

## **Inward US FDI Performance During Recent Financial Crises**

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*Foreign direct investment (FDI) plays an extraordinary and growing role in the global business and represents an integral part of the U.S. economy. The inward FDI constitutes important factor contributing to output growth and employment in the U.S. economy. The goal of this paper is to present the impact of the last financial crises on inward FDI performance in the United States. This research has descriptive character and focuses on the latest inward FDI trends analyzing the FDI flow and stock, geographic and sectoral distribution, FDI employment, FDI financial flows (equity, reinvested earnings, intercompany debt) followed by the FDI corporate players, mergers and acquisitions (M&A's) and Greenfield investment.*

**Key Terms:** US FDI Flow, Stock, Employment, Financial Structure, Corporate Players, Greenfield Investment, Mergers and Acquisitions.

### **1. Introduction**

Foreign direct investment is an essential component of the U.S. economy, contributing to production, exports and high-paying jobs. 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 is the largest investor abroad.

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, in early 2008 ([unctad.org/en/docs/wips2008\\_en.pdf](http://unctad.org/en/docs/wips2008_en.pdf)).

During the recent economic crisis, between 2008 and 2009, FDI flows to the United States 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 Multinational Enterprises (MNEs) picked up again in 2010, contributing to a rise in FDI

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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).

Importance of the FDI in the U.S. economy, 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.

The aim of this paper is to discuss and analyze the evolution of FDI flow and FDI stock, between 2000 and 2011, emphasizing the strong impact of the last financial crisis resulting in declining trend in FDI flow and stock, and a post-recession recovery. Inward FDI in the United States contribute immensely to the domestic output growth and employment. The empirical research indicates the existence of a positive and significant relationship between FDI stock and output growth (Kornecki and Borodulin, 2010). The current study has descriptive character and aims to illustrate, how the last financial crises affected US FDI flow and FDI stock, FDI employment, FDI financial structure, M&A and Greenfield projects.

This paper starts with the literature review and the data sources description, followed by the inward US FDI stock and flow, inward US FDI employment and US FDI financial structure analyzes. The last part of this article, focuses on inward US FDI principal foreign affiliates and examines mergers and acquisition (M&A) and Greenfield Investment. The conclusions are linked to each part of the paper and elaborate on the U.S. Government efforts to promote FDI.

## 2. Literature Review

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 2013 ranked the United States and China and as the most attractive FDI locations in the world, recording unprecedented levels of investor confidence. The United States remained a strongest magnet for FDI in the world economy, followed by China, Brazil, Canada, India, Australia, Germany, U.K., Mexico, Singapore (<http://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index>).

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% (Kornecki and Borodulin, 2010). Goss, Wingender and Torau applied the Cobb-Douglas production function to

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data from 1988 to 1999 and found that foreign capital accounted for almost 16% of overall U.S. productivity growth (Goss, Wingender and Torau, 2007). The inward FDI contributes significantly to employment in the U.S. economy (Kornecki & Ekanayake, 2012). Researchers identified link between job growth in the U.S. economy during a period of increasing foreign direct investment flow (Payne and Yu, 2011).

In evaluating the effects of FDI on the local economies, economists focus primarily on the performance of foreign-owned subsidiaries operating in the U.S. It is already known that the establishment of a new foreign subsidiary or the expansion of an already existing one leads to higher employment and wages (Axaroglou, 2005).

Bode and Nunnenkamp investigated the effects of inward FDI on per-capita income and growth of the US states since the mid-1970s. This study analyzed the long-run relationships between inward FDI and economic outcomes in terms of value added and employment at the level of US states. The study found that employment-intensive FDI, concentrated in richer states, has been conducive to income growth, while capital-intensive FDI, concentrated in poorer states, has not (Bode & Nunnenkamp, 2011).

During 2007, global foreign direct investment flows reached a historical high of around \$2 trillion—more than 16 percent of the world's gross fixed capital formation (GFCF) at the time. This marked the peak of a four-year upward trend in FDI flows. Along with the subsequent worldwide collapse in real estate values, stock markets, consumer confidence, production, access to credit, and world trade, global FDI flows also began to fall—by 16 percent in 2008—and when worldwide contracted in 2009 for the first time in 60 years, FDI declined further 40 percent (Poulsen and Hufbauer, 2011).

