

Chapter 2

Performance of Inward and Outward U.S. Foreign Direct Investment during Recent Financial Crises

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Abstract Foreign direct investment (FDI) plays an extraordinary and growing role in the global markets and represents an integral part of the U.S. economy. This research has descriptive character and focuses on the latest trends in inward and outward U.S. foreign direct investment illustrating the impact of the recent financial crises on FDI performance in the United States. The study analyzes the US FDI stock contribution to the global FDI, performance of the inward and outward US FDI flow and stock, the US FDI flow and stock as a percentage of GDP and geographical distribution of inward and outward US FDI stock. The essential part of this research relates to inward and outward US FDI employment and the structure of inward and outward US FDI financial performance, which includes: equity, reinvested earnings and intercompany debt.

Keywords Crises • U.S. economy • FDI • Employment • Financial structure

2.1 Introduction

Globalization is a dynamic process of liberalization, openness, and international integration across a wide range of markets, from labour to goods and from services to capital and technology. Globalization is based upon the freedom to trade with the rest of the world and to capitalize on each country's comparative advantage, the freedom to invest where returns on capital are greatest (De la Dehesa 2006, p. 1). Globalization signifies a process of intensification of economic, political, and cultural interconnectedness among the various actors in the global system. In the

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economic arena it represents a process of integration of national economies with the global economy.

The ongoing globalization process has altered the economic landscape. Many products used to be produced locally using inputs drawn largely from the domestic economy. Further development of globalization and technology has facilitated the geographical fragmentation of production processes, resulting in the emergence of global value chains. Different parts of a firm's production processes can now be located in different parts of the world, according to the comparative advantages of the locations.

The International Monetary Fund defines foreign direct investment (FDI) as an investment that allows an investor to have a significant voice in the management of an enterprise operating outside the investor's own country. The phrase "significant voice" usually means ownership of 10 per cent or more of the ordinary shares or voting power (for an incorporated enterprise) or the equivalent (for an unincorporated enterprise). This may involve either creating an entirely new enterprise—a so-called greenfield investment—or, more typically, changing the ownership of existing enterprises, via mergers and acquisitions. Other types of financial transactions between related enterprises, such as reinvesting the earnings of the FDI enterprise, are also defined as FDI (<http://www.conferenceboard.ca/hcp/details/economy/outward-fdi-performance.aspx>).

The United States continues to be the leading destination for foreign direct investment (FDI) and the leading investor in other economies. A.T. Kearney's FDI Confidence Index measures investor sentiment on the basis of a survey of senior executives in the world's largest enterprises, and ranks present and future prospects for FDI flows to different economies with respect to the factors that drive corporate decisions to invest abroad. The FDI Confidence Index Report of 2010 ranked China and the United States as the most attractive FDI locations in the world, recording unprecedented levels of investor confidence. According to the ranking for 2011, however, although the United States remained a strong magnet for FDI in the world economy, China, India and Brazil occupied the top spots in terms of the Confidence Index (<http://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index>).

The financial crisis, which began in summer 2007, has led to a progressive deterioration of the investment situation in the world economies. Various indicators during the first half of 2008 already suggested a decline in world growth prospects as well as in investors' confidence. This deteriorating climate began to leave its first negative marks in investment programs, including FDI, in early 2008. According to UNCTAD's 2008–2010 *World Investment Prospects Survey*, conducted April–June 2008, 40 % of the respondent companies already mentioned at that time that the financial instability had a "negative" or "very negative" impact on their investment (unctad.org/en/docs/wips2008_en.pdf).

This study has descriptive character and constitutes base for the further exploration of the importance of inward and outward US FDI in the global markets and in the U.S. economy. The goal of this research is to illustrate the impact of current financial crises on FDI performance in the United States. The basic

statistics related to US FDI flow and stock come from the UNCTAD's FDI/TNC and from the Bureau of Economic Analysis (BEA), a section of the U.S. Department of Commerce. BEA is responsible for collecting economic data related to FDI flows in the United States. Monitoring this data is very helpful in determining the impact of FDI on the economy's output and employment, but it is especially helpful in evaluating performance of the particular states and industry segments. BEA data offers, as well the most up-to-date view of the U.S. and global operations of U.S. multinationals.

2.2 Recent Financial Crises and US FDI

2.2.1 US FDI Contribution to the Global FDI Stock

The current recession, which began in December 2007, could rank as the longest U.S. economic downturn since the Great Depression. In addition to the severe economic downturn of the U.S. economy, global economic indicators have registered sharper declines than in the previous two global recessions of 1981 and 1990. The current global recession corresponded with reduction in flows and stock of inward and outward of global and US FDI (Ibarra-Caton and Mataloni 2013). In 2008 amid a sharpening financial and economic crisis, global and US FDI stock declined substantially. The US FDI contribution to the global inward and outward FDI stock is illustrated in Figs. 2.1 and 2.2.

After reaching pick in 2007, world inward FDI decline between 2007 and 2008 by 14 %, from US\$ 17,901 billion to US\$ 15,451 billion increasing farther to 20,438 billion in 2011, while inward US FDI decline during this year by 30 % from US\$ 3,551 billion to US\$ 2,486 billion increasing to US\$ 3,509 in 2011.

After reaching pick in 2007, World outward FDI declined by 15 % between 2007 and 2008 from US\$ 19,273 billion to US\$ 16,343 billion, while outward US

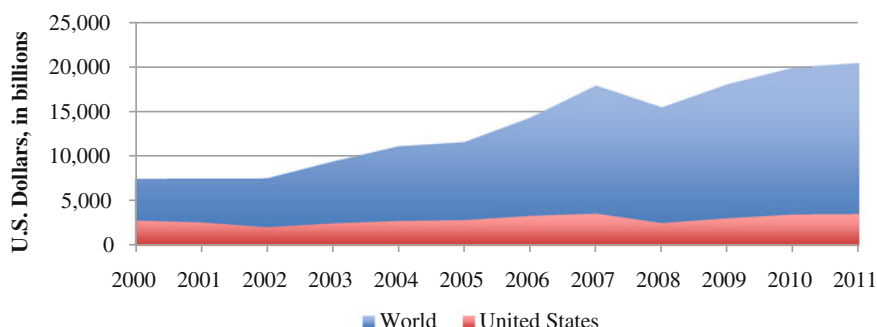


Fig. 2.1 Inward World FDI stock vs. US FDI stock, 2000–2011. *Source* Built based on data retrieved from UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

