Scott Miller: I'm Scott.

Bill Reinsch: I'm Bill. And we're The Trade Guys.

Scott Miller: And we're The Trade Guys.

Andrew Schwartz: You're listening to The Trade Guys, a podcast produced by CSIS, where we talk about trade in terms that everyone can understand. I'm H. Andrew Schwartz. And I'm here with Scott Miller and Bill Reinsch, The CSIS Trade Guys.

On this episode of The Trade Guys, we’re joined by a very special guest, Nancy McLernon. Nancy is the president and CEO of the Organization for International Investment and she'll break down the importance of foreign direct investment to the American worker and the overall economy. Plus, we’ll dig into some recent foreign direct investment trends, including a huge drop-off in investment from China and a global turn towards emerging markets. Stay tuned for all that and much more on this episode of The Trade Guys.

Andrew Schwartz: Gentlemen, here we go. We have a very special guest today. We have Nancy McLernon in here. Nancy, you're going to tell us all about foreign direct investment because that's what you do. Tell us first, just so we get this out of the barn, what exactly is foreign direct investment and what impact does FDI have on the U.S. economy?

Nancy McLernon: Thanks so much and it's really great to be here. First, just a little bit about our organization.

Andrew Schwartz: Sure.

Nancy McLernon: We are a trade association, like so many folks here in D.C., but we are the only organization that exclusively represents international companies in the United States. So, yes, my bread and butter is foreign direct investment. We're now more than 200 companies strong. Our members are all significant investors and employers here in the United States in all different sorts of industries, from companies that are headquartered all over the world.

What is foreign direct investment? So, it's a wonky term that really describes a simple action. It's when a company that is globally-headquartered in another country makes a deliberate decision to invest in the United States and employ people here. And they do it for a variety of reasons and one of which is to serve the U.S. marketplace. That clearly is an important factor but there are other things that drive foreign direct investment here that has to do with the quality of our workforce, the rule of law, because these firms not only manufacture here for our market but they also are a strong exporter from the United States, exporting about a quarter of all U.S. exports. So, there are a variety of reasons these companies do it. Companies like Nestle that is
globally-headquartered in Switzerland. Samsung, globally-headquartered in Korea.

Andrew Schwartz: I have a Samsung TV. They're awesome.

Nancy McLernon: Excellent, excellent. They're awesome. Electrolux. Sweden-based Electrolux that makes their appliances down in North Carolina. I would guess that a lot of people don't know many of the brands that they purchase and love are made in the United States by "foreign companies." But when you unpack what these companies do here in the United States, there's not that much foreign about them.

Andrew Schwartz: So, Trade Guys, jump in here. Scott, I know that you have a lot to say about this.

Scott Miller: Well, look, globally-engaged companies serve consumers in lots of different ways. And they're looking for the best way to address a consumer market or their customer market. And we talk a lot about trade on the show. We talk a lot about physical importation of goods and exports of goods. But this is another way, and in some ways a very powerful way, of serving the local consumers in the United States.

So, companies that directly invest in the United States, regardless of their headquarters, are creating jobs. They're creating employment here. And they're usually making products that are best tailored to the U.S. market. So, this is a very valuable part of our economy.

Likewise, American-headquartered companies, who engage with the world, invest abroad. So, this is something that really is a hallmark of companies and it varies by business model. If you're Boeing, you can build a jet in the United States and fly it to its destination. But if you're Nestle, you want to be close to the consumer because of freshness. Lots of other food products are like that, just the way that you reach consumers, the way you go to market. So...

Andrew Schwartz: And isn't foreign direct investment, isn't a lot of it a good sign for any healthy economy?

Nancy McLernon: Yeah. I mean, some may call it a bellwether about how globally competitive we are. And the U.S. has been the number one location for foreign direct investment for some time. However, we've seen our share of foreign direct investment fall, rise, and fall again.

So, in 2000, the U.S. attracted about 35% of the world's cross-border investment. And then by 2008, it had fallen to about 15%.

Andrew Schwartz: Why was that?
Nancy McLernon: Well, I think that the main reason was that other countries got more competitive. They really ramped up their attractiveness for bringing in foreign direct investment. And that was at a time that the Obama administration created SelectUSA, which is the federal government's first investment promotion agency. Prior to that, all of our recruitment of foreign direct investment came from governors. And it just became harder and harder for Ohio to compete against Germany, right? Because most other developed countries had a federal-level investment promotion arm.