As the impact of globalization process, foreign capital flows increased significantly and accelerated in 2007. The last crisis, affected negatively the dynamic FDI flows in both developed and developing economies (Carp, 2011). Compared with global economic downturns since the 1970s, the current FDI recession has been greatest in magnitude (Poulsen and Hufbauer, 2011).

The financial crisis started in the United States in 2007 and involved financial institutions in many OECD countries affecting FDI flows (Dullien, Kotte, Márquez and Priewe, 2010). Empirical studies show that multinational corporations (MNC's) continued invest in their host country during recession —and even increase investment—after the financial crisis. FDI flows from overseas parent companies contracted, but intercompany debt and reinvested earnings were affected much more (Contessi and Li, 2012).

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>).

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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](http://www.ofii.org/docs/Background_on_Tax_Treaties.pdf)).

### 3. Data Sources

This research has descriptive character and constitutes base for the further exploration of the importance of inward FDI in the U.S. economy. The goal of this paper is to show the impact of last financial crises on foreign investment performance in the United States. The basic statistics related to inward FDI flow and stock came from the UNCTAD's FDI/TNC and from the United States, 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 trying to determine 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. The next paragraphs will be analyzing inward USFDI stock and flow, inward US FDI employment, financial structure and principal foreign affiliates. (<http://www.bea.gov>).

### 4. Inward US FDI Stock and Flow

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.

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.

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 1980s. Foreign MNEs have contributed robust flows of FDI into

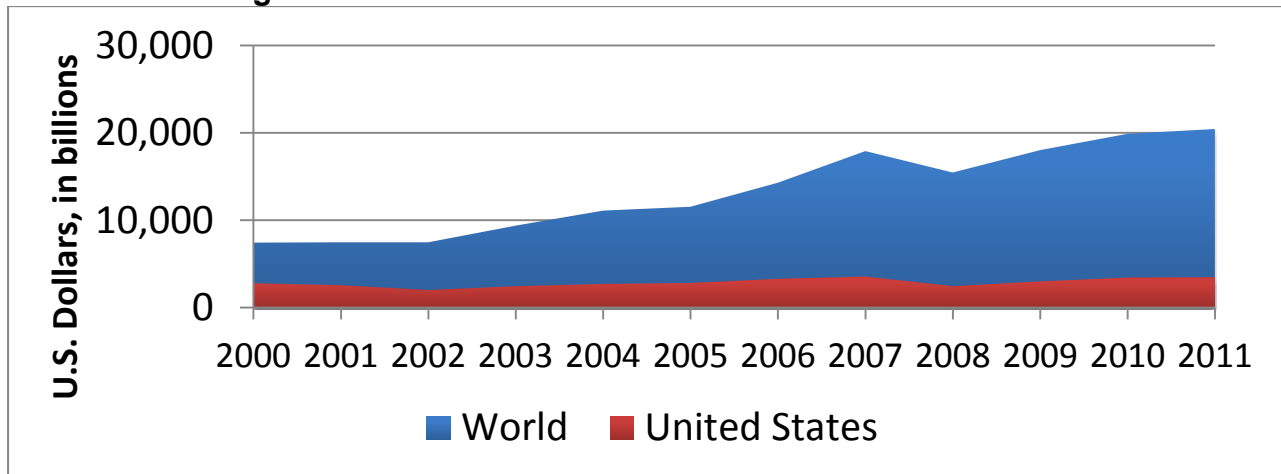
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diverse industries of the U.S. economy, and total FDI inflows reached US\$ 227 billion in 2011, equivalent to 15% of global inflows, the single largest share of any economy.

Inward FDI represents an integral part of the U.S. economy, with its stock growing from from US\$ 83 billion in 1980 to US\$ 540 billion in 1990 ([www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)) to US\$ 2,783 billion in 2000, and reaching \$3,509 billion in 2011. In 2011 US FDI stock exceeds 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) (Table 1).

