOCK, BY UBO*, 2015



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016, http://www.bea.gov/iTable/index_MNC.cfm

*UBO : Ultimate Beneficial Owner; the entity at the top of an affiliate's ownership chain

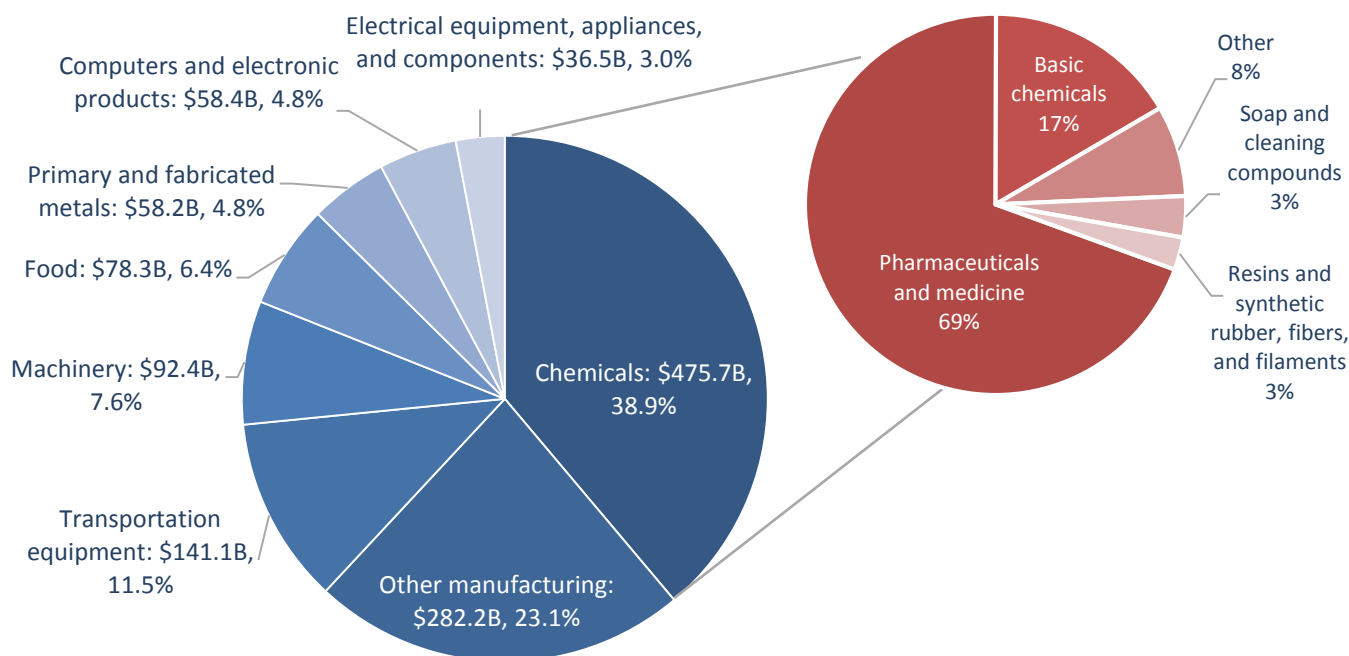
FIGURE 3: MANUFACTURING SECTOR GROWTH
COMPOUND ANNUAL GROWTH RATE (CAGR) OF FDI BY MAJOR INDUSTRY SECTORS, 2015



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016, http://www.bea.gov/iTable/index_MNC.cfm



FIGURE 4: COMPONENTS OF THE MANUFACTURING SECTOR
FDI POSITION BREAKDOWN BY SECTOR AND CHEMICALS INDUSTRY, 2015



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016, http://www.bea.gov/iTable/index_MNC.cfm

Breaking down the chemicals industry even further reveals that pharmaceuticals and medicine manufacturing are very large components of the industry, comprising nearly 70 percent of the total FDI position in chemicals and 27 percent of the total FDI position in manufacturing. One explanation for this is that the low cost and wide availability of natural gas have helped to attract and retain foreign investors to the chemical sector.³