Since 2008, we went back up to about attracting 25% of the world’s economy, cross-border investment. And then from 2017 to 2018, we dropped again for the first time in eight years, dropping down to about 23%. But it is a really, I think, very clear sign, yard stick, if you will, of how competitive we are as a nation when we attract companies that are not homegrown.

Bill Reinsch: Yeah. I saw you had two really strong years in what, ’15 and ’16? Or ’16 and ’17?

Nancy McLernon: Right.

Bill Reinsch: And now, you’ve had decline. And this year, it looks to be on track also. So, is this have anything to do with the current administration? Or is this larger macroeconomic issues?

Nancy McLernon: Yeah. So, I think that there are, just like anything else, there's a lot of different factors at play. Number one is worldwide foreign direct investment is contracting. So, from 2017 to 2018, it contracted about 14%. And the U.S. drop was about 8%. So, we dropped less than the sort of global contraction of FDI. But I think that the rise, not only in the United States but around the world, in sort of nationalism, multi-localization, sort of this forced domestic production, I think is having an impact on all of that.

Scott Miller: Sure. Piece of it is aggregate demand, right?

Nancy McLernon: Sure.

Scott Miller: Declines in 2008 were clearly because our economy was in recession, okay? And-

Bill Reinsch: Yeah. But that doesn’t explain the last two years.

Scott Miller: Other countries were growing faster. Last two years, the United States has actually been growing faster than Europe in particular. But also, Asia has slowed down some, versus say 10, 15 years ago. So, while aggregate demand is part of the story, it’s only a part. And policy is different.

Nancy McLernon: So, 2015 and 2016 were extraordinary years. 2017 and 2018 went back to normal levels. And again, we're still the largest, the most popular location for
FDI. I think it's important to look at that global share because that again tells us how competitive we are with other countries. We don't want to leave any jobs on the global table, so to speak.

And being attractive for FDI, part of that story is kind of, Bill, what you were mentioning. The current policies of sort of promoting an America-first environment provides some uncertainty. Some of our strained relationship with our most longstanding trading partners also has caused increased uncertainty.

Andrew Schwartz: And that decreases foreign investment? Or no?

Nancy McLernon: Yeah. No, it definitely can have-

Scott Miller: At the margin, sure.

Nancy McLernon: Yeah. And tariffs and other things that make it more costly to be a company that operates in multiple jurisdictions definitely has an impact as well.

Andrew Schwartz: So, how can we say that we're open for business, yet at the same time, we're saying, "America first"? We're sending mixed messages, is what I'm hearing from you.

Nancy McLernon: Well, I think that's probably true with most administrations, unfortunately. There is this, "We're open for business. We want to do the next ribbon-cutting at the next facility." But then there's a disconnect between that and policies that provide the same opportunities for all companies to succeed in the U.S. market.

There was a time that we always... we put a flag on a company. And it's becoming, because of how companies have operated for the last 30, 50 years, it's becoming more and more difficult to do that, but more irrelevant to do so. And I think that we see our political leaders still kind of wanting to do that.

Scott Miller: Here's a way to think about it, Andrew, is if you imagine, we have an open investment policy. Anyone can invest in America. We're delighted to welcome foreign investment into the economy. Foreign investors are treated equally before the law. They have all the rights and privileges that an American person or American company would.

Nancy McLernon: Well, that's the hope.

Scott Miller: That's the-

Nancy McLernon: We've had some challenges to that but-

Scott Miller: That's the positive side. The negative side is look at our imports. Half of our imports are intermediate goods. They're things we use to make other things.
The tariffs on intermediate goods have made it less attractive to produce finished goods here, including the foreign-invested companies who are trying to produce finished goods, whatever they might be, in the U.S. So, we’re welcoming with one hand and then we’re raising the cost of doing business with the other. And that’s-

Bill Reinsch: Well, we’re doing something else too. And I wanted to ask you about this. We welcome inbound investment. This administration seems to be actively discouraging outbound investment. The president’s clear, he wants Americans to stay here and he wants them to produce more here. And they’re under some pressure to do that.

