

Asian-Pacific Foreign Direct Investment in the United States



Foreign direct investment (FDI) from the Asia-Pacific in the United States plays an important and growing role in the U.S. economy. This paper explores the role of FDI from Asian-Pacific countries, analyzes recent trends, forecasts long-term prospects, and identifies new opportunities for the U.S. economy.

The U.S. Bureau of Economic Analysis (BEA) defines *foreign direct investment* as “ownership or control, directly or indirectly, by one foreign person, or entity, of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or an equivalent interest in an unincorporated U.S. business enterprise.”¹ FDI is generally divided into two categories: (a) greenfield investment and (b) mergers and acquisitions. *Greenfield investment* is the creation of new enterprises and the development or expansion of production facilities, whereas *mergers and acquisitions* involve the purchase of an existing enterprise.

The U.S. Department of State designates 44 countries and geographic areas within East Asia and the Pacific, and South and Central Asia.² However, many of those economies have negligible FDI flows into the United States. This paper will focus on the 10 countries and geographic areas highlighted by the BEA as having a large FDI presence in the United States:³ Australia, China, Hong Kong, India, Japan, Malaysia, New

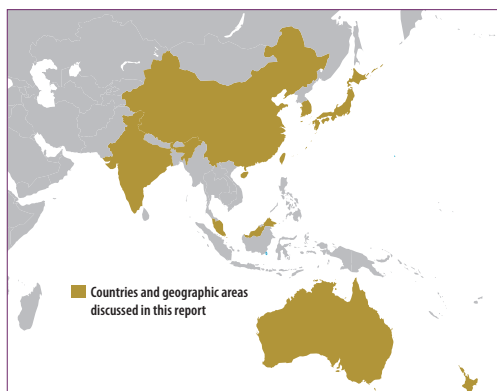
Zealand, Singapore, South Korea, and Taiwan (see figure 1).

Asian-Pacific FDI in the United States

The United States welcomes FDI as a matter of principle and law. Asian-Pacific foreign investment is no exception. The importance of foreign investment to the U.S. economy is well understood, and the United States has a longstanding and unequivocal commitment to encouraging open investment policies.

Many well known Asian-Pacific companies, from Australia, Japan and New Zealand have extensive experience investing in the United States. However, since the late 1970s, many developing Asian economies have also had an

Figure 1. The Asian-Pacific Region



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established presence. More than 20 years ago, Santee Corporation (China) was manufacturing printers in New Hampshire, and Interface Electronics (India) began making office computers in Michigan.⁴ During that same time, Gold Star Company (South Korea) was producing color televisions in Alabama, and International Reinforced Plastics (Taiwan) was manufacturing plastic products in South Carolina.⁵

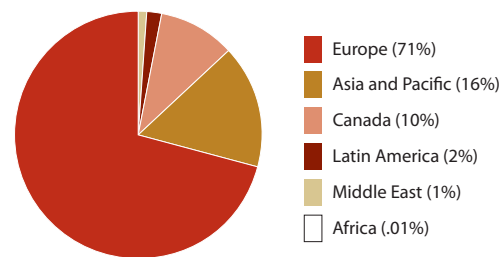
Today, Asian-Pacific companies employ more than 788,000 American workers. That amount is equivalent to the combined working population of Boston and San Francisco.⁶ The jobs are high paying, offering on average of \$68,000 in annual compensation. Furthermore, Asian-Pacific firms annually spend \$4.6 billion on research and development in the United States and generate \$61 billion in U.S. exports.

Between 2003 and 2008, Asian-Pacific greenfield investments created approximately 130,000 jobs in the United States.⁷ For example, in November 2007, Hanjin Shipping (South Korea) announced plans to establish a \$360 million container terminal in Florida, creating more than 1,600 jobs. One month earlier, Tata Consultancy Services (India) opened a software development and delivery center in Ohio, creating 1,000 jobs.⁸ In February 2007, Toyota (Japan) announced plans to invest \$1.3 billion in an automobile manufacturing plant in Mississippi, creating 2,000 jobs.⁹

In 2008, Asian-Pacific foreign investment accounted for 16 percent of the total FDI position in the U.S. economy. The majority FDI position is still dominated by Europe, accounting for 71 percent of total FDI in the United States. Other regional FDI positions include Canada (10 percent), Latin America (2 percent), the Middle East (1 percent), and Africa (less than 1 percent) (see figure 2).

