Non-US Investment Heroes: Foreign Companies Betting on America

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Foreign Direct Investment (FDI)—investment in the United States by foreign-based companies—has yet to recover to pre-recessionary levels. In 2011, FDI remained 25 percent below 2008 levels, and preliminary 2012 figures suggest an even further drop.

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Indeed, almost 6 years after the Great Recession began, the United States continues to wallow in an investment drought.[1] Such weak investment—both from U.S. and non-U.S. based companies—is almost certainly a key factor behind today's slow-growth economy.

Investment is a critical part of any high-growth strategy. It is the building block for innovation and economic growth. Investment that increases U.S. production—of goods, services and data—creates high-skill, globally competitive jobs and raises incomes.

This report highlights several important facts about foreign investment that shed light on sectors of the U.S. economy. First, energy is one of the fastest growing areas for foreign investment in America, just as it is for U.S.-based company investment. Official data shows foreign direct investment in "petroleum"—oil and gas extraction, refining, and distribution—more than doubled from 2008 to 2011.

Second, our research shows the United States continues to be an important platform for non-U.S. motor vehicle manufacturers. Moderate investment by non-U.S. motor vehicle manufacturers to upgrade and expand existing production lines show the U.S. market continues to be an important part of their business model.

Third, relatively low investment by non-U.S. industrial manufacturers suggests the greatly heralded manufacturing renaissance may not be as robust as some believe. Our research shows companies in this sector engaged in relatively little U.S. investment activity, and in some cases previous U.S. investments were unsuccessful. Such lackluster investment should be considered by policymakers on

federal and state levels designing pro-investment growth strategies that target manufacturing.

Finally, a lack of good data on investment from many non-U.S. based companies, particularly those outside of the energy sector, presents a challenge for designing effective U.S. investment policy. Not having access to quality information on the U.S. activities of large non-U.S. companies makes it difficult to why certain companies are investing while others are not.

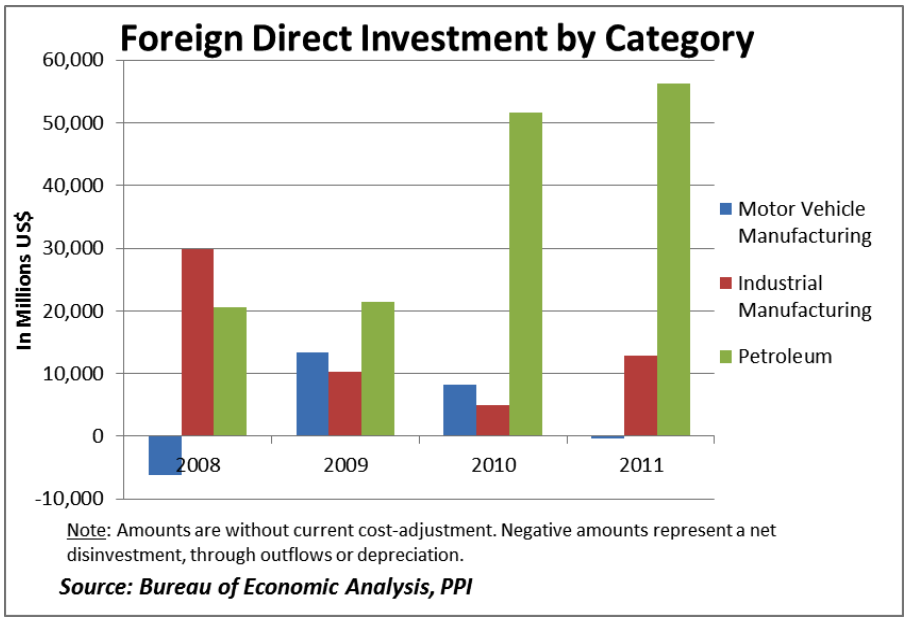
For this report, PPI considered three categories of investment: energy, motor vehicle, and non-motor vehicle industrial manufacturing. We chose these categories because of their importance to facilitating broader growth in the U.S. economy. We calculated the U.S. capital expenditures for companies in each category in 2011 and 2012[2], using publicly available financial reports.

