

**Testimony of Under Secretary of Commerce for International Trade  
Francisco Sánchez  
On Foreign Direct Investment and SelectUSA  
for a hearing  
Before the House Energy and Commerce Subcommittee on Commerce, Manufacturing &  
Trade  
April 18, 2013**

**Introduction**

Chairman Terry, Ranking Member Schakowsky, and members of the Committee, thank you for the opportunity to speak to you today about the Department of Commerce's work on attracting and retaining business investment in the United States. The United States has a longstanding open investment policy that includes a free market economy and encourages investment from sources both domestic and foreign. Therefore it is no surprise that the United States is the world's largest recipient of foreign direct investment (FDI).<sup>1</sup> However, as economies worldwide continue to open up and liberalize, we face increased competition to attract new investment projects and retain existing ones. Our states, regions, and local communities need a federal level advocate to help win these projects that lead to job creation and economic prosperity for our nation.

My remarks focus on three critical aspects of FDI: 1) its impact on the U.S. economy and the need for a national level investment promotion initiative; 2) the Administration's efforts to promote the U.S. open investment policy through SelectUSA – a program located in the Department of Commerce's International Trade Administration (ITA); and 3) opportunities and

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<sup>1</sup> According to the U.N. Conference on Trade and Development (UNCTAD) and based on the latest available 2011 data, the United States is the largest recipient of FDI in the world in both stock and flow. The share of FDI inward flows captured by the United States has declined from approximately 45 percent in the 1980s to about 15 percent in 2012. (<http://unctadstat.unctad.org/TableViewer/tableView.aspx>).

challenges the United States must prepare for to remain a top destination for business investment.

### **The Need for a National-Level Investment Promotion Initiative**

Direct investment in the United States leads to economic growth and job creation. In 2010, U.S. affiliates of foreign firms employed over 5.3 million U.S. workers with average compensation of over \$77,000 per year. Those firms were responsible for tens of billions of dollars of research and development (\$41.3 billion) and spending on fixed assets like manufacturing plants and equipment (\$149 billion). Approximately one-fifth (or 18 percent) of all U.S. goods exports come from U.S. subsidiaries of foreign firms. At the end of 2011, the \$2.5 trillion stock of FDI in the United States was equivalent to nearly 17 percent of U.S. GDP. In 2012 alone, nearly \$168 billion in FDI flowed into the United States.

Companies from around the world choose to do business in the United States and take advantage of its unparalleled business climate. The United States is an innovative and stable market, with the world's largest economy. It boasts sophisticated industry clusters, first-class research and development centers, a skilled and well-educated workforce, strong intellectual property rights protection and enforcement, and a stable regulatory climate. In addition, the United States has free trade agreements entered into force with 20 markets, giving firms with U.S. operations access to a global marketplace.

While there are countless reasons to invest in the United States and companies choose to locate their operations on our shores every day, global capital mobility has led to greater competition for investment and jobs, and the U.S. share of global FDI flows has decreased from 45 percent in the early 1980s to about 15 percent in 2012. Today, firms enjoy increased capital

mobility and face heightened commercial competition to pursue cost-effective operating locations that offer access to suppliers as well as customers. And, they have more location options than ever — compelling U.S. state and local governments to dedicate efforts to attract investment to our shores.

Despite this increase in competition—and the corresponding decrease in the U.S. share of FDI—the United States has been among only a handful of countries without a dedicated national-level investment promotion initiative. The membership list of the World Association of Investment Promotion Agencies identifies 159 economies around the world with an investment promotion agency (IPA) that actively markets its nation as an investment destination. Competitor national governments, with economies much smaller than our own, spend an average of \$58 million each year – with an average of 167 dedicated staff – on promoting their economies for direct investment.<sup>2</sup>

An investment promotion initiative is an important governmental function to promote a nation, state, or local region for business investment. Such an initiative helps investors utilize public services available to firms that seek to create jobs and grow the economy of the location. Successful national-level IPAs consist of an effective combination of authorities, resources, and personnel to serve three major roles: a) provide consultation and ombudsman services to current and potential investors, b) serve as a point of coordination for resources available at the national, sub-national, and local levels, and c) monitor and report federal policies and their impact on the nation's overall investment climate.