Japan accounts for 70 percent of the Asian-Pacific FDI position in the United States. This is followed by Australia (17 percent), South Korea (4 percent), and Singapore (3 percent). Hong Kong accounts for only 1 percent of the Asian-Pacific

Figure 2. Global FDI Position in the United States

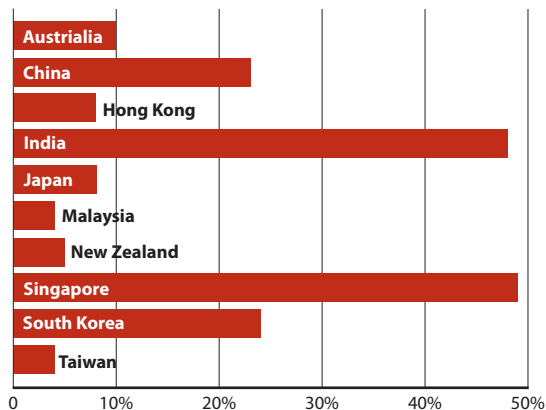


Source: BEA, "International Economic Accounts: Operations of Multinational Companies," 2008, www.bea.gov.

FDI position in the United States. However, a vast majority of Hong Kong's FDI in the United States is rerouted through companies based in other countries. Although Hong Kong's cumulative investment position in the United States was only \$3.2 billion in 2007, the number expands to nearly \$28 billion when rerouted investments are considered.¹⁰ That amount would make Hong Kong the third-largest Asian-Pacific investor in the United States, at 8 percent. No other Asian-Pacific economy comes close to that amount of foreign investment through third countries.

Briefly switching from cumulative investment position data to examine annual FDI flows, Japanese companies invested \$35.7 billion in the United States in 2008, which accounted for 63 percent of all Asian-Pacific investments that year. Australian companies followed with \$15.6 billion, India with \$1.7 billion, and Singapore with \$1.4 billion.

Figure 3. Compound Annual Growth Rates of Asian FDI Positions in the United States, 2004-2008



Source: BEA, "International Economic Accounts: Operations of Multinational Companies," 2008, www.bea.gov.

From 2004 to 2008, the FDI position of the Asia-Pacific in the United States grew by an average of 10 percent a year.¹¹ This growth was slightly faster than the global average of 8 percent. However, all growth in the region is not equal. During that time, investment from Singapore expanded by an annual average of 49 percent. Singapore was closely followed by India (48 percent), South Korea (24 percent), and China (23 percent) (see figure 3).

While Asian-Pacific companies have invested approximately \$368 billion in the United States, U.S. companies have a much larger stake in the Asia-Pacific region. In 2008, the net U.S. FDI position in the Asia-Pacific was nearly \$492 billion, which accounted for approximately 16 percent of cumulative U.S. direct investment abroad. Although that position shows a clear trend in the aggregate, Japanese investment in the United States still dramatically outweighs U.S. investment in Japan.¹² In 2008, Japanese cumulative direct investment in the United States was more than triple the U.S. cumulative investment in Japan.

Drivers of Asian-Pacific FDI in the United States

To understand the dynamics behind Asian-Pacific FDI in the United States, it is important to first explore the factors that make the United States a logical location to invest. Financial markets, taxation, trade policies, and the business cycle all play a role in foreign companies' investment decisions.¹³ In general, three motivating factors drive FDI: access to innovation, markets, and resources.¹⁴

Innovation. Asian-Pacific firms invest in the United States because the economy is a center for global innovation. Peer Michael Schatz, chief executive officer of Qiagen, a German biotech firm, commented, "The difference between the U.S. and Europe is that the U.S. has stellar science and a rapid rate of innovation and transferring that technology to the market for commercial purposes."¹⁵ In his assessment, "no other country comes close."¹⁶ According to the

National Defense Research Institute at the RAND Corporation, 40 percent of the world's research and development expenditures are made in the United States.¹⁷ Furthermore, the United States employs nearly three-fourths of the living Nobel laureates, publishes more than 60 percent of the world's "highly cited publications," and creates nearly 40 percent of the "patented new technology" within the Organization for Economic Cooperation and Development.¹⁸ Since 2000, the United States has been home to more Nobel laureates in the sciences than all other countries combined.¹⁹ Moreover, according to the *Times* Higher Education Supplement, 11 of the top 15 universities in the world are in the United States.²⁰

