Chapter 7

The State-Based Factors Affecting Inward FDI Employment in the U.S.

Lucyna Kornecki
Embry-Riddle Aeronautical University, USA

E. M. Ekanayake
Bethune-Cookman University, USA

ABSTRACT

The descriptive part of this research focuses on the latest trends in U.S. inward Foreign Direct Investment (FDI) and describes the U.S. inward FDI flows and stock as a percentage of Gross Domestic Product (GDP) and includes geographic and sectoral distribution of inward U.S. FDI. The important part of U.S. inward FDI profile relates to inward U.S. FDI employment and inward U.S. FDI financial flows, which include equity, reinvested earnings, and intercompany debt. The corporate players, Mergers and Acquisitions (M&A’s) and green field investment are discussed briefly. The empirical part of this research investigates state-based factors affecting the inward FDI employment among 50 states of the United States and is based on data collected by the Commerce Department’s Bureau of Economic Analysis (BEA). This study identifies several state-specific determinants of FDI employment. The results indicate that the major factors exerting positive impact on inward U.S. FDI employment are: real wages, infrastructure, unionization level, educational attainment, FDI stock, and manufacturing density. In addition, the results show that gross state product growth rate, real per capita taxes has negative impact on FDI employment.

INTRODUCTION

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 United States continues to be the leading destination for foreign direct investment (FDI) and the leading investor in other economies. Kearney’s index ranks World inward FDI and reveals FDI flows and the factors that

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drive corporate decisions to invest abroad. The major finding in A.T. Kearney’s 2010 FDI report indicates that China and United States are the most attractive FDI locations in the world and have achieved unprecedented levels of investor confidence. The United States remains a strong FDI magnet in the World economy. Recently, China, India, and Brazil made the top spots of Kearney’s FDI Confidence Index (Ries & Swenson, 1999)

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. 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 (Location USA, 2013).

BACKGROUND

Inward US FDI Stock and Flow

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 country’s IFDI stock grew from US$ 83 billion in 1980 to US$ 540 billion in 1990 (www.unctad.org/fdistatistics) to US$ 2,783 billion in 2000, and reached $3,509 billion in 2011 (Table 1). It exceeds by far the inward FDI stock of other large developed economies such as the United Kingdom (US$ 1,199 billion), Germany (US$ 714 billion) and the largest emerging market economy, China (US$ 712 billion) (Table 1).

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

Table 1. United States: inward FDI stock, 2000-2011 (US$ billion)

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<tbody>
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<td>2,783</td>
<td>2,560</td>
<td>2,022</td>
<td>2,455</td>
<td>2,717</td>
<td>2,818</td>
<td>3,293</td>
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**Comparator Economies**

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<td>United Kingdom</td>
<td>439</td>
<td>507</td>
<td>523</td>
<td>606</td>
<td>702</td>
<td>841</td>
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<td>245</td>
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<td>293</td>
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