During last financial crises, between 2007 and 2008 inward global FDI stock declined from US\$ 17,901billion to US\$ 15,451billion (by 14 %), when inward US FDI stock declined from US\$ 3,551 billion to US\$ 2,486 billion (by 30%) (Figure 1).

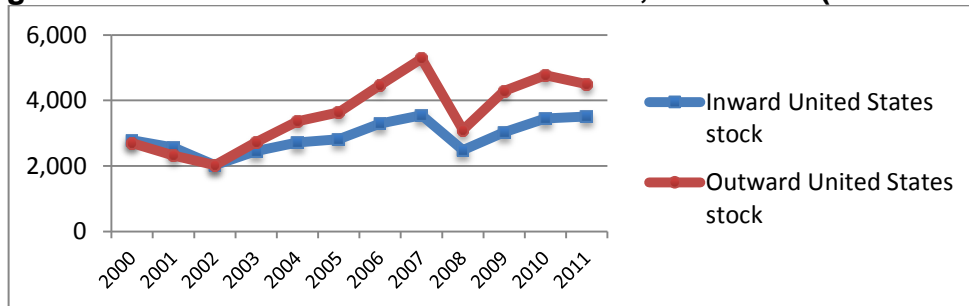
**Figure1: US FDI Inward Stock versus Global FDI Stock**



Source: UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)

The Figure 2. below compares outward US FDI stock to inward US FDI stock, during analyzed period of time, indicating that outward US FDI stock outperformed inward US FDI stock. Between 2007 and 2008, outward US FDI stock decreased by 41%, from US \$ 5,275 billion to US\$ 3,102 billion.

**Figure 2: Inward and Outward US FDI Stock, 2000-2011 (USD billion)**



Source: UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)

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**Table 1: United States: inward 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	1199
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](http://www.unctad.org/fdistatistics)

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, Wingender and Torau, 2007). 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.

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. In 2011, the U.S. continued to be the leading destination for FDI flows, with inflows reaching US\$ 227 billion in comparison with China (US\$ 123 billion), the United Kingdom (US\$ 54 billion), and Germany (US\$ 40 billion). Between 2000 and 2011, the U.S. received the largest FDI inflows of any economy in the world (Table 2).

**Table 2: United States: inward FDI flows, 2000-2011 (US\$ billion)**

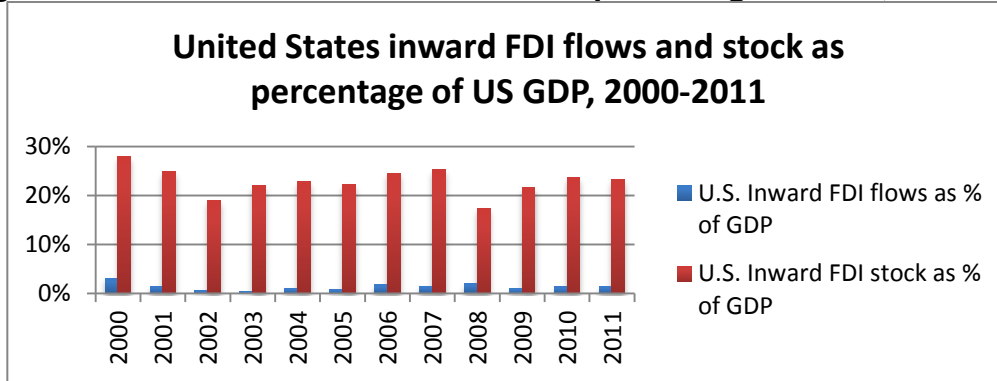
Economy	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
United States	314	159	75	53	136	105	237	216	306	153	198	227
Comparator economies												
China	41	47	53	54	61	72	73	84	108	95	115	124
United Kingdom	119	53	24	17	56	176	156	196	91	71	51	54
Germany	198	26	54	32	-10	47	56	80	4	38	47	40
Russia	3	3	3	8	15	13	30	55	75	36	41	53
Japan	8	6	9	6	8	3	-7	23	24	12	-1	-2

Source: UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics)

The inward U.S. FDI stock as a percentage of GDP climbed up to 6% during 1980's and up to 10% during 1990's reaching a peak of 27% in 2000 and 25% in 2007. U.S. FDI stock shows cyclical character and declined significantly after 2002 and 2008, as a result of economic recessions (Figure 3). This relatively high percentage of the FDI stock in GDP indicates important role of the inward FDI in the U.S. economy (Kornecki, 2010).