Markets. One of the most important factors driving Asian-Pacific investment is the size of the U.S. market. Many Asian-Pacific companies establish operations in the United States to be closer to their suppliers and customers in a dynamic market. The United States accounts for 42 percent of the global consumer goods market,²¹ with a disposable income of approximately \$32,000 per person. In a survey conducted with chief executive officers and presidents of Asian-Pacific manufacturing firms in the United States, the most significant factor that drove investment decisions was the "extremely large U.S. market."²² That factor was followed by "general need for growth" and "need to be closer to customers in order to give better service."²³

Resources. In many cases, Asian-Pacific companies do not invest in the United States solely to minimize the cost of inputs, such as labor, natural resources, or transportation, even though such costs are an important factor in the decision-making process.²⁴ For example, the U.S. economy has a highly productive and adaptable workforce. According to a 2007 International Labor Organization report, "the U.S. still leads the world by far in labor productivity per person employed in 2006."²⁵ Furthermore, "the report also shows that the productivity gap between the U.S. and most other developed economies continued to widen."²⁶ The United States also has the

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largest paved roadway system, railway network, and number of airports in the world.²⁷ According to air cargo volume, 3 of the top 10 airports are in the United States, including Memphis International Airport, the busiest cargo airport in the world.²⁸

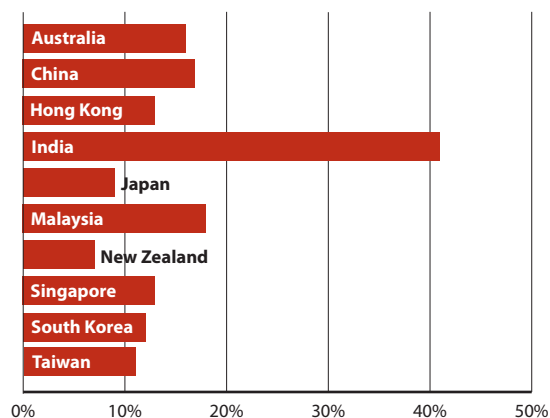
Openness and transparency of the U.S. economy is particularly important to Asian-Pacific investors.²⁹ As companies seek to diversify their operations geographically, the United States ensures a highly competitive yet notably fair system. The high quality and fairness of the U.S. legal system overall is widely recognized as one of the country’s greatest strengths. This outlook is not just a domestic view, but is also recognized internationally.³⁰ The overall high quality of the U.S. legal system is reinforced by its open investment policy, which is based on the principle of national treatment. With very few exceptions, foreign investors and their companies are treated the same as domestic firms in the United States. Many Asian-Pacific companies often operate in environments that are much less transparent and predictable. Although no system is perfect in all respects, the United States is justifiably proud of the overall high quality of its legal system and the level of protection that it provides to international investment in its territory.

Trends and Analysis

Since 2000, Asian-Pacific outbound FDI has grown rapidly. Between 2000 and 2007, India has led the region with a 41 percent average annual growth. India is followed by Malaysia (18 percent), China (17 percent), Australia (16 percent), Hong Kong (13 percent), and Singapore (13 percent) (see figure 4).³¹

During this time, the United States received about 13 percent of global Asian-Pacific investments.³² Approximately 43 percent of all Japanese FDI is located in the United States. Japan is followed by South Korea (20 percent), Australia (18 percent), India (10 percent), New Zealand (10 percent), and Singapore (7 percent).³³ In comparison, other Asian-Pacific economies, such as

Figure 4. Compound Annual Growth Rates of Outbound FDI from Asia, 2000–2007



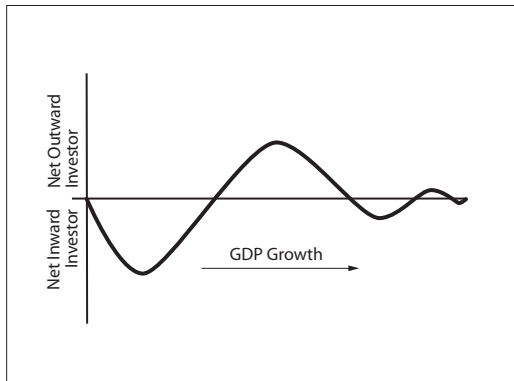
Source: United Nations Conference on Trade and Development, Foreign Direct Investment database, www.unctad.org.

China, Hong Kong, and Malaysia, have between 3 and less than 1 percent of their outbound FDI position in the United States.