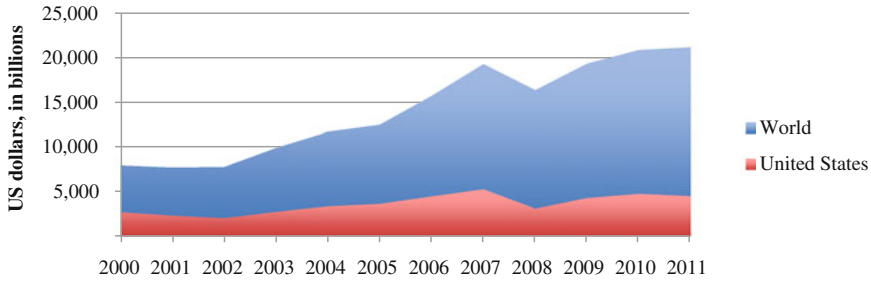


Fig. 2.2 Outward World FDI stock vs. US FDI stock, 2000–2011. *Source* Built based on data retrieved from UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

FDI decline by 41 %, from US\$ 5,275 billion to US\$ 3,102 billion. In comparison, outward US FDI stock declined deeper than inward US FDI stock.

2.2.2 Geographical Distribution of Inward and Outward US FDI Stock

The U.S. hosts the largest stock of *inward FDI* among the world's economies and continues to be at the top as a destination for inward FDI. The inward US FDI stock grew from US\$ 83 billion in 1980 to US\$ 540 billion in 1990 to US\$ 2,783 billion in 2000, reaching \$3,509 billion in 2011 (Table 2.1). *During 2007 and 2008 inward US FDI stock decreased by 30 %, from US \$ 3,551 billion to US\$ 2,486 billion.* In 2011, US FDI stock exceeded by far the inward FDI stock of other large developed economies such as the United Kingdom (US\$ 1,199 billion), Germany (US\$ 714 billion) and the largest emerging market economy, China (US\$ 712 billion).

The contribution of the United States to the world *outward FDI* stock is tremendous. In the last decade, on average between 2000 and 2011, US FDI stock represented 25 % of the total world stock, while the all European Union countries accounted for 51 % of the world FDI stock (www.unctad.org/fdistatistics). Based on Table 2.2, during 2007 and 2008 outward US FDI stock decreased by 41 %, from US \$ 5,275 billion to US\$ 3,102 billion. In 2011, outward US FDI stock (US\$ 4,500 billion) exceeded by far the outward FDI stock of other large developed economies within the European Union, such as the United Kingdom (US\$ 1,731 billion), Germany (US\$ 1,442 billion), France (US\$ 1,373 billion) and individuals contributors, such as: Hong Kong (US\$ 1,046 billion), Japan (US\$ 962 billion) and Canada (US\$ 670 billion).

During the recent economic crisis, between 2007 and 2008 outward US FDI flows decreased by 32 % from US\$ 394 billion to US\$ 308 billion, decreasing further in 2009 to US\$ 267 billion.

Table 2.1 Inward US FDI stock, 2000–2011 (US\$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United States	2,783	2,560	2,022	2,455	2,717	2,818	3,293	3,551	2,486	3,027	3,451	3,509
Comparator economies												
United Kingdom	439	507	523	606	702	841	1,139	1,243	981	1,056	1,086	1,199
Germany	272	272	298	395	512	476	591	695	668	677	674	714
China	193	203	217	228	245	272	293	327	378	473	579	711
Russia	32	53	71	97	122	180	266	491	216	382	423	457
Japan	50	50	78	90	97	101	108	133	203	200	215	226

Source UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Table 2.2 Outward US FDI stock, 2000–2011 (US\$ billion)

Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
World	7,953	7,719	7,786	9,917	11,695	12,465	15,697	19,273	16,343	19,326	20,865	21,169
United States	2,694	2,315	2,023	2,729	3,363	3,638	4,470	5,275	3,102	4,287	4,767	4,500
Comparator economies												
Canada	238	251	276	319	373	388	445	522	524	602	639	670
Hong Kong	388	352	310	340	403	472	677	1,011	762	832	936	1,046
Germany	542	618	696	831	925	928	1,081	1,332	1,327	1,412	1,437	1,442
France	926	798	639	947	1,154	1,232	1,610	1,795	1,268	1,583	1,580	1,373
Japan	278	300	304	336	371	387	450	543	680	741	831	962
United Kingdom	898	870	994	1,187	1,247	1,199	1,455	1,836	1,531	1,674	1,627	1,731

Source UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

2.2.3 Inward US FDI Background and Literature

During the recent economic crisis, between 2008 and 2009, inward US FDI flows decreased by 50 %. This setback in FDI has particularly affected cross-border mergers and acquisitions (M&As), the value of which sharp decline as compared to the previous year's historic high. International greenfield investments have been less impacted to this point but a large number of projects have been cancelled or postponed. The value of M&As and greenfield investment in the United States by foreign MNEs picked up again in 2010, contributing to a rise in FDI flows from US\$ 153 billion in 2009 to US\$ 198 billion in 2010 and further to US\$ 227 billion in 2011. Although not yet back at their pre-crisis level, FDI inflows in 2010 and 2011 accounted for 15 % of global inflows in both years, still by far the single largest share of any economy in the world (Kornecki 2013).

Foreign direct investment in the United States contribute immensely to the domestic output growth and employment. The empirical research results indicate the existence of a positive and significant relationship between FDI stock and output growth. The research used the regression analyzes and indicated that FDI stock in the U.S. economy shows a relatively higher rate of growth in comparison with that of domestic capital, and contributes about 23 % to GDP growth in comparison with domestic capital contributing 20 %. The model used a modified Cobb-Douglas production function based on a pooled cross section data for the U.S. economy in the period of time between 1981 and 2007, and included the impact of inputs such as labor, domestic capital, inward FDI stock, export and multifactor productivity on economic growth (Kornecki and Borodulin 2012). Goss, Wingender and Torau applied the Cobb-Douglas production function to data from 1988 to 1999 and found that foreign capital accounted for almost 16 % of overall U.S. productivity growth (Goss et al. 2007). FDI and U.S. economic growth, it is important for the U.S. economy to continue attracting foreign direct investment.

When discussing the policy context for FDI in the United States,, it is important to keep in mind that inward FDI contributes significantly to employment in the U.S. economy (Kornecki and Ekanayake 2012) Over the past 10 years, majority-owned U.S. affiliates of foreign companies employed 5–6 million workers and supported 2 million manufacturing jobs (Payne and Yu 2011).

