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Global Companies Have A Big Stake In U.S.' Economic Success

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International trade continues to be incorrectly framed as a zero sum game, a competition with winners and losers. This ignores how fluidly capital, labor, and data move during these dynamic times and trivializes how much workers in all countries benefit from being linked through trade and investment. The stronger each link, the more likely the global supply chain can contribute to growth and opportunity in all counties.

There is no disputing that American companies and workers benefit from increasing exports. The most recent government statistics show exports of goods and services supported an estimated 10.7 million U.S. jobs in 2016. Most Americans also recognize that imports provide a wider variety of affordable goods to all of us as consumers. The purpose of free trade agreements is to nudge countries to be as open to U.S. exports as this country is open to the goods from other countries — and for our mutual benefit.

What is less well understood if how much the United States benefits from inflows of capital and investment here in the United States. A new study published by the Organization for International Investment and written by economist Dan Ikenson of the Cato Institute, lays out how foreign direct investment (FDI) in the United States creates millions of jobs that often pay more and come with better benefits than other jobs the private sector creates.

Keeping U.S. Competitive

What's more, the international companies that have invested some $4 trillion in the U.S. play an important role in keeping U.S. manufacturing competitive and innovative. Over the past 15 years (2001-2015), international companies in the U.S. manufacturing sector have increased their purchase of intermediate goods from U.S. suppliers by 68%, helping small businesses in communities across the country.

At a time when many Americans have come to believe trade liberalization is undertaken more for the enrichment of shareholders and in the service of geopolitical strategy, OFII's report underscores how much American workers gain when foreign companies invest in plants, equipment and R&D facilities in the United States.

Jobs For Americans

Indeed, U.S. employers have a lot to live up to in some ways. While overall U.S. wages have been anemic for decades, FDI supports seven million U.S. jobs at compensation levels 24% higher on average than other private-sector jobs. Between 2001 and 2015, international companies boosted what they spend on employee benefits by over 60% and hiked their contributions to employee pension and profit-sharing plans by 100%, in real terms.

Over the last few years, FDI in the United States dropped from its high point in 2015. While it is tempting to link this to President Trump's sharp departure from decades of bipartisan U.S. trade policy, several other factors better account for this. The strength of the U.S. dollar, which makes this country a good place to invest, might have created a surge in FDI for several years that topped off in 2015 and then began to settle back down.

The U.S. was not alone in seeing FDI fall in recent years. The Organization for Economic Cooperation and Development reports overall global foreign direct investment flows declined by 20% or more in the last two years, possibly reflecting what the OECD reported was a surge in financial and corporate restructuring during that period.

These trends show that the U.S., while the largest economy in the world, cannot unilaterally dictate FDI. Political and financial changes will always reverberate in unexpected ways. On the other hand, the U.S. can take steps to make sure it remains a desired destination for international investment. This is especially important as advanced and developing economies jockey to lure investment.

Investment Can't Be Dictated

The U.S. has certain built-in advantages, such as the productivity of its workforce, its infrastructure and relative transparency and ease of doing business. At the same time, federal and state officials and private sector leaders need must work together to keep the U.S. competitive with other countries in luring investment by international companies.

The United States needs to reaffirm its commitment to expanding trade and be attentive to tax or regulatory policies that needlessly discriminate against international companies. In addition, public-private partnerships can provide incentives for manufacturers from other countries to invest in the American marketplace.

Heading into midterm elections, a lot of the debate about trade and globalization will center on whether American companies are being treated fairly and whether America is No. 1. Resurgent economic nationalism is putting even our most reliable trading partners on the defensive.

Missing from this debate is how much American workers and companies have benefited from FDI and how much this country stands to gain by sustaining this investment. Competition is intrinsic to trade but it is not a matter of one side wins and the other loses. It is a matter of maintaining an edge in global supply chain that becomes integrated every day.