EMPLOYMENT

 **2.4 MILLION** | MANUFACTURING JOBS DIRECTLY SUPPORTED BY MAJORITY FOREIGN-OWNED U.S. AFFILIATES IN 2014

The impact of foreign investment in the manufacturing sector is especially powerful when it comes to the number of jobs that are supported by foreign firms in the United States. The manufacturing sector continues to receive the largest share of FDI-supported jobs in the United States. In 2014, over 2.4 million U.S. manufacturing jobs were directly supported by majority foreign-owned U.S. affiliates, growing 6 percent from

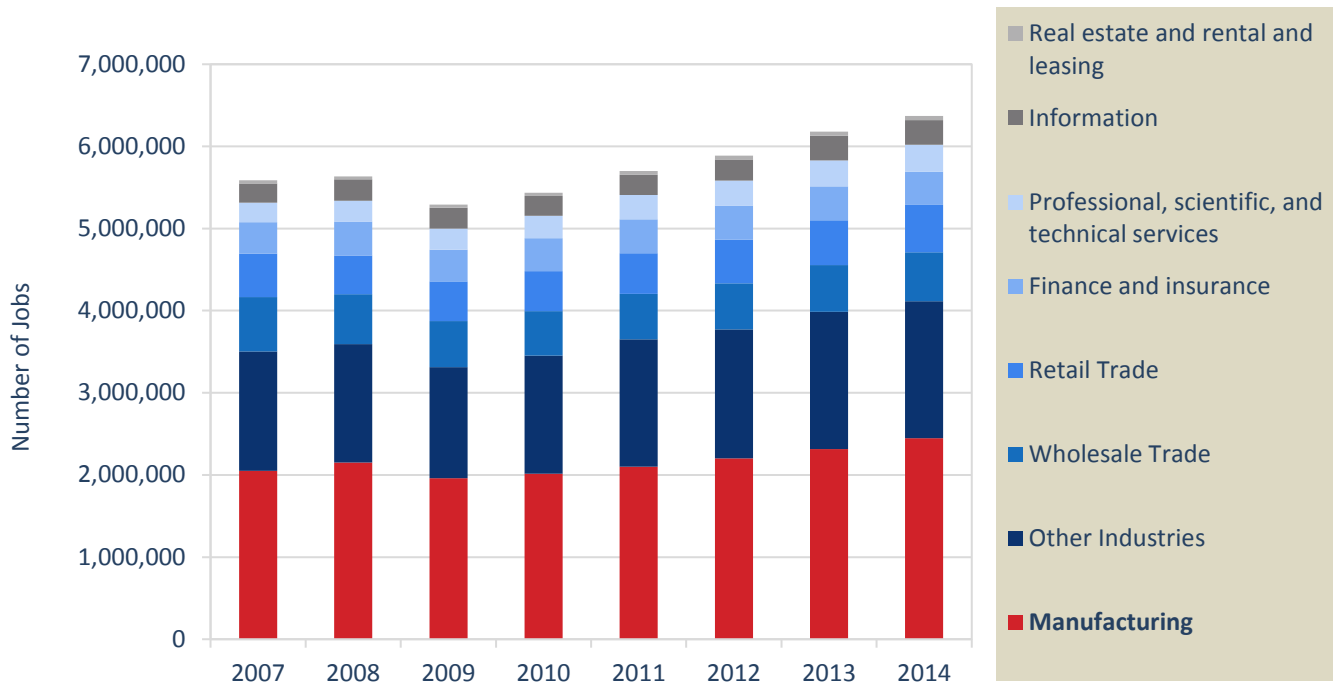
the previous year (See Figure 5). This increase continues a trend of growth in FDI employment in manufacturing since the 2008-2009 economic recession. The number of manufacturing jobs has surpassed its previous record level since 2008. From 2010-2014, FDI-supported jobs in manufacturing grew at an annual compounded rate of nearly 5 percent. More than 38 percent of all FDI-supported U.S. jobs are in manufacturing, which is a larger portion than any other sector.