Research investigated factors affecting the inward FDI flows in the United States using annual data for the period from 1997 to 2007 and identified several state-specific determinants of FDI. The result showed that, among the major determinants influencing FDI flows, the real per capita state income, real per capita state expenditure on education, state FDI related employment, state real research and development expenditure (R&D), and state capital expenditure are found to have a significant and positive impact on FDI inflows (Ekanayake and Kornecki 2011).

A number of organizations in the United States deal with IFDI promotion. The state and local economic development organizations include state, regional, city,

and county or local organizations. These refer to investment promotion agencies, economic development agencies, economic development corporations, industrial development corporations, or various other organizations. Many of these organizations are closely associated with local chambers of commerce, but generally are operated separately and play a key role in pursuing policies aimed at retaining existing activities by foreign companies and in implementing targeted investment promotion programs on promising activities (http://www.gdi-solutions.com/directory/invest_usa.htm).

“SelectUSA”, established by the President and housed within the U.S. Department of Commerce, represents a Government-wide effort to encourage, facilitate and accelerate business investment in the United States, by both domestic and foreign firms—as a major engine of economic growth and job creation. It provides enhanced coordination with existing resources across all federal departments and agencies with operations relevant to business investment. It works in partnership with state, regional and local economic development organizations to promote and facilitate business investment overall in the United States (<http://selectusa.commerce.gov/why-select-usa>).

Over the past 5–10 years, these state and local economic development agencies have used the Internet to create search engines and databases that offer foreign as well as domestic investors useful information on matters such as business and personal tax structure, infrastructure and utilities, work force and training resources, population and demographics, business and industry profiles, financing and incentive programs, and available sites and buildings. These web-based resources have streamlined the location process by allowing foreign MNEs to conduct a great deal of research. The state development agencies have an established framework of financial incentives to influence the final business location decision. Typical state inducements may include low-interest loans, reduced income, sales, or property tax liability, and grants for training or infrastructure improvement (<http://www.selectusa.commerce.gov/investment-incentives>).

2.2.4 Outward US FDI Background and Literature

American direct investment abroad has grown sharply since the mid-1990s, raising questions about the effects of such investment on the U.S. economy. These questions seem pertinent since American multinational corporations lost shares of U.S. GDP over the last decade and their domestic employment had declined until the mid-1990s. Increased economic activity abroad relative to that in the United States increased overseas affiliate employment in some industries, including manufacturing (<http://www.fas.org/sgp/crs/misc/RS21118.pdf>).

Being globally engaged requires U.S. multinationals (MNEs) to establish operations abroad and also to expand and integrate these foreign activities with their U.S. parents. The idea that global expansion tends to “hollow out” U.S. operations is incorrect. Rather, the scale and scope of U.S. parent activities

increasingly depends on successful engagement abroad. Expansion by U.S. parents and their affiliates contributes to the productivity and average standard of living of all Americans (businessroundtable.org/studies-and-reports/how-u.s.-multinational...).

The United States is the largest investor abroad and the largest recipient of direct investment in the world. For some Americans, the national gains attributed to investing overseas are offset by such perceived losses as displaced U.S. workers and lower wages. Some observers believe U.S. firms invest abroad to avoid U.S. labor unions or high U.S. wages, however, 70 % of U.S. foreign direct investment is concentrated in high income developed countries. Most economists conclude that direct investment abroad does not lead to fewer jobs or lower incomes overall for Americans and that the majority of jobs lost among U.S. manufacturing firms over the past decade reflect a broad restructuring of U.S. manufacturing industries. (<http://www.fas.org/sgp/crs/misc/RS21118.pdf>).

The contribution U.S. multinational companies make to the American economy is increasingly being called into question. Critics claim that these companies have abandoned the United States, that they succeed only by exporting jobs, and that their domestic and international operations need to be rebalanced through changes in U.S. tax, trade and investment policy. Strong U.S. multinational companies that are able to compete effectively in foreign markets will be better positioned to help restore American economic growth. The ability of U.S. multinationals to stem domestic job losses and return to hiring more American workers depends on the health, vitality and competitiveness of their worldwide operations (businessroundtable.org/studies-and-reports/how-u.s.-multinational...).

United States Council for International Business (USCIB) reports (BR Business Roundtable, March 2010), that the U.S. multinationals are first and foremost American companies, and continue to enhance the nation's economy by their capital investment, research and development, and continued support of good-paying American jobs. The worldwide operations of U.S. multinationals are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates. The idea that U.S. multinationals have somehow "abandoned" the United States is not supported by the facts. They maintain a large presence in America relative to the overall U.S. economy and relative to the size of their foreign affiliates. Based on official government statistics and current research, this report addresses the following facts related to U.S. multinationals:

- International engagement drives the overall strength of U.S. multinational companies.
- Foreign-affiliate activity tends to complement, not substitute for, key parent activities in the United States such as employment, worker compensation and capital investment.
- U.S. parent companies perform large shares of America's productivity-enhancing activities that lead to high average compensation for American workers.

- All these productivity-enhancing activities contribute to larger-than-average paychecks for the millions of employees of U.S. multinationals.
- U.S. parents purchased a total of \$6.03 trillion in intermediate inputs. Of this total, 88.9 %—or \$5.36 trillion—was bought from other companies in the United States.
- The worldwide operations of U.S. multinational companies are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates.
- Foreign affiliates are located primarily in high-income countries that in many ways have economic structures similar to the United States, not in low-income countries (Slaughter 2010)

There are empirical studies done on outward US FDI determinants. Dunning's (1988) identified an array of location factors that improve a country's attractiveness to foreign investors. Location advantages are unique to the specific location in which the firm is currently operating or intends to operate. These advantages range from the availability of cheap labor, natural resources, skilled labor, and large and rapidly expanding local market, to the existence of stable economic and political systems. The presence of location advantages is a necessary condition for successful and profitable operation.

Some studies emphasize the importance of economic factors such as market size, market growth, inflation rates, and income levels (Root and Ahmed 1978; Grubert and Mutti 1991; Woodward and Rolfe 1993). These studies suggest that FDI tends to be attracted mostly to countries with large and expanding domestic markets. Other studies place emphasis on political risk (Nigh 1985; Fatehi-Sedeh and Safizade 1988; Oseghale 1993). While Cheng and Kwan (2000) suggest the primacy of the level of development of host country's infrastructure, Guisinger et al. (1985), Rolfe and White (1992), and Brewer (1993) emphasize the role of government policy in the process. Interestingly, these studies gave little or no considerations to the importance of a host country's institutional framework (Oseghale and Nwachukwu 2010).