Much of the remaining outbound Asian-Pacific FDI remains within the region.³⁴ However, as many developing Asian-Pacific economies continue to seek opportunities abroad, the United States should expect large increases of FDI flows, especially from China and India, which are currently the 3rd- and 12th-largest economies, respectively, in the world. As those developing nations continue to grow, their FDI flows in the United States may begin to reflect those of more developed nations. For example, Japan is the second-largest economy in the world and the second-largest investor in the United States. Similar correlations are also found for Germany (fourth-largest economy and fifth-largest investor), France (fifth-largest economy and seventh-largest investor), and the United Kingdom (sixth-largest economy and the largest investor).

Furthermore, academic theory on FDI³⁵ implies that China and India may be on the cusp of significantly increasing their FDI outflows to the United States. As economic growth continues, models predict that developing nations will begin to push investment outward—eventually becoming net outward investors (see figure 5).³⁶

Figure 5. The Investment Development Path

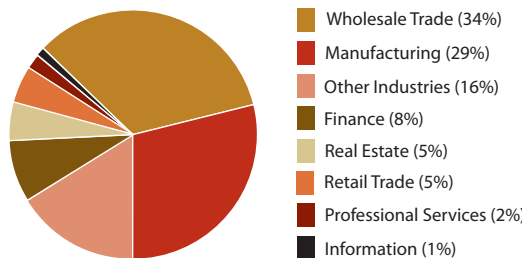


Source: Source: Based on John H. Dunning, "Explaining the International Direct Investment Position of Countries: Toward a Dynamic and Development Approach," *Weltwirtschaftliches Archiv* 117 (1981): 30–64.

For example, after Japan rebuilt its economy after the World War II, Japanese investors began to slowly expand operations in the United States during the 1960s and 1970s. As Japan’s economy grew, so did its investments in the United States. In the 1980s, Japan eventually became the largest investor in the United States. The Chinese and Indian governments have already implemented policies to promote outward investment. China has implemented a “go out” policy to support outbound FDI, while India has eased outward investment restrictions and has made debt funding more available.³⁷

Currently, Asian–Pacific FDI in the United States is focused in several sectors. The largest sector is wholesale trade (34 percent), which is followed by manufacturing (29 percent), other industries (16 percent), finance (except depository institu-

Figure 6. Sector Breakdown of Asian FDI in the United States



Source: BEA, "International Economic Accounts: Operations of Multinational Companies," 2008, www.bea.gov.

tions) and insurance (8 percent), real estate (5 percent), retail trade (5 percent), and professional services (2 percent) (see figure 6).

Wholesale trade is defined as, “establishments engaged in wholesaling merchandise, generally without transformation, and rendering services incidental to the sale of merchandise.”³⁸ The concentration of Asian–Pacific FDI in wholesale trade is distinct among global trends. Internationally, 14 percent of all investment in the United States is in that sector. In contrast, approximately 88 percent of China’s FDI position in the United States is in wholesale trade. China is followed by Hong Kong (45 percent), New Zealand (43 percent), and Japan (42 percent). Because many Asian–Pacific economies depend heavily on trade with the United States, their concentration in that sector is understandable. Asian–Pacific firms may open U.S. subsidiaries in that sector to gain a foothold in the U.S. market. The high concentration in wholesale trade also reveals a great deal of room for Asian–Pacific FDI to grow as it diversifies beyond the sector.

However, investment from India has taken a different path. Although very little of India’s investment position in the United States is in wholesale trade, more than 64 percent is located in professional services. This difference may be because of the comparative strengths of the Indian economy. Although China’s focus on manufacturing may necessitate investment in U.S. wholesale trade, India’s strengths in services (including back office operations) may be driving investment in U.S. professional services.

Between 2003 and 2008, Japanese companies made the greatest number of Asian–Pacific greenfield investments (421 projects valued at \$24.1 billion).³⁹ Japan was followed by India (118 projects valued at \$5.3 billion), South Korea (107 projects valued at \$14 billion), Australia (76 projects valued at \$10.5 billion), and China (60 projects valued at \$2 billion).⁴⁰

Japan’s greenfield projects focused on automotive components, while Indian companies

concentrated on software, financial services, and pharmaceuticals. Many of South Korea's greenfield investments, like those of Japan, were in automotive components. However, Australian firms focused on coal, oil, natural gas, and construction materials, while Chinese companies concentrated on the automotive original equipment manufacture and industrial machinery sectors.

Long-Term Prospects and Opportunities

Although much focus has been placed on the current global financial crisis, a long-term perspective must be maintained. FDI is, by nature, a long-term commitment, and the United States continues to have the best risk-adjusted return on investment.