This report is part of our "Investment Heroes" series, and follows from our 2012 report "U.S. Investment Heroes: Who's Betting on America's Future?" that ranked U.S.-based companies by their 2011 U.S. capital expenditures.

Foreign Direct Investment in United States

The economic benefits of foreign investment into the U.S. are well-documented. A 2011 study by the Commerce Department found jobs supported by foreign direct investment (FDI)—jobs where the employers are U.S. affiliates of foreign-based companies—pay up to 30 percent more than non-FDI supported jobs.[3] Moreover, the 2 million FDI-supported U.S. jobs in manufacturing were found to be less affected by the overall decline in U.S. manufacturing employment.

As the chart below shows, FDI across the three categories considered for this report—energy, motor vehicle, and industrial manufacturing—varied significantly over 2008- 2011. Over this period, petroleum related investment, including oil and gas extraction, refining, and distribution, more than doubled while U.S. investment in motor vehicle and industrial generally fell. In the case of negative values, the total outflows were greater than the inflows. In other words, disinvestment—through depreciation or transfer of assets—was greater than new incoming investment.



Foreign direct investment in energy is one of the fastest growing areas of foreign investment into the U.S.

Foreign direct investment in energy is one of the fastest growing areas of foreign investment into the U.S. Official numbers show investment in petroleum production and related activities more than doubled from 2008 to 2011 in nominal terms. Much of this rapid increase is likely due to the boom in low cost natural gas, along with the continued oil exploration in the gulf coast and other sites in the continental United States. Indeed, official data shows the largest gains were in oil and gas extraction and petroleum wholesale distribution,[4] particularly in integrated petroleum extraction and refining.[5]

Relative to FDI in petroleum, investment in motor vehicle and industrial manufacturing was significantly less. While foreign investment in U.S. manufacturing comprises the largest sector share of FDI, constituting about 40 percent of total FDI in 2011, almost half was in pharmaceuticals and medicines.[6] The falling investment totals over 2008–2011 in motor vehicle and industrial manufacturing could be related to U.S. and global factors, for example, changes in U.S. consumer demand after the recession or supply disruptions caused by the 2011 earthquake and tsunami in Japan.

We must note that FDI figures for these categories are the net total, and do not reflect investment at the individual company level. So a slightly negative FDI in motor vehicle manufacturing simply means that for the entire sector, there was more disinvestment than new investment. However, that says nothing about the potential amount of new investment in that year by an individual motor vehicle manufacturer.

The amount foreign-based businesses invest each year is quite sensitive to national and global market conditions. Total FDI has yet to recover from its pre-recessionary peak, with 2011 FDI remaining 25 percent below a $310 billion peak

in 2008. Moreover, preliminary figures suggest foreign investment in the U.S. shrank to just $175 billion in 2012—a full 44 percent below its 2008 high. Given that Europe accounts for about 60 percent of FDI into the U.S., it's quite possible the ongoing Eurozone crisis is a factor in this latest downturn.

The FDI estimates here capture new spending by foreign-based entities into the U.S. This could include new "greenfield" investments, where a property is built and developed, or it could include "brownfield" investments that are acquisitions of existing U.S. facilities. Funding can come from company equity, reinvested earnings, or intercompany debt.[7]

Non-US Companies Investing in United States

To find out which foreign-based companies were betting on America, PPI used publicly available financial reports to estimate U.S. expenditures. We started with Fortune's list of the Global 500 and divided the companies up by sector. In some cases companies explicitly reported U.S. capital expenditures. More frequently, we used reported total capital expenditures and assets by geographical location to estimate what share of the company's capital expenditures was in the US. This involved a series of detailed calculations and assumptions. A more complete methodology can be found in the appendix of this report.

We divided our analysis into three categories—energy production, motor vehicle manufacturing, and industrial manufacturing—for two reasons: (1) to highlight areas of importance for investment in the U.S. economy, and (2) to maintain consistency in our methodology, since foreign companies follow varying accounting standards. Companies in the same sector were more likely to report capital expenditure and geographical asset information consistent with each other.