Wheeler and Mody (1992) were among the first researchers to explore, empirically, the linkage between institutional framework and the location of US foreign affiliates. Using the first principal component of thirteen factors (e.g. bureaucratic red tape, political instability, corruption, quality of the legal system and so on), they found a statistically insignificant relationship between 'good' institutions and US FDI.

Stein and Daude (2002), using bilateral outward FDI stock for 20 source and 58 host countries, examined the effects of institutional variables on FDI location decisions. They employed three different sets of institutional variables. The first set is the governance indicators database developed by Kaufman et al. (1999). The database had data for six different governance indicators which are: Voice and Accountability, Political Stability and Lack of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption.

2.3 Inward and Outward US FDI Flow and Stock Comparison

Inward foreign direct investment is an essential component of the U.S. economy, contributing to production, exports and high-paying jobs for the country's workers. As the world's largest economy, the United States is well positioned to participate in the increasingly competitive international environment for FDI that has emerged as both advanced and developing economies have recognized the value of such investment. The U.S. hosts the largest stock of IFDI among the world's economies, and continues to be at the top as a destination for inward FDI flows.

IFDI represents an integral part of the U.S. economy, with its stock growing from US\$ 83 billion in 1980 to US\$ 3.5 trillion in 2011. The United States, which had earlier been primarily a home for multinational enterprises (MNEs) rather than a host for affiliates of foreign MNEs, has become a preferred host country for FDI since the 1980 s. Foreign MNEs have contributed robust flows of FDI into diverse industries of the U.S. economy, and total FDI inflows reached US\$ 227 billion in 2011, equivalent to 15 % of global inflows, the single largest share of any economy. US FDI flows, with a peak of US\$ 314 billion in 2000 and another of US\$ 306 billion in 2008, have been an important factor contributing to sustained economic growth in the United States.

The flow of international capital supported the U.S. economy in the 1980s and has been a key factor expanding economy. During the 1990s, the U.S. experienced extraordinary inflow of FDI corresponding with exceptionally high output growth (Goss and Wingender 2007). Between 2008 and 2009, during the recent financial and economic crisis, inflows decreased by 50 %, from US\$ 306 billion to US\$ 153 billion, but grew again to US\$ 197 billion in 2010 and further to US\$ 227 billion in 2011. The U.S. continues to be the leading destination for FDI flows with the biggest FDI inflows from China (US\$ 123 billion), the United Kingdom (US\$ 54 billion), and to Germany (US\$ 40 billion). Between 2000 and 2011, the U.S. received the largest FDI inflows of any economy in the world (Kornecki 2013).

The recent financial and economic crises negatively impacted FDI flows to the United States and opened a period of major uncertainty. The effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic consequences will play a crucial role for creating favorable conditions for a rebound in FDI inflows. Unlocking the full potential of the future global inward FDI developments for the United States, as elsewhere, will depend on wise policymaking and institution building by governments and international organizations (Table 2.3).

Inward foreign direct investment is an essential component of the U.S. economy, contributing to production, exports and high-paying jobs for the country's workers. As the world's largest economy, the United States is well positioned to participate in the increasingly competitive international environment for FDI that has emerged as both advanced and developing economies have recognized the value of such investment. The U.S. hosts the largest stock of inward FDI among

Table 2.3 United States inward and outward FDI flow and stock, 2000–2011, US \$billions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Inward US FDI flow	314	159	75	53	136	105	237	216	306	153	198	227
Inward US FDI stock	2,783	2,560	2,022	2,455	2,717	2,818	3,293	3,551	2,486	3,027	3,451	3,509
Outward US FDI flow	143	125	135	129	295	15	224	394	308	267	304	397
Outward US FDI stock	2,694	2,315	2,023	2,729	3,363	3,638	4,470	5,275	3,102	4,287	4,767	4,500

Source UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

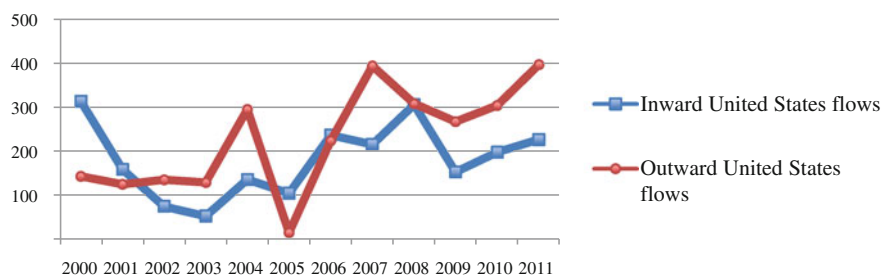


Fig. 2.3 Inward and outward US FDI flow, 2000–2011 in US \$ billion. *Source* UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

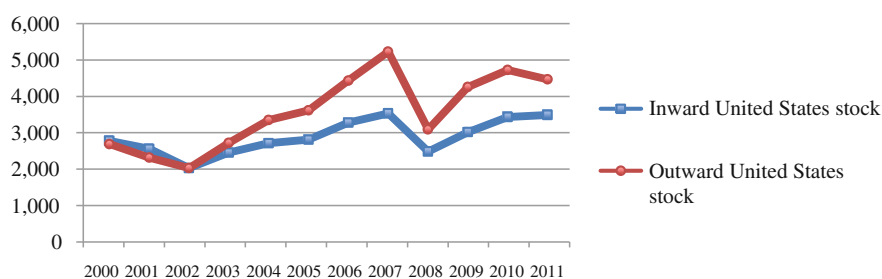


Fig. 2.4 Inward and outward US FDI stock, 2000–2011. *Source* UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

the world's economies, and continues to be at the top as a destination for inward FDI flows. During 2007 and 2008 inward US FDI stock decreased by 30 %, from US \$ 3,551 billion to US\$ 2,486 billion (Figs. 2.3 and 2.4).

The contribution of the United States to the world outward FDI stock is tremendous. During the recent economic crisis, between 2007 and 2008 outward US FDI flows decreased by 32 % from US\$ 394 billion to US\$ 308 billion, decreasing further in 2009 to US\$ 267 billion by 14 %. The outward US FDI stock decreased by 41 %, from US \$ 5,275 billion to US\$ 3,102 billion between 2007 and 2008.