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**Figure 3: Inward FDI Stock and Flow as a percentage of GDP, 2000-2011**

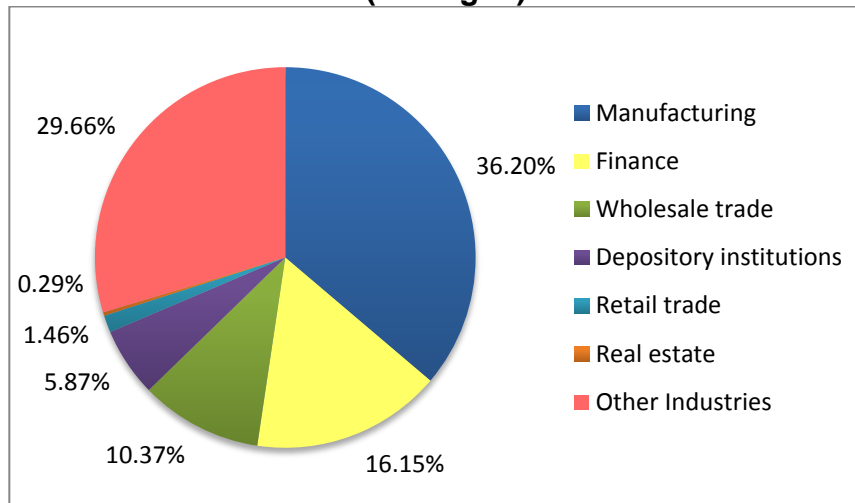


Source: UNCTAD's FDI/TNC database, available at: [www.unctad.org/fdistatistics](http://www.unctad.org/fdistatistics).

### 5. Inward US FDI Employment

The FDI stock and the FDI-related employment are widely used as a measure of inward FDI effectiveness (Bode and Nunnenkamp, 2007). The most of the foreign direct investment flows in the United States between 2000 -2011 entered the manufacturing industry. The FDI inflow in manufacturing industry reached on average, during analyzed period of time 36% of the total foreign flows, followed by finance 16%, wholesale trade 10%, depository institution 6% (Figure 4).

**Figure 4: Sectoral Distribution of U.S. Inward FDI Flows in %, 2000-2011 (averaged)**



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

More detailed data related to FDI employment are included in tables 3, 4 and 5. The total US FDI employment decreased between 2008 and 2009 by 5% (from 6,325 to 5,979 thousands of employee), while FDI employment in manufacturing decreased by 6% (from 2,294 to 2,162 thousands of employee), in wholesale trade by 8% and in finance and insurance by 17%.

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**Table 3: Sectoral Distribution of U.S. Inward FDI Flows, 2000-2011  
(thousands of employees, averaged)**

All Industries Total	5,974
Manufacturing	2,277
Retail trade	665
Wholesale trade	591
Finance and insurance	340
Information	339
Professional, scientific, and technical services	217
Real estate and rental and leasing	44
Other industries	1,502

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

**Table 4: U.S. inward FDI employment by sectors, 2000-2010  
(thousands of employees)**

Sector	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All Industries Total	6,525	6,268	5,925	5,713	5,617	5,666	5,803	6,089	6,325	5,979	5,802
Manufacturing	2,705	2,531	2,372	2,242	2,133	2,115	2,166	2,215	2,294	2,162	2,110
Retail trade	667	755	678	674	695	643	633	562	658	677	670
Wholesale trade	564	588	547	556	579	591	629	678	626	576	564
Finance and insurance	300	323	284	275	267	265	286	431	491	408	407
Information	410	311	314	317	290	313	331	339	377	369	363
Professional, scientific & technical services	154	194	171	180	193	213	219	259	265	271	263
Real estate and rental and leasing	47	44	36	39	59	53	46	40	40	40	41
Other industries	1,679	1,522	1,524	1,430	1,401	1,474	1,493	1,564	1,573	1,477	1,387