We provide a ranking only for non-U.S. energy companies, because it was the only category where good quality data on U.S. investment was available. For both the motor vehicle and industrial manufacturing categories, discrepancies in available data and accounting methodology made it difficult to calculate U.S. investment to the point where a ranking was possible. For example, it was unclear how motor vehicle manufacturers incorporated financial leases, which are not considered additions to plant, property, and equipment, into their gross capital expenditures. Instead, for these categories we highlight companies that we found to be leading U.S. investors, along with PPI's estimate of their U.S. capital expenditures.

The companies highlighted in these report are listed in the Fortune Global 500. A company's absence from the list therefore does not mean it didn't invest in the U.S. in 2011 or 2012, or invest significantly. It only means it was not a top company in one of our chosen categories.

Moreover, this is not to say that all of the companies mentioned in this report are paragons of corporate virtue. As large corporations, many are doubtless involved

in all manner of disputes. This report assesses them on the sole but critically important dimension of investment in the U.S. economy.

We would also like to be clear that many of the estimates included in this report are simply that—estimates based on PPI calculations. We made many underlying assumptions that could impact the final number. For example, some companies on the list provide little geographical information on the location of their assets, in which case we used evidence on U.S. operations from or about the company. In other cases, the information available included assets other than plant, property, and equipment, which could skew our estimates if these additional assets were large. We want to be clear that the numbers expressed here are PPI's estimates using the best information available. The actual number could be significantly higher or lower.

Energy Production

PPI's Non-U.S. Energy Investment Heroes consists of major multi-national companies that have expansive worldwide operations. The list below shows the top four foreign-based energy companies ranked by total U.S. investment in 2011 and 2012, alongside each company's estimated U.S. investment for each year.

Over the last two years, the top four energy companies on our list – Britain's BP, the Netherlands' Shell, Norway's Statoil, and France's Total— invested almost $60 billion in the U.S.

Investment Heroes: Top 4 Foreign Energy Companies by U.S. Capital Expenditures

Rank	Company	Total Estimated 2011 & 2012 U.S. Capital Expenditures ($bns)	Estimated 2012 U.S. Capital Expenditures ($bns)	Estimated 2011 U.S. Capital Expenditures ($bns)
1	BP	**19.3**	**10.4**	**8.9**
2	Shell	**17.7**	**11.3**	**6.4**
3	Statoil	**15.7**	**5.4**	**10.3**
4	Total	**6.0**	**2.0**	**4.0**
Total		**58.7**	**29.1**	**29.6**

Source: PPI calculations based on company financial reports & filings for 2011 and 2012. Totals do not include R&D, only capital expenditures in plants, property, and equipment. Totals also include company acquisitions.

Converted into U.S. $ using annual averages from the IRS.

Over the last two years, the top four energy companies on our list –Britain's BP, the Netherlands' Shell, Norway's Statoil, and France's Total—invested almost $60 billion in the U.S. Much of the U.S. investment by these four companies is concentrated in the upstream exploration and development of oil and natural gas in the continental U.S. and the Gulf of Mexico.

In spite of recent legal difficulties over the Deepwater Horizon oil spill, 2011 and 2012 were years of strong investment in the U.S. from BP. At a combined $19.3 billion, BP invested more over 2011 and 2012 than any other company on our list. In 2011 BP continued to expand its presence in the Gulf of Mexico, announcing the drilling of a successful appraisal well which expanded its Mad Dog oilfield and bidding on 15 additional blocks being leased by the Bureau of Ocean Energy Management, of which it was awarded 11 blocks. In addition, BP reported drilling 148 new wells across the continental U.S. In addition to oil and gas, BP also spent the last two years focusing on its alternative energy wind power investments in the U.S., deploying new wind farms in Colorado, Texas, Kansas and Pennsylvania.