As the competition for cross-border investment increases, the United States needs to proactively protect its leadership position and ensure that it remains a destination of choice for

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<sup>2</sup> SelectUSA analysis of IPAs in Australia, Brazil, Canada, France, Germany, Ireland, Netherlands, Spain, and the United Kingdom

firms worldwide. This is especially critical now – particularly in the manufacturing sector – as there are important positive trends (e.g. increased worker productivity and relatively low energy prices) that make the United States an attractive market for long term investment. We need to take full advantage of these trends and help state and local efforts to promote the United States for business investment.

That is why the President is requesting \$20 million in the FY 2014 Budget for SelectUSA—to develop a competitive national investment attraction program, with increased staff both at Commerce headquarters in Washington, D.C. and stationed around the world working on attracting investment, and fully leveraging our commercial foreign service and our embassies abroad. As a fully funded investment promotion program, SelectUSA can ensure that the Federal government is taking an active role in attracting and retaining business investment, recognizing the need to compete with efforts undertaken by other nations. SelectUSA will also serve as a critical partner to support U.S. economic development organizations’ (EDOs) business attraction, retention, and expansion efforts, encourage regional cooperation and level the global competition they face.

### **The SelectUSA Initiative**

In order to promote the U.S. open investment policy and to provide a federal level resource for firms and U.S. economic development organizations, President Obama launched the SelectUSA Initiative in 2011 by Executive Order as the first-ever U.S. Government-wide initiative to promote and facilitate business investment in the United States. SelectUSA provides uniquely federal information and ombudsman services to firms seeking to invest, remain, expand, or return to the United States. In addition, it serves as a federal-level partner, advocate,

and resource for U.S. cities, states, and regions seeking to attract and retain investment.

Exercising strict geographic neutrality, SelectUSA provides support to U.S. EDOs, and state and local governments in their investment promotion efforts.

SelectUSA provides key services to U.S. EDOs and firms, including: EDO counseling, ombudsman assistance, investment advocacy, and information assistance.

- ***EDO Counseling:*** SelectUSA staff helps EDOs develop and implement their investment attraction and retention strategies. SelectUSA counsels EDOs on FDI trends, effective outreach methods tailored for specific overseas sources of investment, best practices, and marketing strategies to promote their location to foreign investors.
- ***Ombudsman:*** Working across the Federal government, SelectUSA helps investors navigate the wide range of federal regulatory issues. Through its ombudsman function, SelectUSA can: contact a federal agency or office to get answers about a specific case; facilitate direct communication with the relevant federal agency and the investor if necessary; and raise awareness with key policymakers about processes that may adversely impact the climate for FDI in the United States. Working with SelectUSA, investors and U.S. EDOs can develop a better understanding of how to navigate and comply with the U.S. regulations.
- ***Investment Advocacy:*** At the request of a U.S. state or local government, SelectUSA can help promote the United States as an investment destination to potential investors in on-going projects that may be at risk or that face international competition. SelectUSA maintains strict geographic neutrality and serves as a federal-level complement to the efforts of these EDOs and state or local governments.

- **Information Assistance:** SelectUSA serves as a resource for potential investors, providing information on the benefits of establishing operations, Federal standards, rules, regulations. SelectUSA also helps firms understand resources such as workforce training, research and development grants, loans and other programs.

### **SelectUSA's Progress and Upcoming Initiatives**

Since its inception, SelectUSA has worked to fulfill a critical role to support business investment in the United States. Through SelectUSA, the United States works to effectively compete with the investment promotion efforts conducted at the national level by our competitor economies. Moreover, the United States should strive to win a higher share of investments by signaling to both domestic and foreign investors that the Federal Government is a partner when it comes to making global location decisions. If we want to win a higher share of these investment decisions, we need to be in the game.

Since launching in 2011, SelectUSA has worked with a limited budget and leveraged resources across the U.S. Government to reach impressive milestones. As of early April 2013, SelectUSA has responded to 622 investor inquiries, assisted with 103 ombudsman cases, and counseled nearly 140 U.S. cities, states, and regions. The following is a recent example of how SelectUSA has helped facilitate investment in the United States.

