



FDI and Employment

The Role of FDI in Supporting U.S. Jobs

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Foreign direct investment (FDI) has a significant impact on the U.S. economy, but that impact can be hard to quantify in real terms. Global multinational enterprises have consistently selected the United States as a destination to establish operations, and in turn, their investments play a key role in creating jobs. As SelectUSA continues strengthening its commitment to attracting investment into the United States, it is important to analyze the impact of FDI in supporting jobs across industries and occupations, so we can understand the broad impact of FDI in the United States.

The report, published by the Department of Commerce, provides an update to the methodology originally devised by Richards and Schaefer (2016). The methodology involves simulations with the USAGE model of the U.S. economy¹. To estimate the employment impact of FDI, the model simulates a version of the U.S. economy with FDI entirely removed. This essentially isolates FDI's impact on the economy. Please see the main report for more information about this model. The updated simulations show the effect on U.S. employment when foreign-owned capital is removed from the U.S. economy, and when FDI-related productivity gains in manufacturing are eliminated.

EMPLOYMENT TRENDS

In 2019, **10.1 percent of U.S. employment, or 16 million jobs, were directly or indirectly attributable to foreign direct investment.** This increased from Richards and Schaefer's estimate for 2013, when 8.5 percent of U.S. employment, or 12 million jobs, were supported by foreign direct investment. This reflects both an overall increase in employment and an increase in the share of employment accounted for by foreign-owned firms.

Additionally, FDI supports jobs, both directly and indirectly, across all industries and occupations in the United States. Jobs in trade-exposed manufacturing activities (manufacturing industries that face import competition, such as the production of motor vehicles and parts, semiconductors, aircraft and parts, and metal product industries) are the most dependent on FDI. In

general, the overall competitiveness of these industries depends on FDI-related productivity.

KEY POINTS REGARDING CAPITAL AND PRODUCTIVITY

The analysis found that, on average, industries with a large presence of FDI are relatively capital intensive—in other words, these firms leverage more capital per worker than domestic firms. While only six percent of private U.S. workers were employed at foreign-owned firms, the capital used by these workers accounts for 7.7 percent of capital in the U.S. economy. When FDI was removed from the U.S. economy, employment decreased in all U.S. industries and occupations. This highlights the ripple-effect of FDI: it indirectly creates jobs throughout the entire economy, not just in industries in which FDI is concentrated.

The study also concludes that FDI makes the U.S. manufacturing industry more productive. Manufacturing productivity *with* FDI was estimated to be 7.8 percent higher in 2019 than it would have been without FDI. This trend similarly applies to the entire U.S. economy—productivity decreases when FDI is removed. Without FDI, productivity decreases by 2.5 percent, which in turn ripples into a 2.65 percent reduction in jobs that are indirectly supported by FDI.

The productivity gains attributable to FDI are particularly beneficial for trade-exposed manufacturing industries (motor vehicle and related industries; aircraft and related industries; and semiconductors), as this productivity helps them compete against foreign firms.

Overall, this updated analysis re-establishes the extent to which FDI makes substantial contributions to employment and productivity across all industries in the United States. FDI in the United States employs millions of U.S. workers, increases productivity for foreign firms, but also supports a healthy economy in which businesses can thrive.

The analysis in this research paper was descriptive, not policy driven. The full report will be published in September 2022.

¹ USAGE is a dynamic computable general equilibrium (CGE) model developed over the last 20 years at the Centre of Policy Studies. It has been applied by and on behalf of the U.S.

International Trade Commission and the U.S. Departments of Commerce, Agriculture, Homeland Security, Transportation, and Energy.

ABOUT SELECTUSA

SelectUSA is a U.S. government-wide program housed in the International Trade Administration at the United States Department of Commerce. Our mission is to facilitate job-creating business investment into the United States and raise awareness of the critical role that economic development plays in the U.S. economy.



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