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



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**Table 5: Inward US FDI employment by sectors, 2000-2010  
(as % of total FDI employment )**

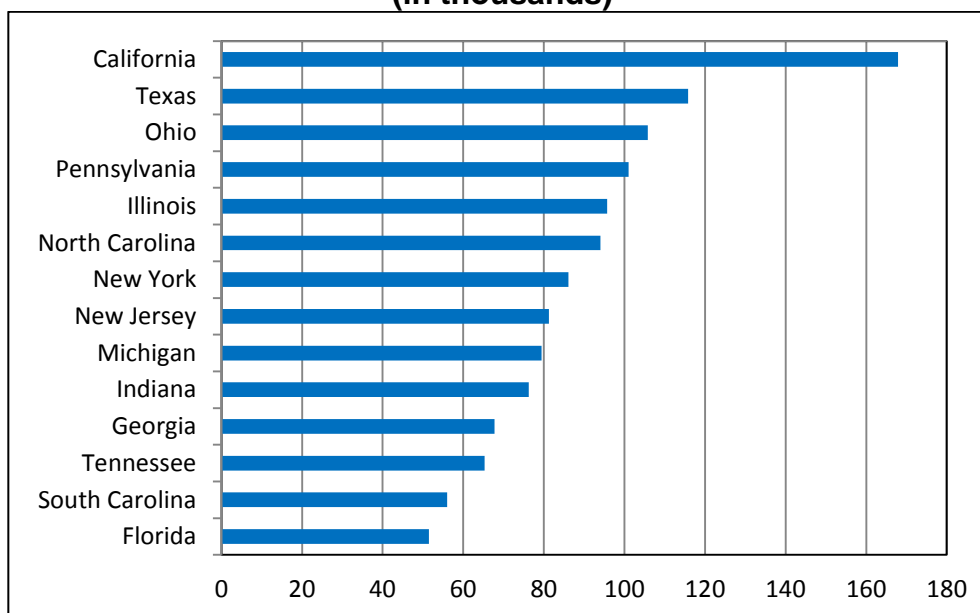
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
All Industries Total	100	100	100	100	100	100	100	100	100	100	100
Manufacturing	41.5	40.4	40.0	39.2	38.0	37.3	37.3	36.4	36.3	36.2	36.4
Retail trade	10.2	12.0	11.4	11.8	12.4	11.3	10.9	9.2	10.4	11.3	11.5
Wholesale trade	8.6	9.4	9.2	9.7	10.3	10.4	10.8	11.1	9.9	9.6	9.7
Finance and insurance	4.6	5.2	4.8	4.8	4.8	4.7	4.9	7.1	7.8	6.8	7.0
Information	6.3	5.0	5.3	5.5	5.2	5.5	5.7	5.6	6.0	6.2	6.3
Professional, scientific, and technical services	2.4	3.1	2.9	3.2	3.4	3.8	3.8	4.3	4.2	4.5	4.5
Real estate and rental and leasing	0.7	0.7	0.6	0.7	1.1	0.9	0.8	0.7	0.6	0.7	0.7
Other industries	25.7	24.3	25.7	25.0	24.9	26.0	25.7	25.7	24.9	24.7	23.9

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

Each state has adopted a unique strategy to attract FDI as they compete for foreign investors. As manufacturing is a leading industry in FDI employment, the Figure 5. below presents the leading states in FDI employment in manufacturing (California, Texas, Ohio, Pennsylvania, Illinois, North Carolina, New York, New Jersey). The southern U.S. states has 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).

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**Figure 5: FDI Employment in Manufacturing by the States, 1980 – 2009  
(in thousands)**



Source: Bureau of Economic Analysis, Comprehensive Financial and Operating Data Archive by Industry of Affiliate, (<http://www.bea.gov/international/di1fdiop.htm>)

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 (Borstoff, Collum and Newton, 2007).