In August 2012, Voestalpine Metal Forming (Voestalpine), Austria's largest steelmaker, and a manufacturer of auto parts announced plans to invest in an automotive components plant in Cartersville, Georgia, which according to Voestalpine will create 220 jobs. The Department of Commerce's U.S. & Foreign Commercial Service (US&FCS) overseas staff at the U.S. Embassy in Austria began engaging Voestalpine in 2007 by providing a comprehensive counseling session

concerning the planned greenfield investment by the Automotive Division of Voestalpine in the United States. At the firm's request, SelectUSA connected Voestalpine with relevant contacts for the U.S. states and regions the firm was interested in as potential investment destinations, including the State of Georgia's European Office in Munich. US&FCS staff in Austria held ongoing meetings with the firm's investment project manager to provide counseling on various aspects of investing in the United States. The U.S. Ambassador to Austria, Hon. William C. Eacho, also met with the firm's leadership and advocated for its investments to be made in the United States. Additionally, in part as a result of the assistance provided on the Georgia automotive components project, Voestalpine engaged SelectUSA and US&FCS staff in Austria for guidance on a new metal reduction facility and last month, the company announced its plans to establish a plant in Corpus Christi, Texas which is expected to be in production by 2016.<sup>3</sup>

AGS Automotive, an auto parts company that participated in the January 2012 Insourcing Forum, announced a \$21 million investment that the company states will create 90 new jobs and support 50 existing jobs in Flint, Michigan.<sup>4</sup> SelectUSA provided comprehensive information on the U.S. business climate, facilitated connections between the company and the Michigan Economic Development Corporation, and provided ongoing support and information to the firm as it conducted its due diligence. Additionally, the US&FCS staff in Toronto organized an investment promotion event and roundtable with U.S. Ambassador to Canada David Jacobson, which facilitated AGS contacts with Michigan officials and invited the company to attend the President's Export Council meeting in Detroit, MI. AGS executives have stated that despite

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<sup>3</sup> <http://www.bloomberg.com/news/2013-03-13/voestalpine-choses-texas-for-record-718-million-pellet-plant.html>

<sup>4</sup> <http://www.craigslist.com/article/20120604/FREE/120609958>

their familiarity with and connections to the U.S market, “SelectUSA’s involvement encouraged a timely response from Michigan agencies, which favored the investment being made in Michigan.” AGS was also considering Ontario, Canada as a possible location.

### **Challenges and U.S. Strengths**

While the United States remains the most appealing business environment in the world, there are some challenges – both real and perceived – to investing in the United States. In working with clients, SelectUSA and our partner agencies have learned that there are specific areas that impact foreign companies’ interest in investing in the United States. Some areas that pose challenges are the lack of trained workers, and certain investor-related tax and visa issues.

### **Skilled Workers and Training**

Multinational firms are willing to pay competitive wages for qualified labor. In fact, U.S. employees of foreign-owned subsidiaries earned an annual average compensation of \$77,000 in 2011. Businesses in many sectors cite difficulty in finding trained workers in the United States as a challenge to increasing productivity and competitiveness. While the United States boasts a highly educated workforce with a diversity of skills, we struggle to compete with economies with higher levels of worker mobility and support for technical training opportunities. SelectUSA is working with several members of the Federal Interagency Investment Working Group, including the U.S. Department of Defense’s Military Spouse Employment Partnership, to help communities address these gaps through training and workforce strategies. Additionally, SelectUSA is partnering with the U.S. Department of Labor and other Commerce agencies to

support the ‘Make it in America Challenge.’<sup>5</sup> As a non-funding partner, SelectUSA will work directly with Make it in America grantees and potential investors to offer business solutions and help economic development entities develop and implement their investment strategy.

#### Investor-Related Tax Issues

SelectUSA frequently refers investors to the U.S. Department of the Treasury to address tax-related issues. The Foreign Account Tax Compliance Act, bilateral taxation treaties, and the uncertainty surrounding the potential 2013 U.S. tax burden that corporations may face, are among the frequently raised concerns.