The combined domestic and foreign-owned manufacturing sector in the U.S. supported 12.2 million jobs in 2014. Majority foreign-owned U.S. affiliates directly supported over 20 percent of those jobs. Breaking down the manufacturing sector even further by industry, FDI is responsible for supporting an even higher concentration of employment. For example, FDI in the chemicals manufacturing, transportation equipment manufacturing, and electrical equipment manufacturing industries supports more than a quarter of all U.S. employment in each respective industry.

³Ed Crooks, "Investment in US chemicals industry rises," *Financial Times*, June 14, 2015. Accessed October 6, 2016. <https://www.ft.com/content/5c969680-12b1-11e5-8cd7-00144feabdcd>.

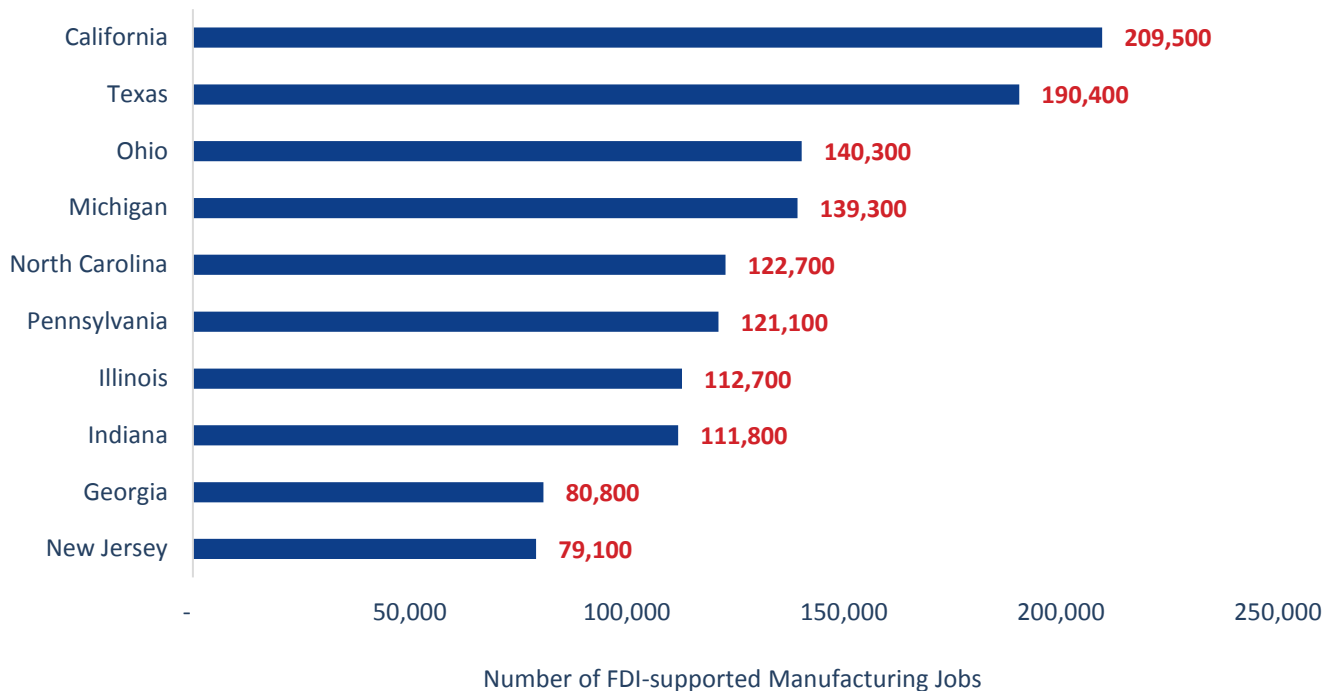


FIGURE 5: FDI-SUPPORTED EMPLOYMENT IN THE UNITED STATES
BY MAJORITY FOREIGN-OWNED U.S. AFFILIATES



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016, http://bea.gov/iTable/index_regional.cfm