Shell, individually leading U.S. energy investment in 2012, spent much of its U.S. investment increasing its extraction and refinery of petroleum. According to Shell's annual report, this includes extraction sites in the Gulf of Mexico, California, Pennsylvania, and Alaska. Shell's strong investment presence in the U.S. in 2011 was explicitly mentioned in a 2012 report from the Congressional Research Service, saying "the Netherlands and the United Kingdom accounted for the bulk of foreign investments in the U.S. petroleum sector, reflecting investments by two giant companies: Royal Dutch Shell and British Petroleum."[8]

Statoil is a relatively lesser known oil company. The fact that Statoil individually invested more in 2011 than the other companies on our list may be surprising, but it is worth noting that $4.4 billion of their total $10.3 billion investment in 2011 resulted from the acquisition of U.S.-based Brigham Exploration Company. According to its annual report, the purpose of this acquisition was to increase Statoil's supply of easily extractable oil to supplement current output. The acquisition also explains why 2012 investment levels decreased to $5.4 billion.

U.S. investment by Total in 2011 and 2012 reflects an industry trend to convert heavy crude oil into a lighter, cleaner fuel that meets stricter environmental standards. In 2011 the French company finished much of the development of their deep-conversion unit in Port Arthur, Texas. This refinery converts heavy crude into a lighter fuel through a process called "coking." According to Total's website, its Port Arthur refinery was scheduled to have a capacity of 12 million barrels annually in 2011, which consists of 23 individual refining units.[9]

Motor Vehicle Manufacturing

Several of the non-U.S. motor vehicle manufacturers we considered were found to have sizable U.S. investment, geared toward increasing production capacity and maintaining ongoing operations. However, discrepancies in available data and accounting methodology made it difficult to calculate U.S. investment for non-U.S. motor vehicle manufacturers to the point where a ranking was possible. For example, it was unclear how motor vehicle manufacturers incorporated financial leases, which are not considered additions to plant, property, and equipment, into their gross capital expenditures.

The success of the non-U.S. motor vehicle manufacturers operating in the U.S. market we highlight here can likely be attributed to diversified portfolios—that is, they have multiple brands and vehicle types that cater to different segments of the population. For example, these companies have model collections that are compact and large, with interchangeable parts, range from low-cost to "luxury," and, increasingly important to U.S. consumers, have high fuel efficiency.

Japan's *Honda* is the largest foreign-based producer of automobiles in the U.S. and also a large U.S. investor.[10] Our estimates show Honda invested $1.2 billion in the U.S. in 2011, and $1.8 billion in 2012. According to press releases, this investment went toward plant expansions in Ohio, North Carolina, and Alabama. In Ohio, Honda invested in two projects—one, the addition of a third transmission production assembly line, and another to increase capacity for casting of aluminum transmission cases.[11] In Alabama, Honda increased production of vehicles and engines while in North Carolina, Honda Aircraft Company built a new HondaJet aircraft maintenance facility.

German-based *BMW* spent most of the $0.6 billion U.S. investment we estimate for 2011 in expanding the capacity of its Spartanburg, S.C., plant. In a press release the company announced it would invest $900 million in the existing facility through 2014, to expand production of the BMW "X" series to 350,000 vehicles annually.[12] In 2011 the company also jointly invested in a carbon fiber production facility in Washington state, which will be used to make light-weight reinforced plastics for the BMW "i" series.[13] In 2012, we estimate the company slightly increased its U.S. investment from 2011 levels to continue these projects and maintain ongoing operations.

We estimate Sweden-based *Volvo* invested $0.4 billion in 2011 and increased U.S. investment in 2012 to $0.7 billion. According to Volvo's annual report, the strong demand for its automated mechanical transmissions, "Volvo I-Shift" and "Mack mDRIVE," led the company to invest in moving production from Sweden to Hagerstown, M.D. Also in 2011, Volvo subsidiary Nova Bus was awarded a contract for 328 New York City MTA buses to be manufactured in Plattsburgh, N.Y.[14] And in May 2012, Volvo Construction Equipment (Volvo CE) broke ground on a new facility in its Shippensburg, P.A. location, with announced plans to invest $100 million over the next few years.[15]

Foreign investment in U.S. industrial manufacturing had the weakest individual company investment out of the three categories PPI considered.

