

***“Cross-Border Investment in a Post-Recession World:
How It Impacts the United States and Countries Around the Globe”***

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The Importance of Foreign Investment to U.S. Jobs

- President Obama recently released his Trade Agenda for 2010, in which he noted the importance of exports to the creation and support of new American jobs. Accordingly, the President has set a goal of doubling U.S. exports in the next five years – an increase that will support 2 million additional jobs in America.
- Smart trade policies will play an important role in helping to meet the President’s goals as part of the new National Export Initiative.
- These policies include continuing foreign direct investment (FDI), both in the United States and in our trading partners around the world.
- The United States has a long history of welcoming foreign investment at home and making investments abroad.

- The diversity and vitality of our economy – especially in these challenging economic times – depends greatly on our openness to both inward and outward foreign investment.
- Above all, foreign investment allows our firms to support well-paying U.S. jobs across a wide range of sectors.
- Furthermore, U.S. firms that invest abroad are less likely to suffer job losses than similar firms that do not engage in outward investment. In contrast to the perception that foreign investment exacerbates job displacement, outward investment by U.S. companies can lead to a more stable job base at home.
 - Just as with employment overall, when compensation levels increase at the overseas affiliates of U.S. parent companies, the parent company’s workers are paid more too.
 - Moreover, these jobs tend to pay significantly more than the average in the U.S. In 2007, U.S. firms with overseas subsidiaries paid compensation at a rate 8 percent higher than the U.S. private sector average.
- We see the same positive correlation to employment and compensation for U.S. subsidiaries of foreign-owned firms.
 - U.S. subsidiaries of foreign companies in the United States now directly employ 5.3 million people.
 - For example, in Chattanooga, Tennessee, Alstom of France is adding to its current force of 1,000 workers by investing in a power facility to

- manufacture the world's largest turbines. This investment will result in some 350 more U.S. jobs.
- Likewise, in 2008, Vestas of Denmark established a wind turbine manufacturing facility in Windsor, Colorado, raising its investment in Colorado to \$700 million and employing over 2,500 people in the United States.
 - These jobs also pay more than the average for U.S. workers. In 2007, U.S. subsidiaries of foreign companies paid compensation at a rate approximately 25 percent higher than the U.S. private sector average.
 - The role that foreign investment plays in supporting high-paying American jobs is reflected in a variety of additional ways.
 - First, more U.S. foreign investment overseas means more U.S. exports.
 - Some view U.S. foreign investment as a threat to U.S. exports, fearing that production abroad by U.S. affiliates is a substitute for domestic production that would have been exported.
 - In fact, we see the opposite trend. U.S. firms that undertake outward investment tend to achieve higher levels of exports as a percentage of domestic shipments than firms that do not export. When U.S. firms establish abroad, they tend to create new sources of demand for exports of goods and services from the United States.
 - U.S. firms with overseas operations account for 49 percent – almost half – of total U.S. exports.

- In 2007, U.S. firms exported almost \$214 billion worth of goods to their foreign affiliates, accounting for almost one fifth of U.S. exports.
- As others have observed, the activities of foreign affiliates of U.S. firms typically complement, rather than substitute for, the activities of the parent firms in the United States.
- Second, more foreign investment means more capital investment in the United States.
 - In 2007, U.S. subsidiaries of foreign companies purchased more than \$183 billion in new property, plant, and equipment, which constitutes roughly 11 percent of all private sector capital investment.
 - That same year, U.S. parent companies with overseas subsidiaries purchased more than \$482 billion in new property, plant, and equipment, which was roughly 29 percent of all private sector capital investment.
 - These purchases spread the employment benefits of foreign investment well beyond the parent firms and their subsidiaries, bringing in suppliers and vendors of goods and services throughout the economy.
- Finally, more foreign investment means more opportunities for the small- and medium-sized enterprises (“SMEs”) that employ the majority of Americans. In the past two decades, SMEs have generated almost two-thirds of all new American jobs.
 - Large U.S. companies have been working to reach overseas customers for decades now, but for SMEs the importance of globalization is a more recent phenomenon.