#### Business-Related Visas

SelectUSA frequently works with its counterparts at the Department of State to address concerns raised by investors on a variety of business-related visa issues. These include visa wait times and processing delays, communications difficulties with visa authorities, and a general perception that U.S. visa policy is confusing and bureaucratic. Through December 2012, 40 percent of SelectUSA ombudsman cases have involved business-related visa issues. A majority of these cases cited processing delays as the main concern. SelectUSA is working with the Department of State to address these concerns and respond effectively to business-related visa cases.

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<sup>5</sup> A joint Commerce and Labor grant program of \$40 million in competitive grant funding. <http://www.commerce.gov/news/fact-sheets/2012/09/25/fact-sheet-make-it-america-challenge>

### The Immigrant Investor Program

SelectUSA engages with various components of the U.S. Department of Homeland Security, including U.S. Citizenship and Immigration Services (USCIS) to ensure timely responses to SelectUSA clients and identify any other issues with respect to USCIS's Immigrant Investor Program, also known as EB-5. The EB-5 program encourages the investment of private capital by foreign nationals to enhance U.S. economic development and job creation. SelectUSA and USCIS are working together to identify ways to enhance the EB-5 program and maximize its job-creating potential.

### International Investors' Entry/Exit Experience at U.S. Borders

Investors and technical experts traveling to the United States in order to evaluate and successfully execute their investment projects report difficulties during their entry and exit experience at U.S. borders. In an effort to ease the entry experience for investors, SelectUSA is working with U.S. Customs and Border Protection to discuss expanding Global Entry Program eligibility to SelectUSA's 25 initial markets, which generate 90 percent of the FDI flow into the United States.

### Free Trade Agreements and Bilateral Investment Treaties

While SelectUSA and our partners work to address these challenges, SelectUSA also recognizes that there are many factors that make the United States an ideal investment location. In addition to the U.S. open investment policy and highly educated workforce, firms can take advantage of numerous Free Trade Agreements (FTAs) and Bilateral Investment Treaties (BITs).

Bilateral and multilateral FTAs with comprehensive investment chapters as well as BITs enhance the investment climate. Clearly defined rules and standards related to trade and investment not only create a predictable environment but also encourage investment from export-oriented industries. Considering that nearly one-fifth of all U.S. exports come from U.S. subsidiaries of foreign-owned firms, SelectUSA promotes the negotiation and implementation of BITs and FTAs with comprehensive investment chapters to help grow investment in the United States, develop market-oriented policies in partner countries, and ultimately promote U.S. exports.

### **2013 SelectUSA Investment Summit**

Finally, I am pleased to announce that the SelectUSA Investment Summit will be held October 31 – November 1, 2013 in Washington D.C. The SelectUSA Investment Summit will bring together investors from the United States and around the world with U.S. EDOs and other key stakeholders to both highlight the benefits of the U.S. business climate to investors and create an unparalleled environment for match-making between investors and economic development organizations.

### **Conclusion**

SelectUSA is still a young program, but it has already shown tangible wins through its work with EDOs and firms looking to invest in the United States. However, if the U.S. is going to be serious about competing with other countries for globally mobile capital investment, we need a world class national-level investment initiative. Implementing this vision will require an increase in funding, consistent with the President's FY 2014 Budget request of \$20 million.

The demand for the services that SelectUSA provides has been steadily growing, and it is imperative that we as a country demonstrate our commitment to attracting and retaining business investment. The dedicated staff of SelectUSA will continue to diligently work with firms and U.S. EDOs, leveraging the partnerships and relationships with other federal agencies as well as work on creating new ones. We have recognized from the launch of SelectUSA that a successful investment initiative requires a government-wide effort, and to that end I want to thank the other agencies that have been diligently working to strengthen this initiative, including the Departments of State, Treasury, Homeland Security and the Office of the United States Trade Representative, just to name a few. I appreciate the opportunity to discuss this important topic. Given the critical role that FDI will continue to play in our economic growth, we must continue to work together to preserve our competitiveness and ensure that the United States remains the best place to invest. Thank you.