THE BROOKINGS INSTITUTION

FOREIGN INVESTMENT, ECONOMIC GROWTH AND JOB CREATION

A CONVERSATION WITH VOLKSWAGEN GROUP OF AMERICA PRESIDENT AND CEO JONATHAN BROWNING

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P R O C E E D I N G S

MR. BAILY: Well, welcome. I want to welcome everyone to Brookings and this session of Foreign Investment, Economic Growth and Job Creation. A conversation with Volkswagen Group of America President and CEO Jonathan Browning and a panel discussion as well.

We have a great panel today. The moderator is Eduardo Porter. We're delighted that he's been willing to come and do this. I remember, I think he's just on his way, but I remember a couple of years ago he asked me to participate in a forum and I think the Brooklyn Library on New York Times outreach to folks. So I'm happy.

I was just saying, Eduardo that I thought your willingness to come down and do this may have been pay back for what I did at the Brooklyn library and so accost your bread upon the waters and you get a great moderator back a couple of years later. So it's great to have you here.

Also we have Steve Olson on the panel, executive director of SelectUSA, the U.S. Department of Commerce. Nancy McLernon, president of Organization for International Investment. Jason Furman who most of you know is the deputy assistant to the president and principal deputy director of the NEC. It may be a little bit late so we're hoping he -- we get him at least before we get up on to the panel.

But to start off, we are going to have a presentation by Jonathan Browning. We're delighted to have you here. It's a great privilege that you're coming to talk to us. Mr. Browning joined Volkswagen Group of America in June 2010 as the global director of national sales. He assumed the title of president and CEO of the group in October 2010. He's got a lot of industry experience prior to that.

He was General Motors vice president of global sales, service and marketing starting in 2008. And from 2001 to 2008 he was Europe vice president sales, service and marketing at General Motors and chairman of Vauxhall Motors from 2006 to 2008.

I still have enough, a little bit of an accent to know that I grew up in England so I certainly remember the Vauxhall cars with great affection. It's still marketed under the Vauxhall brand right?

From 1997 to 2001, Mr. Browning worked for the Ford Group as the executive director of marketing for Ford Europe and then as global managing director of Jaguar. Now, as you know, Volkswagen has made a new investment. It made an investment some years ago in Pennsylvania, but is now made a new investment in production in the United States and we're very pleased to have Jonathan Browning to come and talk to us today. Thank you.

MR. BROWNING: Thank you, Martin and good morning ladies and gentlemen. It's certainly a pleasure to be with you this morning. Brookings is known worldwide as an incubator of quality research and really forward looking ideas. And I'm truly honored to have this opportunity today.

I'm going to start with the assumption that this audience really does understand the benefits of foreign direct investment, but what I would like to do is to add some real life perspective on the subject by focusing on three main areas.

First, the importance of the manufacturing sector as a driver of real economic value, especially employment and the development of the middle class. Secondly, the importance of education is a key foundation that both benefits from FDI and is also a prerequisite for continued future investments. And third, the reality that the U.S. has lost ground in terms of FDI and the risk that this trend continues.

So you've all seen the facts. U.S. affiliates affirm companies provide 5.3 million jobs in this country, but and that's about 4.7 percent of all private sector employment. The average competition and benefits for those workers is around $77,500. That's a third more than the average for all U.S. workers.

But the story is even more impressive in the manufacturing sector where the average of foreign owned manufacturing facilities is $87,000. But this is just the start of a chain reaction of economic activity. Spending in the supply chain and the businesses the benefit from these employee paychecks generates more than 15 million additional indirect jobs. And the combined wages, salaries and benefits from all of these FDI related jobs amounts to approximately $1.2 trillion.

Now this multiply effect is especially strong in the manufacturing sector because of the depth of the supply chain. So if foreign investment is good, foreign investment in manufacturing is even better. In fact, manufacturing accounts for nearly 60 percent of all the jobs created in the U.S. by foreign investment.

Now, rather than debate the pros and cons of FDI I'd like to talk about how it plays out in the real world in a specific case using Volkswagen's experience as an example. Many people say Volkswagen is a reference point for companies that made foreign direct investment an integral part of their global strategic vision.

We employ more than a half a million people worldwide and sell cars in 153 countries. We operate 99 production facilities in 26 countries on 5 continents. And we're currently adding five more plants around the globe. At our core we're an engineering company. Indeed, we employ over 34,000 engineers worldwide and that's more than three times the number NASA employs.

Some people are surprised to learn that the Volkswagen Group includes a dozen brands. Volkswagen, Audi, Porsche, Bentley, Bugatti, Lamborghini, Skoda, and SEAT. All known for their passenger cars. Ducati for their motorcycles and Volkswagen commercial vehicles. Scania and MAN for their vans and trucks and heavy equipment.