## 6. US FDI Financial Structure

The financial flows of outward FDI have three components: equity capital, reinvested earnings and intra-company loans. Reinvested earnings component is the only component which originates in the host country and thus, does not involve cross-border transfer of funds ([www.bea.gov/international](http://www.bea.gov/international)). Description below includes comparative analyzes of financial elements of outward and inward US FDI.

The outward US FDI reinvested earnings increased between 2009 and 2010 from USD 207 billion to USD 292 billion, beyond the pre-crisis level, increasing further to USD 326 billion in 2011. The 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. Equity capital of new investments abroad experienced a sharp decline during the last recession. The pronounced decline in equity capital related

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to 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 percent. Intercompany debt flows— loans between parent firms and affiliates—constitute a very small component of outward US FDI. They 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, 2010)

The inward US FDI reinvested earnings declined between 2008 and 2009 from US\$ 35 billion to US\$ 15 billion and return back to pre-crisis level of US\$60 billion in 2010 increasing further to US\$80 billion in 2011. The equity investment is mostly related to long-term international investment strategies and between 2000 and 2011, on average, accounted for 75% of the total US FDI inflows, while reinvested earnings and intercompany debts represented accordingly 15% and 10% (based on Table 6).

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. Borrowing transactions between U.S. affiliates and foreign parent groups decreased between 2007 and 2010 from US\$ 31 billion to US\$ 7 billion, to increase again to US\$ 53 billion in 2011 to almost pre-crisis level (Barefoot & Ibarra, 2011).

**Table 6: The structure of US FDI Inflows by Financial Components, 2000 -2011, (in 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
Reinvest.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, available at: [www.bea.gov/international](http://www.bea.gov/international)

### **7. Inward US FDI Principal Foreign Affiliates (M&A and Greenfield Investment).**

The list of principal foreign affiliates in the U.S. ranked by revenue for 2010, was largely dominated by affiliates of European Multinational Enterprises (MNEs) (Table 7).

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**Table 7: Principal Foreign Affiliates in the U.S. Ranked by Revenue (2010)**

Rank 2010	Rank 2000	Foreign investor	Home economy	Name of affiliate	Industry	Revenue (US \$ billion)
1	6	Royal Dutch Shell	Netherlands	Shell Oil	Oil	285.1
2	7	BP	U. K.	BP America	Oil	246.1
3	8	Toyota Motor	Japan	Toyota Motor North America	Automobile	204.2
4	20	AXA Group	France	AXA Group	Insurance	175.3
5	9	ING Group	Netherlands	ING America Insurance Hold.	Diversified finance	163.2
6	36	Volkswagen	Germany	Volkswagen of America	Automobile	146.2
7	38	Daimler AG	Germany	Daimler (U.S.)	Automobile	109.7
8	890	Samsung	Korea	Samsung Electronics	Semiconductors & products	108.9
9	1	HSBC Holdings	U.K.	HSBC Bank USA	Banking	103.7
10	50	Siemens	Germany	Siemens	Electrical eng.& electronics	103.6
11	45	Nestle	Switzerland	Nestle USA	Food, nutrition, health	99.1
12	68	Honda Motor	Japan	Honda North America	Automobile	92.4
13	172	Deutsche Telekom	Germany	T Mobile	Telecom services	89.8
14	96	Nissan Motor	Japan	Nissan Motor (U.S.)	Automobile	80.9
15	182	Sony	Japan	Sony Corporation of America	Consumer electronics, entertainment	77.7

Source: Information compiled by the Organization for International Investment & RSM McGladrey, available from: <http://www.ofii.org/resources>.