Outward US FDI flow outperformed inward US FDI, during analyzed period of time except 2005, which indicates that American stock abroad exceeds foreign stock in the United States. There was large decline in outward US FDI flows in 2005 mainly due to increase in distributed profits of foreign affiliates of United States-based companies. This fact led to a large decline in reinvested earnings of foreign affiliates, which has been the main mode of investment by United States firms abroad in previous years. The American Jobs Creation Act of 2004 also contributed to this decline, as it allowed repatriated earnings of United States foreign affiliates to be taxed at a lower rate than the normal one, leading to a one-off fall in reinvested earnings

2.4 Inward and Outward US FDI Flow and Stock as a Percentage of GDP

The inward US FDI stock as a percentage of GDP climbed up to 6 % during 1980s and up to 10 % during 1990s reaching a peak of 28 % in 2000 declining to 25 % in 2007. During 2007 and 2008 US FDI stock as a percentage of GDP declined to 17 %, increasing to 23 % in 2011. This relatively high percentage of the FDI stock in GDP indicates important role of the inward FDI in the U.S. economy (Kornecki 2013).

The highest US FDI flow as a percentage of GDP was in 2000 (3 % of GDP), declining after 2001 economic recession reaching the bottom in 2003, then increasing to 2 % between 2006 and 2008 to fell down to 1 % in 2009 and coming back to 2 % in 2011 (Table 2.4)

The outward US FDI stock as a percentage of GNP declined during 2001 economic recession from 27 to 19 % in 2002, to increase 37.3 % in 2007 and declined to 21 % during current recession to increase further to 29.4 % in 2011. Outward FDI flows as a percentage of GNP declined during 2001 economic recession from 1.4 to 1 %, with ups and downs reaching the peak of 2.78 % in 2007, to decline during recent economic recession to 1.9 % reaching 2.6 % in 2011 (Table 2.5).

2.5 Sectoral Distribution of Inward and Outward US FDI

2.5.1 Sectoral Distribution of Inward US FDI

While, over the period 2000–2011 as a whole and in most years, the services sector accounted for the largest IFDI flows, the manufacturing sector overtook services in 2005, 2007, 2010, and 2011, with inflows to the sector peaking in 2007 at US\$ 103 billion, accounting for 48 % of total flows. Within services, financial services represented the largest recipient category in most years between 2000 and 2011, but were overtaken by wholesale trade in 2002, 2005, 2007, and 2011.

The most of US FDI flows reached manufacturing industry. The manufacturing industry accounted, between 2000 and 2011 (on average), for 36 % of total FDI flows, followed by the finance (16 %) and the whole sale (10 %). The average is based on data in Table 2.6.

2.5.2 Sectoral Distribution of Outward U.S. FDI

The services sector, led by holding companies, finance and wholesale trade industries, is the largest recipient of U.S. outward FDI flows, growing from \$91

Table 2.4 Inward US FDI flow and stock as a percentage of GDP, 2000–2011

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
US FDI flow as % GDP	3	2	1	0	1	1	2	2	2	1	1	2
US FDI stock as % of GDP	28	25	19	22	23	22	25	25	17	22	24	23
GDP	100	100	100	100	100	100	100	100	100	100	100	100

Source: United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international, and UNCTAD's FDI/TNC database, available at: www.unctad.org/fdistatistics

Table 2.5 Outward US FDI flow and stock as % GNP, 2000–2011 (in UD\$ billions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GNP	9,989	10,338	10,691	11,211	11,945	12,720	13,450	14,152	14,460	14,117	14,708	15,328
Outward US FDI flow	143	125	135	129	295	15	224	394	308	267	304	397
Outward US FDI flow % of GNP	1.4 %	1 %	1 %	1 %	2 %	0.12 %	1.7 %	2.8 %	2 %	1.9 %	2 %	2.6 %
Outward US FDI stock	2,694	2,315	2,023	2,729	3,363	3,638	4,470	5,275	3,102	4,287	4,767	4,500
Outward US FDI stock % of GNP	27 %	22 %	19 %	24 %	28 %	28.6 %	33 %	37 %	21 %	30 %	32 %	29 %

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

Table 2.6 Sectoral distribution of inward US FDI, 2000–2010 (US\$ billions)

Sector/industry	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All sectors	314	160	75	53	136	105	237	216	306	144	198
Services	139	95	27	22	101	30	106	64	169	54	84
Wholesale trade	16	6	9	–5	27	20	21	32	33	12	30
Retail trade	4	6	0.3	4	1	0.1	3	–2	7	4	1
Depository institutions	6	6	2	4	18	9	14	–1	25	17	9
Finance	51	18	8	20	32	4	38	10	95	29	39
Real estate	3	–2	2	–4	3	1	0	8	–5	–1	0
Manufacturing	105	51	26	18	21	56	99	103	77	53	86
Other industries	129	74	27	16	36	15	63	67	74	31	33

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

billion (64 % of total) in 2000 to \$311 billion, accounted for 78 % of total outward US FDI flows in 2011. Within outward US FDI flows, manufacturing sector grew from \$ 43 billion (30 % of total) in 2000 to \$ 59 billion (15 % of total) in 2011.

Within services, holding companies represent the largest recipient category in most years during 2000–2011, but were overtaken by financial services and wholesale trade in 2005. Financial services also attracted considerable foreign direct investment in 2011 at \$37 billion, up from \$25 billion in 2010. Wholesale trade investment doubled between 2010 and 2011, accounting for 6 % of total investment.

The most of outward US FDI flows reached service industry. This industry accounted, between 2000 and 2011 (on average) for 76 % of total FDI flows, followed by the manufacturing industry (19 %) and other industries (5 %). The average is based on data in Table 2.7.

2.6 Inward and Outward US FDI Employment Comparison

The FDI-related employment are widely used as a measure of inward FDI effectiveness (Bode and Nunnenkamp 2007). Foreign companies and their U.S. subsidiaries generate enormous economic benefits for the American economy and bring billions of investment dollars into the United States, create thousands of in- sourced American jobs, and highlight the importance of the U.S. market for foreign companies. This calls on the U.S. policy makers to formulate policies that are conducive to increasing the amount of foreign direct investment in the economy. Foreign companies and their U.S. subsidiaries generate enormous economic benefits for the American economy and create thousands of in- sourced American jobs, and highlight the importance of the U.S. market for foreign companies.