Now our aim is to become the world's leading automaker by 2018. And that's relevant to today's discussion because decisions about where to invest in this world of choices are driven by this long term strategic goal. Volkswagen has invested $4 billion in this country over the past five years, because we believe it will help achieve our goals. Gaining a larger share of this market is an essential part of our global growth strategy. And to do that we have to forge a closer link with U.S. customers.

The car business is perhaps the ultimate example of the need to think globally while acting locally. We face high capital intensity and significant scale economies, but the reality is that people need and expect different things from their cars in different parts of the world. You can see the variations even within the U.S. You don't find many pickup trucks in Manhattan and there aren't many tiny two seat cars in Montana.

Americans are perhaps the most car loving people on the planet and they have high expectations when looking for a new car. So the success of our U.S. growth strategy hinges on our ability to understand and hopefully exceed those expectations while leveraging our global capabilities. In 2008 we took our commitment to the U.S. to another level by announcing a $1 billion investment in a new state of the art manufacturing plant in Tennessee.

A U.S. production facility is more than just a place to build cars. It's a gateway to a deeper and closer relationship with our U.S. customers. Our understanding of this market grows every time a German executive visits the plant or meets with dealers and customers. And that happens a lot. And as I'm sure all of you agree reading about or hearing about another region is no substitute for experiencing it firsthand.

Once we made the decision to significantly increase our U.S. investment, the next question was where to build. And we had almost 400 locations to choose from.

Communities across America understand the benefits that flow from well paying manufacturing jobs. And some were willing to offer incentives. Incentives tend to receive a lot of media attention that can over state their significance.

We reviewed the plants are like site selection process in much broader terms than simply some kind of auction decided by the highest bidder. In fact, we were equally focused on intangible factors. We weren't just looking for land; we were looking for committed community partners with really a shared interest in the success of the plant. And we were very impressed by the political, personal and emotional support we found in Chattanooga, Tennessee.

Just one small sign that local commitment had a big impact on the decision makers. After visiting the undeveloped plant sites some of our executives were very skeptical that the local authorities could live up to their timetable for clearing and prepping the land. Our friends in Tennessee offered to prove it by installing a video camera that would allow us to track progress real time.

On a more substantive level, educational authorities agreed to work with us establishing a community college campus to compliment the training academy we developed adjacent to the plant. That decision was a winner for Volkswagen, for Chattanooga and for the newly trained workers and their families. Access to an educated workforce is an essential requirement for any investment that generates significant employment opportunities.

I cannot emphasis enough the importance of skilled workers for attracting investment. There's a lot of talk about the manufacturing sector in this election year and with good reason. Manufacturing supports about 17 million jobs here in the U.S. but you cannot have manufacturing jobs if you do not have the technical education needed to produce employees with the necessary skills.

Just think about this fact. There is consistent mantra calling for jobs, jobs and more jobs, yet as millions look for work there are more than 600,000 open positions in manufacturing and technical sectors today waiting to be filled. Technical education is absolutely critical to the economic viability of any nation, including this most advanced nation on earth.

Automotive manufacturing jobs have helped build the middle class in this country and they continue to do so today. In Tennessee and indeed in Virginia, for that matter, we're expanding our commitment to education every day. Volkswagen is investing more than $5 million in educational programs at all levels in Tennessee. From the Hamilton County Public Schools through to the Oak Ridge National Lab. And beginning this fall our onsite educational program includes MBA courses in cooperation with the University of Tennessee.

Our plant has delivered countless benefits to the local community and the state of Tennessee, including more than $317 million spent regionally for construction and more than $300 million spent each year in the same area for automotive manufacturing supplies. It's become the life blood of some small businesses like Wind Guard Quality Supply. A minority owned enterprise that supplies wheel assemblies. The smaller company has a loan hired around 20 people at its new facility in the Volkswagen supplier park.

We have a goal of 10 percent of our suppliers being minority owned and we are well on our way to achieving that target. We currently stand at 8.7 percent and the supplier park adjacent to the plant has become a significant contributor to our goal. Small and medium size suppliers have been moving in and expanding almost continuously generating around another 1,000 jobs.

We are pleased that our investment has paid off for Chattanooga, but we're also clearly pleased that it appears to be paying off for Volkswagen. As I said a moment ago, we have been intensely focused on producing cars specifically for the U.S. market. And you can see the results of that effort in our all new Passat that's produced in Tennessee and the newest version of the Jetta. Those cars and the all new Beetle are leading the resurgence of Volkswagen in this market.

Our sales increased by 20 percent in 2010, 26.3 percent in 2011 and we're on track for even stronger gains this year with sales up over 37 percent through August. Our U.S. connections go well beyond the 3,000 plus workers we've recently hired to build the all new Passat at our assembly plant in Chattanooga.