- Ninety-five percent of the world's consumers and eighty percent of its economic production are located outside the United States. The IMF has forecast that nearly 87 percent of world growth over the next 5 years will take place outside of the United States.
- Small businesses that export tend to grow even faster and create more jobs than those that do not. However, studies show that only one percent of U.S. SMEs are currently exporting, and SME exports account for only 30 percent of total U.S. goods being exported.
- There is clearly tremendous potential for growth here.
- As important as foreign investment is in the U.S. and overseas, at the same time we understand that cross-border investment flows can result in job losses and dislocations, which can be especially hard in small communities built around contracting industries.
- The best response, however, is not to cut off the vital cross-border flows of capital that help regenerate exports, R&D spending and demand for goods and services of large and small companies. It is to design adjustment and retraining programs to cushion the impact on those adversely affected, while continuing to support open investment policies that contribute to productivity growth, job creation and rising living standards.
- The Obama Administration has done just that with the 2009 Trade Adjustment Assistance (TAA) initiative, whose expanded eligibility provisions cover service workers for the first time. There is, of course, much more that we can – and must – do to limit the impact of dislocations and support new jobs for worker in transition. The Administration will

continue to work with Congress to ensure adequate funding for TAA programs that can make a difference.

The Administration's Role

- The Administration is taking several steps to encourage foreign investment here as well as to protect U.S. investors overseas.
- One way is to negotiate new investment agreements, such as bilateral investment treaties (“BITs”) and the investment provisions in free trade agreements (“FTAs”), which provide opportunities and protections for U.S. investors abroad.
 - We are currently pursuing BITs with key emerging economies, such as China, India, and Vietnam. We are also exploring BIT discussions with other important countries, such as Russia, Brazil, and Indonesia.
 - Investment agreements ensure that U.S. investors abroad are treated fairly and according to the rule of law, specifically through provisions that:
 - protect U.S. firms from discriminatory, arbitrary, and expropriatory treatment by foreign governments;
 - require foreign governments to provide U.S. companies substantial market access, subject to narrowly defined exceptions; and
 - provide a robust investor-State dispute settlement mechanism, to ensure that U.S. investors have direct recourse to neutral and fair international arbitration.

- Our goal is to provide greater legal certainty and predictability for our companies in making overseas investment decisions. Over time, these efforts provide new opportunities for U.S. exporters and suppliers.
- As Under Secretary Hormats has mentioned, USTR and the State Department are co-chairing an inter-agency process to review and update the U.S. Model BIT. Once that process is complete, we will be well placed to make even greater progress in our BIT negotiations with the countries I mentioned. In the meantime, we are continuing our consultations with the Congress and labor, business and environmental groups so as to achieve strong protections in these agreements.
- Another way we support cross-border investment is to make use of the WTO, in particular the General Agreement on Trade and Services (GATS), the first and only set of multilateral rules covering international trade in services. These rules help us to lock in market access for our service suppliers in a multilateral setting. At the same time, it is important that we continue to press for even greater commitments on the part of WTO Members in the services area, particularly given its key role in the U.S. economy.
- As you know, the Administration is committed to making the ongoing Doha negotiations a success. The President has made clear that we need “a Doha trade agreement that opens global markets.”
 - The U.S. has articulated several ways to advance the Doha negotiations in the core areas of agriculture, industrial goods (NAMA) and services. In services, the Administration is seeking an improved package that would provide new market access in key sectors, such as

financial services, information and communications technology, distribution, energy and express delivery. These are areas of prime importance for U.S. exporters.

- We believe that a Doha agreement that provides meaningful liberalization in all three core market access areas could boost the world economy, support more good jobs, assist poorer countries, and reinforce confidence in a rules-based trading system. A successful conclusion to this round therefore would be good for the world and good for the United States. A weak agreement, on the other hand, would not serve these interests and ultimately could weaken the WTO. We must not let this happen.

Conclusion

- Encouraging foreign investment in the United States and by American companies abroad remains a critical part of the Administration's Trade Agenda for 2010. This agenda will help support well-paying U.S. jobs and further stimulate economic growth at home and around the world.
- Thank you for the opportunity to speak with you today.