Table 2.7 Sectoral distribution of outward US FDI flow, 2000–2011 (US\$ billion)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
All sectors	143	125	135	129	295	15	224	394	308	267	304	397
Services	30.1	45.2	45.9	50.3	117.2	-66.4	97.5	153.6	118.6	140.3	175.7	207.6
Holding companies												
Services	60.4	36.7	43.9	44.2	106.4	28.9	68.4	164.1	131.4	69.7	70.6	99.1
Finance	22	3	38	20	51	13	26	82	58	47	25	37
Wholesale trade	12	16	3	12	19	13	15	13	32	13	12	24
Information	17	-3	-1	4	-0.36	3	4	9	8	9	8	12
Real estate	-1	0.88	7	-3	9	9	11	18	4	6	9	12
Manufacturing	43	26	32	31	63	28	42	72	36	39	46	59
Mining	2.2	15.6	6.7	3.8	18.2	12	21.8	19.9	25.6	12.1	13	24.8
Other industries	17.7	21.32	3.4	10.9	17.96	3.4	6.7	26.5	25.8	0.6	15.3	20.6

Source: United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

The state development agencies have an established framework of financial incentives to influence the final business location decision. Typical state inducements may include: low-interest loans, reduced income, sales, or property tax liability and grants for training or infrastructure improvement (<http://www.areadevelopment.com/LocationUSA/>). Each state has adopted a unique strategy to attract FDI as they compete for foreign investors. The leading states in foreign direct investment employment, in manufacturing, are: California, Texas, Ohio, Pennsylvania, Illinois, North Carolina, New York, New Jersey (Fig. 2.2). The southern U.S. states have become more aggressive in recruiting foreign investment by providing incentives to attract investments and communicating the unique advantages they offer to foreign companies. Many southern states have been successful in improving their economies and providing new employment opportunities by offering the incentives attracting foreign capital (Borstorff, Collum and Newton 2007).

Many foreign investors choose the southern part of the U.S. as a desirable location for their FDI. Southern states invite large industrial employers in order to continue the evolution from an agricultural economy to a manufacturing economy. Tennessee, Alabama, Georgia, Kentucky, South Carolina and Texas have welcomed foreign automakers with numerous incentives. Currently, more than 300 foreign-based manufacturers from more than 30 nations operate in Alabama. Out of these foreign-based companies, three are major automobile manufacturers; Honda, Hyundai, and Mercedes (Borstorff, Collum and Newton 2007) (Fig. 2.5).

Outward US FDI employment outperformed inward US FDI employment in each year, between 2000 and 2011 (Table 2.8), which indicates that all U.S. foreign affiliates create more jobs abroad than all U.S. affiliates in the country. Additionally outward US FDI contribution to total U.S. employment is much higher than inward US FDI (Table 2.9).

Lipsey discusses the FDI as a particular form of the flow of capital across national borders, from home countries to host countries, measured in Balance of Payments Statistics. Those flows give rise to a particular form of stocks of capital in host countries, namely the value of home country investment in entities, typically corporations, controlled by a home country owner, or in which a home country owner holds a certain share of voting rights (Lipsey 2001).

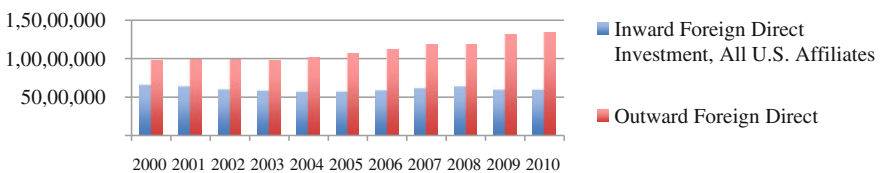


Fig. 2.5 Inward and outward US FDI employment, 2000–2010 (thousands of employees). *Source* United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

Table 2.8 Inward and outward US FDI employment, 2000–2010 (thousands of employees)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Total U.S. employment	165,370	165,510	165,063	166,019	169,026	172,551	176,124	179,899	179,644	174,225.7	173,626.7
Inward FDI	6,524.6	6,268.3	5,925.1	5,713.2	5,617.1	5,665.5	5,803.1	6,088.7	6,324.7	5,979.1	5,802.2
all U.S. Affiliates											
Outward FDI, all U.S.	9,713	9,803.6	9,776	9,657.5	10,068.4	10,621.7	11,149.9	11,731.9	11,801.2	13,029.3	13,255.8
Foreign Affiliates											

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

Table 2.9 Inward and outward US FDI employment, as a percentage of total U.S. employment, 2000–2010

	2000 (%)	2001 (%)	2002 (%)	2003 (%)	2004 (%)	2005 (%)	2006 (%)	2007 (%)	2008 (%)	2009 (%)	2010 (%)
Total U.S. employment	100	100	100	100	100	100	100	100	100	100	100
Inward FDI,	4	4	4	3	3	3	3	3	4	3	3
All U.S. Affiliates											
Outward FDI, All	6	6	6	6	6	6	6	7	7	7	8
U.S. Foreign Affiliates											

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database (www.bea.gov/international)

U.S. direct investment abroad is defined as ownership by a U.S. investor of at least 10 % of a foreign business. The direct investor is known as a U.S. parent, and the U.S.-owned foreign business is known as a foreign affiliate. The combined global operations of a U.S. parent company and its foreign affiliates constitute a U.S. MNC (http://www.bea.gov/about/pdf/international_usdia.pdf).

Americans believe that U.S. direct investment abroad, directly or indirectly, shifts some jobs to low wage countries. They argue that such shifts reduce employment in the United States and increase imports, thereby affecting negatively both U.S. employment and economic growth. Economists generally believe that firms invest abroad because those firms possess some special process or product knowledge or because they possess special managerial abilities which give them an advantage over other firms. On the whole, U.S. firms invest abroad to serve the foreign local market, rather than to produce goods to export back to the United States, although some firms do establish overseas operations to replace U.S. exports or production, or to gain access to raw materials, cheap labor, or other markets (<http://www.fas.org/sgp/crs/misc/RS21118.pdf>).

There are instances when firms shift activities abroad to take advantage of lower labor costs. However, it is clear from the data that the majority of U.S. direct investment abroad is in developed countries where wages, markets, industries, and consumers' tastes are similar to those in the United States. U.S. direct investment in these developed countries is oriented toward serving the markets where the affiliates are located and they tend, in the aggregate, to boost exports from the United States. In addition, foreign firms have been pouring record amounts of money into the United States to acquire existing U.S. firms, to expand existing subsidiaries, or to establish "greenfield" or new investments (<http://www.fas.org/sgp/crs/misc/RS21118.pdf>).

2.7 Inward and Outward US FDI Financial Performance Comparison

2.7.1 Inward US FDI Financial Performance

Flows of FDI comprise capital provided either directly or through other related enterprises by a foreign direct investor to an enterprise. These flows have three components: equity capital, reinvested earnings and intra-comp any loans. Equity capital is the foreign direct investor's purchase of shares of an enterprise in a country other than its own. Reinvested earnings comprise the direct investor's share (in proportion to direct equity participation) of earnings not distributed as dividends by affiliates, or earnings not remitted to the direct investor. Intra-company loans or intra-company debt transactions refer to short-or long-term borrowing and lending of funds between direct investors (parent enterprises) and affiliate enterprises.