Companies invest in the United States because it is the largest single-country economy in the world, and its labor pool is one of the best educated, most productive, and most innovative. The United States is a global leader in science and technology and a center for innovation. Creativity is rewarded and safeguarded by a strong intellectual property rights protection and enforcement regime.

Asian-Pacific FDI is expected to increase in the United States during the next 10 years—both in absolute dollar levels and as a share of the region's investments worldwide. China and India will likely be significant contributors to that trend.

Asian-Pacific sovereign wealth funds, though not a new phenomenon, will also play a growing role in FDI flows. Because of substantial trade surpluses, several Asian-Pacific economies have accumulated significant savings and are now searching for opportunities to earn a higher rate of return. Although the lack of transparency and the large size of the funds have elicited some apprehension, the U.S. government has the mechanisms in place to review foreign investment transactions that may affect national security.⁴¹ Sovereign wealth funds are traditionally long-term investors that have not been highly leveraged, and may provide another

source of Asian-Pacific FDI into the United States. Currently, 14 Asian economies have established funds that combined total over \$1 trillion.⁴² Those economies are Australia, Brunei Darussalam, China, Hong Kong, Kazakhstan, Kiribati, Malaysia, New Zealand, Papua New Guinea, Singapore, South Korea, Taiwan, Timor-Leste, and Vietnam.

In light of the trends, U.S. federal, state, and local governments; domestic business organizations; and international investors must work together to facilitate investment and assuage pressures that may arise within this dynamic relationship. Invest in America plays an important role in managing the relationships by serving as the primary U.S. government mechanism for coordinating federal inward investment promotion. The program focuses on outreach to foreign governments and investors, on support for state governments' investment promotion programs, and on addressing business climate concerns of international investors. Bilateral links, such as the U.S.-Japan Investment Dialogue, investment chapters of free trade agreements, and bilateral investment treaties, also play an important role in strengthening investment linkages.

The United States is unique within the global investment community with regard to the number, scope, and leading role that states play in FDI promotion. Furthermore, many regional and local economic development agencies also work to attract and facilitate international investment. Those agencies have played and will continue to play an important role in ensuring strong relationships with Asian-Pacific foreign investment partners.

Conclusion

Asian-Pacific FDI plays a critical role in the U.S. economy. Asian-Pacific companies employ thousands of American workers in the United States and contribute to domestic economic growth. While many Asian-Pacific firms open operations in the United States to expand within the U.S. market, factors such as labor productivity,

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innovation, and infrastructure also play a role. The United States is home to many existing Asian–Pacific investments abroad, and this trend is likely to continue in the long term. Moreover, as large Asian–Pacific economies such as China and India continue to develop and globalize, their FDI flows to the United States are expected to significantly increase. As this occurs, the United States is prepared at the local, state, and national levels to welcome and facilitate these job-creating capital flows into the economy.

Notes

- ¹ BEA, "Glossary," www.bea.gov/glossary.
- ² Department of State, "Regions," www.state.gov/countries.
- ³ BEA, "Foreign Direct Investment in the U.S.: Balance of Payments and Direct Investment Position Data," www.bea.gov/international/di1fdibal.htm. Unless otherwise noted, all data in this paper are from this source. Although the information provided by the BEA is highly accurate, FDI figures may be more conservative than actual inflows because of (a) the BEA's definition of FDI and (b) the methods used to collect data from foreign investors.
- ⁴ Bindu J. Vyas, "Foreign Direct Investments from Developing Economies in the United States: Magnitude, Characteristics, Motives, and Location Choice of Manufacturing Plants," dissertation, Rutgers University, 2000, pp. 103–4.
- ⁵ Ibid.
- ⁶ U.S. Census Bureau, "Fact Sheet for San Francisco City and Boston City," www.census.gov.
- ⁷ fDi Markets, "Online Database," www.fdimarkets.com.
- ⁸ Ibid.
- ⁹ Ibid.
- ¹⁰ BEA, "Foreign Direct Investment in the United States Tables," *Survey of Current Business* (September 2008), p. 120, Table 17.
- ¹¹ This growth was calculated using the compound annual growth rate. Unless otherwise noted, all average annual growth rate calculations use this method.
- ¹² U.S. Department of Commerce, "U.S.–Japan Direct Investment Statistics," www.mac.doc.gov/japan/statistics/invest.htm.
- ¹³ Edward M. Graham and Paul R. Krugman, "Sources of Growth," in *Foreign Direct Investment in the United States*, 3rd ed. (Washington, D.C.: Peterson Institute for International Economics, 1996).
- ¹⁴ Michael Kaiser and Joshua Timberlake, "Still the Land of Opportunity?" Location USA, July 2008, www.locationusa.com/UnitedStatesSiteSelection/jul08/decision-criteria-investing-in-USA.shtml.
- ¹⁵ Jeff Israely and William Boston, "The Great American Yard Sale," *Time*, August 14, 2008, www.time.com/time/magazine/article/0,9171,1832861-1,00.html.
- ¹⁶ Ibid.
- ¹⁷ RAND Corporation, "Is the United States Losing Its Edge in Science and Technology?" www.rand.org/pubs/research_briefs/2008/RAND_RB9347.pdf.
- ¹⁸ Ibid.
- ¹⁹ Analysis of Nobel Foundation data, <http://nobelprize.org>.
- ²⁰ *Times Education Supplement*, "World University Rankings 2008," www.timeshighereducation.co.uk/hybrid.asp?typeCode=243.