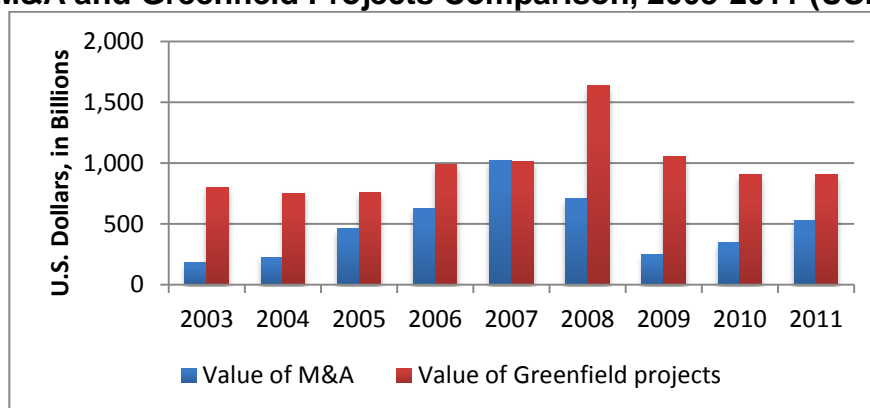
Shell Oil, the U.S. affiliate of Royal Dutch Shell (Netherlands) topped the list, followed by BP America, an affiliate of British Petroleum (BP) (United Kingdom). Foreign affiliates in manufacturing featured prominently on the list. Included in the top twenty foreign affiliates by revenue were the affiliates of five automobile manufacturing firms: Toyota Motor, Honda Motor, and Nissan Motor from Japan, as well as Daimler and Volkswagen from Germany; U.S. affiliates of foreign MNEs in electronic manufacturing, with established names like Siemens (Germany), Sony (Japan) and Samsung (Republic of Korea) were also among the top twenty, ranking 10th, 15th and 8th, respectively.

Despite the reduction in FDI inflows, the U.S. remains the largest host economy for FDI, and European MNEs and their affiliates continue to dominate FDI in that country. In the midst of the global recession, U.S. FDI inflows and especially mergers and acquisitions (M&As) were particularly affected. The bulk of M&A purchases by foreign firms during this time took place in financial services and largely involved commercial banks attempting to restructure balance sheets and mitigate losses. A number of greenfield investments were cancelled or postponed. The largest greenfield FDI projects between 2008 and 2010 were in energy and manufacturing. The dramatic surge in large greenfield investments in 2010 in manufacturing and energy included investments valued at more than US\$ 1.1 billion each by Iberdrola (Spain), Solar Millennium (Germany), Blue Chip Energy GmbH. (Austria), and the Gestamp Group (Spain). The largest greenfield FDI project of 2010 was in the manufacturing sector, by Samsung of the Republic of Korea, with an investment of US\$ 3.6 billion (Kornecki, 2013).

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In 2008 and 2009, several foreign pharmaceutical companies undertook large multi-billion M&A deals in the United States. Swiss Roche Holding AG targeted Genentech Inc. (valued at US\$ 46.7 billion), and InBevNV from Belgium targeted Anheuser-Busch in a deal valued at US\$ 52.2 billion. During this period, the bulk of M&As by foreign MNEs in the United States occurred in the financial sector and, in particular, involved commercial banks, as part of the efforts to re-structure balance sheets and prevent further systemic risk and liquidity crises set in motion by the multi-billion dollar fall of Lehman, prefaced just months earlier by that of Bear Stearns. In 2009, M&As involving U.S. commercial banks continued, mainly by MNEs from home countries that had been relatively immune to the liquidity crisis, such as Canada and Singapore (Kornecki, 2013).

**Figure 6: M&A and Greenfield Projects Comparison, 2003-2011 (USD billions)**



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

The largest cross-border acquisitions in 2011 were by Sanofi-Aventis (SA), a French biological products company, valued at US\$ 21.2 billion, and one by BHP Billiton Ltd., a crude petroleum and natural gas company from Australia, valued at US\$ 11.8 billion. In 2010, the largest cross-border acquisition in the United States was that by the German pharmaceutical company Merck KGaA (the world's largest maker of liquid crystal), of the U.S. biotechnology equipment manufacturer Millipore Corp, valued at US\$ 6.2 billion. The oil and gas industry continued to account for a significant portion of cross-border M&As in the United States in 2010 and 2011. M&A transactions like Goldcorp's US\$ 3.3 billion acquisition of Andean Resources Ltd. in 2010 formed part of a critically important growth strategy for metals and mining companies benefiting from higher metal prices (Kornecki, 2013).