Industrial Manufacturing

Based on PPI calculations, foreign investment in U.S. industrial manufacturing had the weakest individual company investment out of the three categories PPI considered.

We must note, however, that the complexity of these companies may affect the accuracy of our estimates. In addition, as with motor vehicle manufacturers, discrepancies in available data made it difficult to provide a ranking of companies. For example, in many cases no geographical breakdown of non-current assets

were available at either the U.S. or North America level. This it itself suggests U.S. investment, and existing capital stock, for many non-U.S. based industrial manufacturers was relatively little to non-existent.

Of those non-U.S. based industrial manufacturers found to have U.S. investment, South Korea's *Samsung* led this category by a large margin. We estimate Samsung invested $3.5 billion in 2011, almost completely due to the addition of a new processing chip production line for Apple's iPhone 4S and iPad 2 at its Austin, Texas manufacturing plant. [16] While Samsung is also a fierce competitor to Apple, clearly the rising demand for Apple smart devices was a big favor behind Samsung's decision to make this investment. It's worth noting this plant is currently Samsung's only production facility in the U.S., and it's also why Samsung is slated to invest $4 billion more to expand and convert its Texas processor chip production line in 2013.[17]

By our estimate, German-based *ThyssenKrupp* invested $1.3 billion in the U.S. in 2011. According to company statements, this investment was related to the construction of a new carbon steel and stainless steel processing facility in Alabama. The project was initiated in 2007 and sought to increase steel production in the Americas for American-based customers.[18] However, the project did not perform as expected, due to supply and demand factors, and recently ThyssenKrupp the plant up for sale.[19] Although the company continues to invest in its stainless steel production capacity in Alabama, U.S. capital expenditures in 2012 were significantly lower, we estimate about $0.6 billion.

We estimate another German-based manufacturer, *Robert Bosch*,[20] invested about $300 million in the U.S. in 2011 and maintained this level of U.S. investment in 2012. Company statements show Bosch expanded the capacity of its industrial technology production in Charlotte, N.C., which will concentrate the manufacturing of linear motion and factory automation products. Also in 2011 the company began a five-year expansion of its hydraulic manufacturing facility in Fountain Inn, S.C., and invested in its Kentwood, M.I., automotive technology manufacturing facility.[21]

Policy Implications & Conclusion

Foreign Direct Investment (FDI) in America can provide valuable insight on areas of current and future high-growth within the U.S. economy. That's because foreign companies are more likely to invest in areas of perceived strength, where there will likely be a positive return on investment. This is evidenced by the fact that jobs supported by FDI tend to be higher skill and pay significantly more on average—sectors where the U.S. experiences strong growth tend to also be sectors that are highly productive.

That's why PPI calculated U.S. capital expenditures in 2011 and 2012 by non-U.S. based companies across three categories—energy, motor vehicle manufacturing, and industrial manufacturing—to shed light on which companies are willing to

bet on America's future. The purpose of this report is to highlight which foreign companies in these categories see America as a high-growth economic opportunity.

The investments by the companies highlighted in this paper created and supported thousands of jobs, according to official company documents. These jobs were generated both directly and indirectly, as a result of expanding production capacity and building new facilities. Putting aside any non-investment controversy that surrounds any company included in this report, the jobs created and supported by these companies are a tremendous benefit to the U.S. economy and should not be ignored or taken for granted.

Policies that target investment in industrial manufacturing will boost U.S. industrial production and create more middle to high-skill jobs.

Moreover, our research uncovers the important reality that energy companies are a relatively large, and fast growing, source of foreign investment in America. U.S. investment by the top non-U.S. energy companies was substantially higher than for most of the motor vehicle and industrial manufacturers we considered. As the boom in low-cost natural gas and search for energy closer to home continues, energy investment in America is likely to keep rising. It's generally agreed that low-cost access to energy is a critical part of a high-growth strategy.

Current and anticipated consumer demand appears to be the main driving factor behind U.S. investment by non-U.S. motor vehicle manufacturers. For example, many of the companies we highlight offer a diversified product line that caters to different segments of the driving population. Interestingly, none of the non-U.S. motor vehicle manufacturers we considered reported to have operations in Detroit.