Bill Reinsch: Do you find that being reciprocated? Are your members having pressure from their home governments to do the same thing? To stay in the U.K., in Japan or Korea, in Norway or wherever it is?

Nancy McLernon: Well, as I said, what’s happening in this country is similar to what’s happening in other developed countries. I think that we have this nationalism rising in a variety of places all over the world. And that is what is factoring into that contraction of FDI. And while, again, while we say we’re open for business and policies that would negatively or disproportionately impact them. So my industry sector, if you will, so international companies in the insurance space, in the car space, in the food space, are operating from the specifics of their industry. However, as an industry of international companies in and of itself, a lot of policymakers don’t know that some of my companies are quote unquote foreign, right? So when they introduce legislation, and this is true out of the administration as well in the regulatory space, trying to go after foreign companies, they don’t realize that’s their favorite washing machine manufacturer in the United States. That’s their favorite local producer that’s really globally owned. And so one of the main missions of our organization and what we try to arm our companies with is how to talk about their global heritage.

In a way that people understand, "Okay, I’m a company that started off in the U.K., but we’ve been in the United States more than a hundred years. And we have imported policies, corporate culture that actually specifically benefit the United States." So when I think about what does foreign investment mean to the U.S., US economy, it first and foremost means paychecks. So 7 million Americans get a paycheck from an international company. And here is just a, I think somewhat of a shocking stat. Foreign companies are actually driving Made in America. 62% of all of the manufacturing jobs created over the last five years have been at international companies.

Bill Reinsch: Foreign companies are driving made in America.

Nancy McLernon: I believe that's what the stats know.

Bill Reinsch: When you say we should be clear about definitions, when you say international companies, you're referring to foreign headquartered
companies operating in the United States because we have international companies too. GE is an international company, but you’re not talking about them.

Nancy McLernon: And GE probably doesn’t refer to themselves as an international company. Although GE Appliances is now owned by a foreign company.

Andrew Schwartz: But you’re talking about Japanese companies, German companies.

Bill Reinsch: Headquartered companies operating in the United States.

Nancy McLernon: Companies globally headquartered outside the United States with operations here.

Bill Reinsch: Let me ask a question about that, it’s frustrated me for years, I used to have battles with my friends in organized labor about this. And I think this is a problem that-

Andrew Schwartz: Shocking that Bill had battles with his friends.

Bill Reinsch: Thank you, Andrew. This is also, I think, true of this administration that fundamentally they look at investment location as sort of a zero sum thing. You know, for an American company, a dollar invested in Mexico for organized labor is a dollar not invested in United States. It’s either here or there. And I’ve always thought that these things are win-win. That a foreign investment inbound produces gains on both sides.

Nancy McLernon: That’s what the statistics show, absolutely.

Bill Reinsch: Have you got data on that? Maybe not now, but can you share it with us? I look for that.

Nancy McLernon: Absolutely. Yeah, that definitely shows. I mean, there have been studies, and again, I don’t have it here with me. US investment abroad, you know redounds to the benefit of Americans. But it’s a hard economic equation sometimes when you’re in the country receiving the investment. So the US receiving foreign direct investment, there’s bricks and mortar. There is a more simple economic sort of math equation to take a look at it. But I absolutely agree with what you’re saying.

Andrew Schwartz: If you share the data with us, we will put it in the Trade Guys notes for sure.

Bill Reinsch: The number that I used years ago was that for every US dollar invested outside the country, something like a dollar 32 came back, 15 or 20 cents to tax.

Scott Miller: I used to work for a company that had almost no exports, exports only to Canada and Mexico from its US operations and yet one in five US jobs were attributed to with the international business and they were good jobs in
logistics, R&D, all the headquarters functions of a global company that basically benefited from the fact that you had assets abroad and you had production abroad. So it’s definitely a positive sum game. And the same goes for foreign companies who invest in the United States, it benefits the United States. It benefits the operations of the company. It makes them better companies overall, better able to serve consumers.

Nancy McLernon: I’ll give you an interesting example. So many years ago, and I don’t think this will shock you guys, but maybe it will, Unilever, one of our members acquired Ben and Jerry’s and Ben and Jerry’s made sure that their corporate culture was intact because that was a big selling point of the company. But that acquisition has enabled Ben and Jerry’s to compete in Europe against Haagen Dazs, right? So before it was just a US company and didn’t have that global reach, the same thing is happening when US companies invest abroad as well, bringing lots of different things to the US market in a way that benefits us consumers.