Among the components of inward US FDI flows (equity investment, reinvested earnings, intra-company loans) between 2000 and 2011 on average, equity investment is the one that is related most directly to long-term international investment strategies and constitute 75 % of capital inflows, while reinvested earnings and intercompany debts constitute accordingly 15 % and 10 % (Table 2.10—calculation base) of the total FDI inflows.

Foreign direct investment financial flows were US\$ 227 billion in 2011, up from US\$ 198 billion in 2010 and consisted of US\$ 93 billion in net equity investment, US\$ 80 billion in reinvested earnings, and US\$ 53 billion in net intercompany debt investment inflows (Table 2.11).

During the recent financial crises the inward US FDI equity declined from US\$ 256 billion in 2008 to US\$ 127 billion in 2009 declining further to US\$ 93 in 2011. Net equity investment was the largest component in 2011, but it was lower than in 2010 (US\$ 132 billion) and it was at its lowest level since 2005 (US\$ 71 billion). The US FDI reinvested earnings declined between 2008 and 2009 from US\$ 35 billion to US\$ 15 billion and return back to pre-crises level of US\$ 60 billion in 2010 increasing farther to US\$ 80 billion in 2011. Borrowing transactions between U.S. affiliates and foreign parent groups decreased between 2007 and 2010 from US\$ 31 billion to US\$ 7 billion in 2007 to increase again in 2010 to almost pre-crises level of US\$ 53 billion in 2011 (Barefoot and Ibarra 2011). In the last 2 years reinvested earning as a percentage of total FDI income increased from 43 to 53 %. Unfortunately, US FDI equity as a percentage of US FDI flows declined from 84 to 41 % between 2008 and 2011

2.7.2 Outward US FDI Financial Performance

The outward US FDI equity, during the recent financial crises started to declined from US\$ 201 billion in 2007 to US\$ 127 billion in 2008 and to US\$ 18 billion in 2009. Upward trend started in 2010 with increase to US\$ 41 in 2010 and to US\$ 53 in 2011 (Table 2.11). Equity capital flows for new investments experienced a sharp decline during the current recession. The pronounced decline in equity capital flows for new investment coincided with a worldwide decline in global merger and acquisition activity. According to Thompson Reuters, global merger and acquisition activity fell by 40 %. The share of reinvested earnings trended upward through 2008, indicating that parent firms were still choosing to invest in their foreign affiliates rather than remit their earnings to the United States. Despite weak economic conditions, U.S. multinationals have continued to expand their investments in newly emerging markets at a more rapid rate than in advanced economies. The outward US FDI reinvested earnings declined between 2008 and 2009 from US\$ 212 billion to US\$ 207 billion and increased beyond the pre-crises level of US\$ 292 billion in 2010 (by 14 %) increasing farther to US\$ 326 billion in 2011 (by 18 %) based on Tables 2.11 and 2.12.

Table 2.10 The structure of inward US FDI by Financial Components (2000–2011), US\$ billion

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
FDI inflows	314	159	75	53	136	105	237	216	306	153	198	227
Equity	260	141	105	93	93	71	115	142	256	127	132	93
Reinvst. earnings	-8	-41	-8	4	39	34	63	43	35	15	60	80
Intercomp. Debt	62	60	-23	-44	4	0.2	59	31	15	2	7	53
FDI income	48	4	32	61	88	110	145	121	126	98	138	152
Reinvest. earnings % of FDI income	-16 %	-1062 %	-25 %	7 %	45 %	31 %	44 %	35 %	28 %	15 %	43 %	53 %
Equity % of US FDI flows	83 %	88 %	140 %	176 %	68 %	67 %	49 %	66 %	84 %	83 %	66 %	41 %

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database (www.bea.gov/international)

Table 2.11 The structure of outward FDI Components (2000–2010), US\$ billions

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital outflows	143	125	135	129	295	15	224	394	308	267	304	397
Equity	78	61	43	35	133	62	49	201	127	18	41	53
Intercompany debt	−12	12	26	−7	20	−15	−22	−17	−31	42	−29	18
Reinvested earnings	77	52	66	101	142	−32	197	210	212	207	292	326
Direct investment income	134	110	125	165	228	272	304	350	393	335	421	458

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database (www.bea.gov/international)

Table 2.12 The structure of outward FDI Components (2000–2010), as a percentage of outward US FDI

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital outflows	100	100	100	100	100	100	100	100	100	100	100	100
Equity	55	49	32	27	45	413	22	51	41	7	13	13
Intercompany debt	−8	10	19	−5	7	−100	−10	−4	−10	16	−10	5
Reinvested earnings	54	42	49	78	48	−213	88	53	69	−18	96	82

Source United States Department of Commerce, Bureau of Economic Analysis, FDI database, available at www.bea.gov/international

Reinvestment is not only different from new equity and inter-company debt flows in terms of its share of total US FDI, it is the only component which originates in the host country and thus, does not involve cross-border transfer of funds (Lundan 2006). Furthermore, an analysis of the correlation between individual components of FDI reveals the existence of very low inter-component correlation (ranging from -0.089 to 0.23). The weak correlation between the components suggests that they are independent of each other. This finding corroborates that of Salorio and Brewer (1998). The further study examined the effect of the quality of host country institutions on reinvestment decisions by United States multinationals. Six indicators of quality of institutions were used as measures of the quality of host country institutions. The six indicators are Voice and Accountability, Political Stability and Lack of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These indicators have been found, by Kaufmann et al. (1999) to be most important in assessing the overall quality of a country's institutions. The statistical analysis reveals that the quality of host country institutions has a statistically significant effect on reinvestment decisions by US multinationals (Oseghale and Nwachukwu 2010).

Intercompany debt flows—loans between parent firms and affiliates—are a very small component of outward US FDI and are extremely volatile; they change direction frequently because the loans, which are often for the purpose of providing short term financing for intra-firm trade, tend to be repaid soon after they are created (Ibarra-Caton and Mataloni 2013).

2.8 Conclusions

The recent economic crises negatively impacted world FDI flows in 2008 and 2009 and opened a period of major uncertainty. The effectiveness of government policy responses at both the national and international levels in addressing the financial crisis and its economic aftermath will play a crucial role for creating favorable conditions for a continued recovery of FDI inflows into the United States. Public policies will obviously play a major role in the implementation of favorable conditions for such a recovery. Structural reforms aimed at ensuring more stability in the world financial system, a renewed commitment to an open environment for FDI and the implementation of policies aimed at favoring investment and innovation are key issues in this respect (<https://wpqr1.adb.org/.../0918BE1C4C9148EC48257567000D8869/...>).