However, relatively limited data, and therefore implied U.S. investment by non-U.S. industrial manufacturers, suggests more could be done to boost U.S. industrial manufacturing. Just one company in this category, Samsung, showed strong capacity enhancing U.S. investment in 2011 and 2012.

Indeed, policymakers would be well-suited to follow patterns of these three categories in FDI, because better information on these areas of economic importance will drive better economic policies. New investment is more likely to be in areas where the U.S. is globally competitive and highly productive.

For example, policies that target investment in industrial manufacturing—a critical sector for a high-growth strategy—will boost U.S. industrial production and create the middle to high-skill jobs that our economy needs more of. Such a push could be accomplished by targeted outreach from SelectUSA[22], the federal government's chief investment attraction program established in 2011 by Executive Order 13577[23]. It could also be encouraged through legislation that enables responsible regulatory reform, through a mechanism like PPI's proposed Regulatory Improvement Commission (RIC).

The fact that FDI is sensitive to current events outside our control makes it even more important that the U.S. maintain the best investment climate it can to facilitate investment, especially when there are periods of economic or financial instability. Such policies begin with understanding—and acknowledging—which companies find America to be a worthwhile investment.

Appendix: Detailed Methodology

For this paper, we calculated U.S. capital expenditures in 2011 and 2012 by non-U.S. based companies across three categories—energy, motor vehicle, and non-motor vehicle industrial manufacturers. We derived these lists using a sector approach so that we could employ consistent methodology across each group. Unlike U.S. companies, which are required to file standardized annual financial statements to the Securities and Exchange Commission, there is not a uniform approach across foreign-based companies in how they report financial information. However, companies in the same sector tended to follow consistent reporting practices, facilitating the ability to make relative comparisons.

To get the universe of companies that were considered for each category, we started with Fortune's 2012 list of the Global 500 companies. We removed U.S. based companies, along with financial and insurance companies since their reporting metrics are completely different from non-financial companies, and because for this paper we were focused on investment in plants, property, and equipment. We then assigned an industry to each remaining company based on the company's primary line of business. To arrive at the final lists we simply took companies that fell within each allotted category designation.

Our estimate of capital expenditures includes investment in plant, property, and equipment, whether it is new investment or investment through acquisition. We include acquisition investment here because it is new spending by foreign-based companies on U.S. based plant, property, and equipment. We did not include acquisitions in our U.S. Investment Heroes list because a U.S. acquisition there is considered a financial transfer, as opposed to new financial inflows.

For the energy companies on our list, our methodology was relatively straightforward as most of these companies self-report capital expenditures by country or region in their annual reports. We would like to point out that this investment does include upstream and downstream exploration and refining process investment but it does not include R&D.

For both the motor vehicle and non- motor vehicle industrial manufacturers, we started with the gross capital expenditures amount listed in each company's publicly available annual report. We then used other publicly available information on geographical location of non-current assets to determine what share of an increase in total non-current assets were in the U.S. We then applied this share to the company's gross capital expenditures to obtain U.S. capital expenditure in 2011 and 2012.

We acknowledge that non-current assets may include assets other than plant, property, and equipment, such as intangibles, and that this could distort the U.S. share we applied to gross capital expenditures. In cases where long-lived assets were available, we used those estimates; however in most cases a breakout of long-lived assets was not available. In cases where we used net long-lived assets, we first added in depreciation in proportion to the distribution of assets before assessing the annual change.

In the few cases where detailed geographical asset distributions were not publicly available, we used geographical information that was publicly available to obtain the share of U.S. capital expenditure. For example, we looked at the size and location of subsidiaries that engaged in production, and U.S. market presence, and anecdotal evidence on U.S. operations from or about the company. These cases mainly fell in the category of industrial manufacturers; a category we want to make clear included many assumptions on the size of U.S. productive assets. We would like to be clear that the estimates included in this report are simply PPI's estimates using the best information available. The actual number could be significantly higher or lower.

Endnotes

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