Andrew Schwartz: Do you want to hear a great story about Ben and Jerry’s? You know, everybody pitches Ben and Jerry their favorite flavor, right? So I met Ben Cohen and I said, “Look, I’ve got the flavor of all flavors for you.” And I said, “Ben, I know you’re a music fan, you know, Cherry Garcia and everything. So I said, look, you’ve got to come up with a flavor called Neville Nation for the Neville brothers.” Neville Nation. And I gave him like the whole recipe and everything.

Nancy McLernon: Shocking that we haven’t seen that yet.

Andrew Schwartz: No. And I’m thinking like, this is a winner. Like who doesn’t want to eat Neville Nation from new Orleans? It’s like, you know, fudge brownie, it’s got like praline in it, everything. And he just looks at me and he goes, “You know, I’ve got something with Dr. John in the works.”

Andrew Schwartz: And you know, to talk about crushing a guy. I mean, that’s my story.

Bill Reinsch: I think the Neville brothers will forgive you for this.

Andrew Schwartz: The Neville brothers know this story. They were my neighbors in New Orleans and when I was at Tulane and they know all about it. And Dr. John also knows about it because he was a friend. God rest his soul.

Bill Reinsch: Well there’s some new laws about governing foreign investment. The committee on foreign investment in the United States has existed for some time now, but there’s new legislation. Legislation was passed a year or two ago. How is that affecting your members? What are the changes? What are you noticing in terms of U.S. oversight and regulation of foreign investment?

Nancy McLernon: Yeah, so our organization supported that law, sort of the modernization of CIFIUS when it passed.
Andrew Schwartz: CIFIUS, the Committee on Foreign Investment-

Nancy McLernon: Committee on Foreign Investment in the United States. And you know, I think there were some elements to that bill that really just codified what was already happening in current law. I think it's really important for Congress to feel very confident in that review process because if they don't, deals become politicized very, very easily. We have found that over the years, competitors try to use that government review process to achieve something that they couldn't in the marketplace. So we were pleased to see Congress modernize CIFIUS so that they would have confidence in the process. We're involved right now in the regulatory stage wanting to ensure that CIFIUS reviews say focused on sort of defense related national security if you will, doesn't drip into protectionism and so right now I think there'll be more deals filed but it's not our expectation that it would discourage the kind of foreign direct investment we've been talking about here today.

Bill Reinsch: It's really about China. I mean it's neutrally phrased, it's always neutrally phrased. So theoretically, anything your members are going to acquire is going to end up going through some level of review process. I think the expectation is that if you're going to see anything different, it'll mostly have to do with China. I mean the main thing to me that the law does is it expands the universe of stuff that they're going to look at because in the past it was just, it was outright accurate.

Nancy McLernon: Personal data is factoring-

Bill Reinsch: Look at a non-passive, non-acquisitions and joint ventures.

Nancy McLernon: Even though, Bill, even though it's sort of aimed at China, some of my members, and I have some Chinese companies, but some of my non-Chinese member companies that have exposure in China are being impacted even though they're not a Chinese-owned company.

Bill Reinsch: Really? How so?

Nancy McLernon: Concern about supply chains and so forth that even though that the company is headquartered in Germany, if they have significant exposure in China and sort of how they're-

Scott Miller: So the complexities of the real world are showing up in the administration as well.

Bill Reinsch: This has been a common theme on this podcast in the past that supply chains make everything more complicated and this is a good example of that. There are all kinds of connections. I mean the other thing that's happened, thanks also to supply chains is all these things are in multiple jurisdictions. If your company in Germany is going to buy somebody, they may not need just us approval. They may need Chinese approval, they may need EU approval. They may need, you know, Canadian approval for that matter because they
have facilities in all places and all places that are impacted. Does that make the process of making foreign investments a lot more complicated than it used to be? Or do people know how to navigate?

Nancy McLernon: I don't think so. I think people know how to navigate it. I don't think so. And kind of the same things that they have to go through with antitrust rules. And so I think it's sort of baked in. You know, a big question mark out there is how will the growing nationalistic sentiment affect all of this? The majority of foreign direct investment in any developed country is through M&A, like 80 some percent. And you know, so I just gave the Unilever example, right?