The U.S. hosts the largest stock of inward FDI among the world's economies and continues to be at the top as a destination for inward FDI. Foreign direct investment in the United States contribute immensely to the domestic output growth and employment. During the recent economic crisis, between 2008 and 2009, inward US FDI flows decreased by 50 %, from US\$ 306 billion to US\$ 153 billion. This setback in FDI has particularly affected cross-border mergers and acquisitions (M&As), the value of which sharp decline as compared to the previous year's historic high. During 2007 and 2008 inward US FDI stock decreased by 30 %, from US \$ 3,551 billion to US\$ 2,486 billion.

The United States is the largest recipient of direct investment and the largest investor abroad in the world. Often, the national gains attributed to Americans investing overseas are offset by such perceived losses as displaced U.S. workers and lower wages. Some observers believe U.S. firms invest abroad to avoid U.S. labor unions or high U.S. wages, however, 70 % of U.S. foreign direct investment is concentrated in high income developed countries. Most economists conclude that direct investment abroad does not lead to fewer jobs or lower incomes overall for Americans and that the majority of jobs lost among U.S. manufacturing firms over the past decade reflect a broad restructuring of U.S. manufacturing industries (<http://www.fas.org/sgp/crs/misc/RS21118.pdf>).

The contribution of the United States to the world outward FDI stock is tremendous, however this research confirmed, that outward US FDI stock outperformed inward US FDI stock between 2002 and 2011, which indicates that American stock abroad exceeds foreign stock in the United States. In the last decade, on average between 2000 and 2011, US FDI stock represented 25 % of the

total world stock. The outward US FDI stock decreased by 41 %, from US \$ 5,275 billion to US\$ 3,102 billion between 2007 and 2008. During the recent economic crisis, between 2007 and 2008 outward US FDI flows decreased by 32 % from US\$ 394 billion to US\$ 308 billion, decreasing further in 2009 to US\$ 267 billion.

The most of US FDI flows reached manufacturing industry. This industry accounted, between 2000 and 2011 (on average) about 36 % of total FDI flows, followed by the finance about 16 % and the whole sale about 10 % of the total inward US FDI flows. The leading states in FDI employment in manufacturing are California, Texas, Ohio, Pennsylvania, Illinois, North Carolina, New York, New Jersey. The most of outward US FDI flows reached service industry. This industry accounted, between 2000 and 2011 (on average) about 76 % of total FDI flows, followed by the manufacturing industry (19 %) and remaining other industries (5 %).

Outward Inward FDI represents an integral part of the U.S. economy. Most of the foreign investment in the United States comes from the European developed economies. These investments are predominately in the manufacturing sector and accounts for very high percentage of foreign direct investment in the United States. U.S. affiliates of foreign companies in the manufacturing industry is the largest contributor of FDI employment in the U.S. economy. It is known that foreign companies investing in the United States not only provide jobs, but offer relatively high-paying jobs what constitutes important factor influencing to high FDI employment and contributing to employment in the U.S. economy. Between 2000 and 2011, outward US FDI employment outperformed inward US FDI employment, which indicates that all U.S. foreign affiliates create more jobs abroad then all U.S. affiliates in the country.

During the recent financial crises the inward US FDI equity declined from US\$ 256 billion in 2008 to US\$ 127 billion in 2009 declining further to US\$ 93 in 2011. The equity investment was the largest component in 2011, but it was lower than in 2010 (US\$ 132 billion) and it was at its lowest level since 2005 (US\$ 71 billion). The inward US FDI reinvested earnings declined between 2008 and 2009 from US\$ 35 billion to US\$ 15 billion and return back to pre-crises level of US\$ 60 billion in 2010 increasing farther to US\$ 80 billion in 2011.

The outward US FDI equity capital for new investments experienced a sharp decline during the current recession. The pronounced decline in equity capital for new investment coincided with a worldwide decline in global merger and acquisition activity. The share of reinvested earnings trended upward through 2008, indicating that parent firms were still choosing to invest in their foreign affiliates rather than remit their earnings to the United States. Despite weak economic conditions, U.S. multinationals have continued to expand their investments in newly emerging markets at a more rapid rate than in advanced economies. The outward US FDI reinvested earnings declined between 2008 and 2009 from US\$ 212 billion to US\$ 207 billion and increased beyond the pre-crises level of US\$ 292 billion in 2010 increasing farther to US\$ 326 billion in 2011 (Tables 2.11 and 2.12).

For dealing effectively with the financial crisis and its economic aftermath, as well as benefiting from the positive contributions of FDI to output growth and employment, it is important that policymakers maintain an overall favorable business and investment climate. In order to promote foreign investment, the United States has entered into a number of international investment agreements, including bilateral investment treaties (BITs) and double taxation treaties (DTTs). The total number of BITs concluded by the United States as of June 1, 2012 was 48, and the total number of DTTs concluded as of June 1, 2011 was 164 (<http://archive.unctad.org/Templates/Page.asp?intItemID=4505&lang=1>).

For over 70 years, the United States has negotiated bilateral tax treaties with its trading partners to facilitate economic flows and investments between the treaty partners, eliminate double taxation, and provide certainty to taxpayers where overlapping taxing jurisdictions can cause confusion. The major focus of these treaties is to provide clear rules as to which taxing authority has the authority to tax income that has some connection to entities or persons in both the United States and the country with which a treaty was negotiated. Some of the other key features of these treaties include prevention of income tax evasion, avoiding double taxation, reducing barriers to cross border investment, and avoidance of discriminatory tax treatment (http://www.ofii.org/docs/Background_on_Tax_Treaties.pdf).

There are several priorities being pursued by the U.S. Government to attract foreign companies. In addition to an ongoing review of trade, tax and regulatory policies and legislation to assure competitiveness in a rapidly evolving global marketplace, strategies with a focus on technology, innovation, education, and supporting infrastructure are being implemented to assure that the country can find its place in an increasingly competitive environment.

As far as outward US FDI, based on the United States Council for International Business (USCIB) reports the U.S. multinationals are first and foremost American companies, and continue to enhance the nation's economy by their capital investment, research and development, and continued support of good-paying American jobs. The worldwide operations of U.S. multinationals are highly concentrated in America in their U.S. parents, not abroad in their foreign affiliates. The idea that U.S. multinationals have somehow "abandoned" the United States is not supported by the facts.

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