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**Table 8: Top Ten M&A Companies in the U.S. in 2011 (US\$ million)**

Year	Acquiring company	Home economy	Target company	Target industry	Shares Acquired (%)	Value (US\$ million)
2011	Sanofi-Aventis SA	France	Genzyme Corp	Biological products	100	21,230
2011	BHP Billiton Ltd	Australia	Petrohawk Energy Corp	Crude petroleum & natural gas	100	11,766
2011	Mitsubishi UFJ Finl Grp Inc	Japan	Morgan Stanley	Offices of bank holding co's	100	7,800
2011	Enesco PLC	United Kingdom	Pride International	Drilling oil and gas wells	100	7,306
2011	Teva Pharmaceutical Industries	Israel	Cephalon Inc	Pharmaceutical preparations	100	6,311
2011	Toronto-Dominion Bank	Canada	Chrysler Financial Corp	Personal credit institutions	100	6,300
2011	BHP Billiton Ltd	Australia	Chesapeake Energy Corp.	Crude petroleum & natural gas	100	4,750
2011	Bank of Montreal	Canada	Marshall & Ilsley Corp.	National com. banks	100	4,095
2011	ABB Ltd	Switzerland	Baldor Electric Co	Motors and generators	90	3,895
2011	Unilever PLC	United Kingdom	Alberto-Culver Co	Perfumes, cosmetics	100	3,842

Source: Thomson ONE Banker, Thomson Reuters (2011)

## 8. Conclusions

The recent economic crises negatively impacted world FDI flows in 2008 and 2009 and opened a period of major uncertainty. IFDI flows into the United States fell in 2009 but rose in 2010 and 2011, recovering toward the pre-crisis level, but remaining well below their pre-crisis peak. 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. 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.

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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, while inward US FDI stock decreased by 30%, from US \$ 3,551 billion to US\$ 2,486 billion. during 2007 and 2008. The most of inward 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 U.S. affiliates of foreign companies in the manufacturing industry is the largest contributor to 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 FDI employment and contributing to U.S employment. The leading states in inward US FDI employment in manufacturing are California, Texas, Ohio, Pennsylvania, Illinois, North Carolina, New York, New Jersey. Between 2000 and 2011, outward US FDI employment outperformed inward US FDI employment.

The inward US FDI reinvested earnings declined between 2008 and 2009 from US\$ 35 billion to US\$ 15 billion and return back to pre-crisis level of US\$60 billion in 2010 increasing farther to US\$80 billion in 2011. While inward US FDI reinvesting earnings declined, the outward US FDI reinvested earnings trended upward through 2008, indicating that parent firms were choosing to invest in their foreign affiliates rather than remit their earnings to the United States. Between 2009 and 2010 outward FDI reinvested earnings increased significantly from USD 207 billion to USD 292 billion, beyond the pre-crisis level, reaching USD 326 billion in 2011.

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 decline in equity capital related to new investment coincided with a worldwide decline in global merger and acquisition activity. Borrowing transactions between U.S. affiliates and foreign parent groups decreased between 2007 and 2010 from US\$ 31 billion to US\$ 7 billion, to increase again to US\$ 53 billion in 2011 to almost pre-crisis level (Barefoot & Ibarra, 2011).

The U.S. remains the largest host economy for FDI, and European MNEs and their affiliates continue to dominate FDI in the country. The mergers and acquisitions (M&As) were particularly affected during last financial crises and a number of Greenfield investments were cancelled or postponed.

There is a need for U.S. to selectively target FDI in specific states and industries and make a host government's aware of importance of promotional effort to attract foreign direct investment and stimulate employment and growth at the state level contributing to overall output growth and employment in the U.S. economy. Encouraging more FDI and expanding the number of countries investing in the United States can lead potentially to higher employment and higher output growth. 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,

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sales, or property tax liability and grants for training or infrastructure improvement (<http://www.areadevelopment.com/LocationUSA/>).

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. "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>).

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](http://www.gdi-solutions.com/directory/invest_usa.htm)).

Over the past five to ten 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>).

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