Nancy McLernon: Cross border M&A enormously benefits the companies.

Bill Reinsch: Mergers and acquisitions.

Nancy McLernon: Mergers and acquisitions enormously benefits the company being acquired because you've got cash flooded in, right? A foreign company that buys an entity is doing so because they believe in that company. It's a foothold into the market. And so all these other economic factors-

Scott Miller: The home operation is recapitalized. But you have opportunities worldwide now. I love the idea of Ben and Jerry's Ice Cream got into Europe because Unilever purchased them. Otherwise, it would have not been.

Andrew Schwartz: It's so much better than Haagen Dazs.

Scott Miller: I think so.

Andrew Schwartz: You know. Well, Nancy, let me ask you this.

Bill Reinsch: What's your favorite flavor? What's your favorite flavor? Cherry Garcia? It would have been Neville Nation.

Andrew Schwartz: It would have been Neville Nation, but of course it is Cherry Garcia.

Nancy, let me ask you this. So we talked about some of the countries that are the top investors in the U.S.. UK, Japan, Germany, Ireland, France. China though, let's talk about China. China recently has cracked the top 10 right? So it's now accounting for about 1.4%, is that right, of FDI in the US?

Bill Reinsch: It's way down.

Scott Miller: Yeah, in terms of flow dollars.

Nancy McLernon: Yeah, it's down. But their stock, China's stock in the U.S. grew the fastest out of the top 20 cumulative countries and it rose more than four-fold, from 2013 to 2018.
Andrew Schwartz: Okay. So, let’s talk about China going forward though. What should we expect, given the relationship with the United States and China right now, what should we expect China's share? Should it grow or shrink in years to come? What do you think?

Nancy McLernon: Yeah, I think Chinese outbound investment, not just in the United States but in other countries is under some heavy scrutiny. I think there’s been some directives in China to take care of that. So it’s not just the US or other countries sort of putting up barriers. I think that Chinese companies are also realizing they’re making the environment tough for them. And I expect to kind of see them pulling back even further for the environment to get a little softer for them.

Bill Reinsch: Well, the Chinese I think are thinking are restricting outbound investment for their own domestic policy purposes. We were all also struck, and we’ve commented on this before by the McKinsey Global Institute Study from last February or March, that among other things talked about in China and India that they are beginning now to do what economists have been telling them to do for years, which is to move away from the export led growth model to a domestic consumption led growth model. But they’re doing it with indigenous supply chains so that what you’ve got are Chinese companies, building Chinese supply chains. I think not necessarily because they have to or because we’re precluding that or the Chinese government is precluding that, but for a variety of economic reasons that they’re just trying to shorten the supply chain. And it may be that they’re trying to insulate themselves from some of the vulnerabilities or some of the vagaries of other countries’ policies or tariffs that are going on.

Nancy McLernon: Yeah. But you know, Andrew, your mention of China, right? Chinese investment in the United States, Chinese companies right now is sort of the tip of the sword on policy affecting all of my companies. So initiatives that are introduced in Congress, regulation that are trying to go after Chinese companies would actually affect all of my member companies because it's very hard to sort of isolate out kind of going after companies from a certain country, which is why it is so important for our member companies, our organization to unpack the full story of foreign investment. Because still Chinese investment is still relatively small in the United States compared to companies from countries that have been investing in the United States for decades and more than a century.

Nancy McLernon: And we’ve seen that happen over the last 30 years. So before this podcast, we were talking about when the US began its efforts in Iraq and France decided not to join us in that effort. And there was a whole outrage in Congress kind of going after-

Bill Reinsch: Freedom fries.
Nancy McLernon: -French companies. But initiatives were introduced that were going to affect all of my members. I think there is this sort of misconception that there’s a monolithic foreign company when it's obviously enormously diversified.

Andrew Schwartz: Right. So you in your organization have a lot of messaging to do, it seems.

