National Foundation for American Policy

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New Study Finds Foreign Investment is Critical to U.S. Economy and Jobs

Warns Congressional Proposals to Restrict Foreign Investment in Wake of Dubai Ports World Controversy Could Undermine U.S. Economy and National Security

WASHINGTON, D.C. – With Congress poised to pass new legislation on foreign investment before the August recess, a new study commissioned by the National Foundation for American Policy (NFAP), an Arlington, VA-based public policy group, warns that restricting or inhibiting foreign investment could result in "higher interest rates, higher mortgage rates, higher inflation, less innovation, fewer jobs, lower wages, and lower stock prices."

"The Dubai Ports World controversy raised national security concerns but it also caused some people to forget the enormous economic benefits Americans gain from foreign investment in the United States," said **NFAP Executive Director Stuart Anderson**.

Ninety-four percent of foreign assets in the United States are owned by companies from the 25 developed democratic member countries of the OECD (Organisation for Economic Cooperation and Development), and 73 percent of all foreign investments in the U.S. are made by companies in European countries that are allied with the U.S., according to the NFAP study. Majority-owned U.S. affiliates of foreign companies employed 5.2 million U.S. workers in 2004, which represents 4.7 percent of total U.S. private sector employment and paid compensation totaling $318 billion annually.

The study, "Protecting Our Prosperity: Ensuring Both National Security and the Benefits of Foreign Investment in the United States," was co-authored by award-winning scholars **Daniel S. Hamilton**, director of the Center for Transatlantic Relations at the Paul H. Nitze School of Advanced International Studies (SAIS), Johns Hopkins University, and **Joseph P. Quinlan**, a research fellow at SAIS's Center for Transatlantic Relations. (A complete copy of the report can be found at www.nfap.com.)

"We urge policymakers to understand the full implications of current legislation to restrict foreign investment and to strike the proper balance between sensible economic policy and national security," said **Anderson** today at a news conference held at the National Press Club in Washington, D.C. Other participants included Hamilton and Quinlan (the study's authors) and Bill Primosch, Senior Director, International Business Policy, National Association of Manufacturers

"The danger after the Dubai incident is that we could overreact, which would have serious consequences for the U.S. economy. Congress needs to look at the broader dynamic," said **Hamilton**.

Legislation to restrict foreign investment in the United States has passed House and Senate committees in Congress and is awaiting floor action. The key bills are H.R. 5337 and the Shelby-Sarbanes bill in the Senate, though more than a half dozen other bills on the topic have been introduced. The Shelby-Sarbanes bill, for example, could effectively at least double the current review time for certain foreign acquisitions, which could seriously disadvantage foreign firms.

The bill's provisions on notifying elected officials of certain pending foreign acquisitions could be misused and scare off foreign investors. The study also notes that regulatory improvements have already enhanced the acquisition review process.

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The study concludes that any legislation passed by Congress should: limit what areas of "critical infrastructure" fall under government review of foreign investments, while not expanding the definition of national security in such reviews to include nebulous terms like "economic security"; avoid politicizing the process; not discriminate between foreign and domestic investors; avoid creating political uncertainties that would chill potential foreign investors; and take into account that restrictions on foreign investors in the U.S. may be applied to U.S. investors abroad.

Among the study's key findings:

- The states with the most U.S jobs created by foreign-owned companies are California (561,000), New York (382,600), Texas (339,300), Illinois (254,900), Florida (248,900), Pennsylvania (227,700), New Jersey (223,200), Ohio (208,600), Michigan (205,000), North Carolina (204,600), Massachusetts (189,000), Georgia (182,800), Virginia (138,600), Indiana (134,200), South Carolina (127,500), Connecticut (104,900), and Maryland (104,100).

- The average annual salary for those workers is $60,000—34 percent more than compensation at all U.S. firms. Roughly 40 percent of these jobs are in manufacturing, four times the national average.

- Changes made by Congress regarding the fundamental rules governing foreign investment in the United States would reverberate across the nation and around the world, and could both damage U.S. prosperity and diminish U.S. security.

- Many of these proposed reforms to improve the interagency Committee on Foreign Investment in the U.S. (CFIUS), which is charged with examining the national security implications of foreign acquisitions of U.S. companies, risk harming the U.S. economy without enhancing national security. Micromanagement of CFIUS by Congress could threaten confidentiality, risk politicization of investments at home and result in retaliatory actions by foreign parliaments against U.S. investments abroad.

- Creating an outright ban on foreign investment in critical infrastructure would both harm job creation and undermine national security, because foreign investment in these sectors has both increased research and development and spurred additional competition and innovation.

- A liberal regulatory environment has been a key variable driving U.S. foreign direct investment inflows, although the recent rise in investment protectionism in the United States threatens to become a deterrent to investment inflows over the near-term. Commentators and executives have pointed out the requirements under Sarbanes-Oxley and the increased choices available to investors have resulted in a higher proportion of Initial Public Offerings (IPOs) taking place outside the United States.

"The bottom line is that foreign direct investment is creating a lot of jobs in the U.S.-- and keeping U.S. manufacturing globally-competitive." said **NAM's Primosch**.

"If the U.S. develops a reputation as a less welcoming place for investment, money that would have fueled the U.S. economy will flow to other nations, which would have an adverse impact on our ability to compete globally and to create jobs at home," said **Anderson.**

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About the National Foundation for American Policy

Started in 2003, NFAP is a non-profit, non-partisan organization dedicated to public policy research on trade, immigration and other issues of national importance. Its Advisory Board members include economist Jagdish Bhagwati (Columbia University); economist Richard Vedder (Ohio State University); former U.S. Rep. Guy Vander Jagt (MI); Cesar Conda, former Domestic Policy Advisor for Vice President Dick Cheney, and others.

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