- ²¹ Research by Credit Suisse, China Research Office, with relevant article reference at www.chinadaily.com.cn/bizchina/2007-03/24/content_835594.htm.
- ²² Vyas, "Foreign Direct Investments from Developing Economies in the United States," p. 160.
- ²³ Ibid.
- ²⁴ Ibid.
- ²⁵ International Labor Organization, "New ILO Report Says U.S. Leads the World in Labour Productivity, Some Regions Are Catching Up, Most Lag Behind," press release, September 2, 2007, www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang-en/WCMS_083976/index.htm.
- ²⁶ Ibid.
- ²⁷ Central Intelligence Agency, "The World Factbook," 2008, <https://www.cia.gov/library/publications/the-world-factbook/index.html>.
- ²⁸ Airports Council International, "Cargo Traffic 2008 Preliminary," www.airports.org/cda/aci_common/display/main/aci_content07_c.jsp?zn=aci&cp=1-5-212-219-227_666_2_.
- ²⁹ Vyas, "Foreign Direct Investments from Developing Economies in the United States," p. 166.
- ³⁰ World Bank, *Doing Business 2009: Comparing Regulation in 181 Economies* (Washington, D.C.: Palgrave Macmillan and World Bank, 2008).
- ³¹ United Nations Conference on Trade and Development, Foreign Direct Investment database, www.unctad.org.
- ³² This number was derived by comparing the global FDI outflow stock of each country as listed in the FDI database from United Nations Conference on Trade and Development with the inbound FDI position of each country as listed by the BEA, "Foreign Direct Investment in the U.S." Although this comparison has its limitations, it does provide some insight on where the investments are located.
- ³³ Ibid.
- ³⁴ Alan Rugman and Chang Hoon Oh, "Friedman's Follies: Insights on the Globalization/Regionalisation Debate," *Business and Politics* 10, no. 2 (2008): 1222.
- ³⁵ See the Investment Development Path Theory by John H. Dunning in, "Explaining the International Direct Investment Position of Countries: Toward a Dynamic and Development Approach," *Weltwirtschaftliches Archiv* 117 (1981): 30–64.
- ³⁶ Vyas, "Foreign Direct Investments from Developing Economies in the United States," pp. 32–33.
- ³⁷ Alina Bakunina, "India's New M&A Mantra," *Far Eastern Economic Review* 171 (January/February 2008): 1.
- ³⁸ North American Industry Classification System Association, "Wholesale Trade," www.naics.com/censusfiles/NDEF42.HTM#N42.
- ³⁹ fDi Markets, "Online Database," www.fdimarkets.com.
- ⁴⁰ Ibid.
- ⁴¹ See the description of the Committee of Foreign Investment in the United States at www.ustreas.gov/offices/international-affairs/cfius/.
- ⁴² Deutsche Bank Research, "Sovereign wealth funds—state investments on the rise," September 10, 2007, www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000215270.PDF; and Sovereign Wealth Fund Institute, "Fund Rankings," June 2009, www.swfinstitute.org/funds.php.

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Invest in America is the primary U.S. government mechanism to manage foreign direct investment promotion. Its efforts are focused on outreach to foreign governments and investors, support for state governments' investment promotion efforts, and addressing business climate concerns by serving as ombudsman in Washington for the international investment community. For more information on the program, visit its Web site at www.investamerica.gov.

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