Nancy McLernon: When we started in 1990, and at that time it was the concern about Japanese investment in the United States, there was a big headwind against us. I’ve seen over the last 30 years, this sort of up and down, but mostly upward trajectory of support for global connections. And I think that starting in 2016 again, not just in the United States and not just with President Trump, on both sides of the aisle, there is a lot of skepticism about our global connections. And I don't know, maybe five years ago I was saying, "You know what? I think we're good. Maybe we don't need to ... People are understanding and supporting foreign direct investment." And now we're in really turbulent times. Again, I think that's not just in the United States. U.S. companies in Europe and in the U.K., all of global businesses have a challenge now because our political leaders, for the most part, are pushing this nationalistic sentiment. It's up to us to try to turn that around.

Bill Reinsch: When I was a lobbyist and running a different association, when we talked, we talked a lot about tax and tax policy, which is a big deal for you guys I assume. Is it still a big deal? And how has the tax bill from last year affected your guys?

Nancy McLernon: Yes, so I think tax and trade are always big deals for large corporations or for most corporations. And so in the 52 day sprint that Congress considered the tax reform, we felt that there that our companies were being heard and there were policies that were initially part of it that would have been discriminatory against our companies. At the end of the day, our organization supported it. Again, most of our companies are concentrated in the manufacturing sector and I think manufacturing companies in general did well in the tax reform.

Bill Reinsch: Has that been your experience after the fact? Has it turned out the way you thought it was going to turn out?

Nancy McLernon: So there's still some things up in the air. So regulations have not been finalized, but I would say overall tax reform made the US more competitive for foreign-

Scott Miller: Well that's the story that never got out on the Tax Cuts And Jobs Act. Because everybody focused on the individual side. But the real changes, the substantive changes were largely on the corporate side. And they were quite, quite positive with territorial taxation and a much lower headline rate. All that made the United States a better place to locate production, whether from a foreign headquarters or domestically.

Nancy McLernon: Yeah, absolutely.
Andrew Schwartz: Well, this is a fascinating discussion and it brings me to one final thing I wanted to bring up. But as we go forward with these issues, it seems to me there’s going to be an increasing overlap between national and economic security issues. How does that play out in your world?

Nancy McLernon: Protecting national security is obviously the most important thing. What we need to make sure is that economic security is not subsumed into national security in a way that erects barriers. Because we know that that actually will threaten national security. Foreign direct investment in the United States actually strengthens our national security. It diversifies our economy and it gets other countries on the same side of the economic ledger as the United States. And many of our companies have very strong veteran's programs. DSM, which is a Dutch company manufacturing down in North Carolina the material for our military's flak jackets in North Carolina. And so it’s interesting that national security would in any way feel threatened by foreign direct investment. But how any administration defines national security will absolutely impact whether we are open for business,

Scott Miller: These are partners in both national security production, whether it’s weapon systems or whatever the components might be. But they also enhance our economy. They lead to faster growth, they lead to more jobs and better jobs. So a net positive.

Andrew Schwartz: Which is increasing a huge part of our national security.

Nancy McLernon: Right.

Scott Miller: Absolutely.

Nancy McLernon: Well, there’s a saying that when goods cross borders, armies don’t. So strengthening our economic relationships with other countries, whether it’s through trade or cross border investment, strengthens our national security. It doesn’t weaken it.

Andrew Schwartz: Yeah. I want to get a painting of Bill in a Napoleon outfit with that slogan and put it up in my office. That’s my next big acquisition.

Nancy McLernon: All right. Will you be posing for that, Bill?

Scott Miller: The Neville Brothers ice cream brand that didn’t happen.

Andrew Schwartz: That’s right. Reminding me of my ultimate failure. There you go.

Nancy McLernon: Or a potential new business opportunity.

Andrew Schwartz: You never know. Nancy, thank so much for being here today with the trade guys. This was really enlightening for me, interesting, and we hope to have you back sometime soon.
Nancy McLernon: Appreciate it. Thanks so much guys.

Scott Miller: Thank you.

Andrew Schwartz: To our listeners, if you have a question for the trade guys, write us at tradeguys@CSIS.org. That’s tradeguys@CSIS.org. We’ll read some of your emails and have the trade guys react to it. We’re also now on Spotify so you can find us there when you’re listening to the Rolling Stones or you’re listening to Tom Petty or whatever you’re listening to. Thank you, Trade Guys.

Scott Miller: Thanks, Andrew.

Andrew Schwartz: You’ve been listening to The Trade Guys, a CSIS podcast.

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