FIGURE 6: FDI-SUPPORTED MANUFACTURING EMPLOYMENT BY STATE
TOP TEN STATES, 2014



Source: Department of Commerce, Bureau of Economic Analysis, FDIUS Data, Accessed Sept 30, 2016. http://bea.gov/iTable/index_MNC.cfm



FDI in manufacturing supports jobs in all U.S. states and territories. The top 10 states for FDI-supported jobs in manufacturing are illustrated in Figure 6. California attracted the largest number of FDI-supported manufacturing jobs (209,500), closely followed by Texas (190,400). In New Jersey, 32.6 percent of the state’s employment in manufacturing can be attributed to FDI, the largest share out of these 10 states. According to *fDi Markets*, the greatest amount of greenfield foreign investment in California manufacturing is concentrated in the chemicals industry.

MANUFACTURING FDI SUPPORTS THE U.S. ECONOMY

 **\$393 BILLION** | VALUE-ADDED ACTIVITIES OF MAJORITY FOREIGN-OWNED U.S. AFFILIATES

 **\$41 BILLION** | R&D EXPENDITURES OF MAJORITY FOREIGN-OWNED U.S. AFFILIATES

In addition to the impact on U.S. employment, foreign direct investment in manufacturing greatly impacts the economy through its contributions to U.S. output and innovation. In 2014, majority foreign-owned U.S. affiliates contributed more than \$393 billion in value-added activities to the U.S. economy, measured by the final value of goods and services they produced within the United States. Majority foreign-owned firms in manufacturing also contributed over \$41 billion towards R&D expenditures, far surpassing any other industry. This investment in R&D drives innovation, the development of technology, improvements in products and processes, and increased productivity gains.

REASONS FOR INVESTING

 **SKILLED WORKFORCE AVAILABILITY** | MOST CITED REASON FOR INVESTING IN U.S. MANUFACTURING

While foreign investment in the manufacturing sector clearly favors the United States, foreign investors also reap many benefits by operating in the United States. Foreign investors are attracted to the United States for a variety of reasons. According to *fDi Markets*, 36 percent of greenfield projects in manufacturing in the United States listed “skilled workforce availability” as a

motive for investing.⁴ The second-most cited reason for investing in the U.S. manufacturing sector was “proximity to markets or customers.” Nearly 30 percent of projects cited this as a motive. Figure 7 shows additional motives for investing in U.S. manufacturing. Overall, the United States offers a highly educated workforce, world-class research centers, strong intellectual property protections, and a robust regulatory system that continue to appeal to foreign investors.

FIGURE 7: TOP MOTIVATIONS FOR INVESTING IN MANUFACTURING SECTOR

INVESTMENT ACTIVITY FROM JAN 2003 – AUG 2016



Source: www.fdimarkets.com

Note: *fDi Markets* only collects data on greenfield investments

CONCLUSION & KEY HIGHLIGHTS

Foreign investment in manufacturing plays an important role in advancing the competitiveness of one of the United States’ most heralded and productive sectors. The latest available data shows manufacturing remains the primary sector destination of FDI in the United States. At the end of 2015, FDI in manufacturing totaled \$1.2 trillion and, in 2014, FDI in manufacturing supported over 2.4 million U.S. jobs. FDI growth in manufacturing has been strong since 2009 and continues to underscore the competitiveness of the U.S. manufacturing sector globally.

⁴ *fDi Markets*. “<https://www.fdimarkets.com/>” Accessed October 6, 2016. Projects included from January 2003 – August 2016.

ABOUT SELECTUSA

SelectUSA is a U.S. government-wide program housed in the International Trade Administration at the United States Department of Commerce. Our mission is to facilitate job-creating business investment into the United States and raise awareness of the critical role that foreign direct investment (FDI) plays in the U.S. economy. Since its inception, SelectUSA has facilitated more than \$23 billion in investment, creating and/or retaining thousands of U.S. jobs. SelectUSA's Investment Analysis Team leads data, evaluation, and analytical work relating to foreign direct investment promotion in the United States.



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