Our Chattanooga workforce is part of a 35,000 person strong U.S. team that restructures from coast to coast. And in addition to our approximately 30,000 dealer team members, the Volkswagen Group operates in more than 30 locations, including our headquarters here in Herndon, an electronic research laboratory in Silicon Valley, a design center in Santa Monica, an innovation lab at Stanford, a new $27 million research and development center in Oxnard, California and our customer relations and after sales technical support center in Detroit.

Now, it's too early to declare mission accomplished, but it is not too early to conclude that Volkswagen's investments have been good for us. They've been good for Tennessee and I believe also good for the U.S.; however, we're clearly just one example of the benefits of foreign direct investment.

So how do we build on this success? And what kind of policies promote positive foreign investments? And I must issue a note of caution here. The U.S. has been a magnet for foreign investment for more than half a century. This has long been the wealthiest, most stable, transparent, an open market in the world. My message to you is don't take it for granted.

We live in a world of choices and the competition for beneficial for an investment, the kind that generates the jobs and economic growth has gone global. Perhaps my personal work history illustrates that point. As Martin pointed out, and I'm sure you've spotted, I'm British. I've worked for American companies and England, Turkey, and Switzerland. I've also worked in Germany. Now, I work for a German company in the U.S.

In this day and age, the United States is simply not competing with itself state against state, rather as all of this group knows, you're in competing with aggressive and expanding markets like India, China, Russia and with our neighbors in Mexico, Canada and the broader South American region.

There are clearly signs that the competition has caught up. This country captured more than 41 percent of all foreign direct investment globally in 1999. It has sense fallen to less than 20 percent. This trend will continue and accelerate if foreign companies cannot make a compelling financial case for investing here.

China has surpassed the United States to become the world's biggest vehicle market and that happened three years ago. In another three years, it is likely to be bigger than the combined totals of the U.S., Germany and Japan. So it should not come as any surprise then that Volkswagen has 12 production plants in China and at least three more on the way. One of our competitors has announced spending plans of nearly $5 billion into China to build eight new plants by 2015.

So how do you ensure you get your fair share, or better yet, a disproportionate share of the global FDI pie? At the macro level it starts with economic and political stability. They are the pillars of success of any nation in this global economy. And without that foundation the risk can very easily outweigh the benefits of any investment. As I'm sure you know there are growing concerns around the world about the seeming inability of U.S. political leaders to deal with this country's fiscal challenges.

And I say this as a great admirer of the U.S. and with full recognition that Europe is struggling with its own significant problems, but I have to frank, this country needs to get its house in order. It needs to restore global confidence in the workings of its political system. It needs to once again show it puts the greater good as its priority. Moving beyond the partisanship and the ideology that is causing gridlock today.

We never wavered in our commitment to Chattanooga, even during the worst global recession in more than 60 years, but huge investments have to look into the future. And the future of this market is dependent on the strength of its economy and ultimately on the strength of its consumers. This country faces some big challenges; a sputtering economy, a mammoth federal deficit, state and local governments struggling to provide services, illuming fiscal crisis and a polarized electorate.

Standard and Poor's downgraded the U.S. credit rating for the first time and now Moody says it's also considering a downgrade. Congress and the executive branch seem to lurch from crisis to crisis without achieving resolution. Problems are kicked down the road to another Congress to another year to another generation in a seemingly endless cycle. It's not conflict avoidance; it's conflict and avoidance.

The continuous fight over the debt ceiling is a good example. If the U.S. wants to continue to be a magnet for foreign investment, it will have to compete for it. Companies have choices. They do not have to come here to build a new plant, especially when there is so much growth elsewhere. Remember, this is typically not a base for export operations. It's hard to imagine, certainly in the automotive sector, that a foreign company would invest in a manufacturing plant here in the U.S. to primarily sell products in non-after markets.

Volkswagen came here because we saw a huge opportunity in the domestic market. As an example, just recently Audi chose the Mexican state of Pueblo for its first manufacturing plant in this hemisphere. A $1.3 billion facility that will provide nearly 10,000 direct and indirect jobs once it’s operating by 2016. This location was chosen because 70 percent of the production is expected to export outside of the NAFTA region.

While it makes complete sense to build within the NAFTA regions to strengthen our currency hedge, it's simply doesn't make sense to build in the U.S. if exporting is central to that investment decision. By choosing Mexico for the new plant, Audi can afford a 10 percent tariff on cars shipped to a host of countries that have trade agreements with Mexico, but not with the U.S.

So the decision from an economic point of view is fairly clear today. In the auto sector, at the very least, if the North American market can assume the vast majority of production then you can afford to build in the U.S. In these circumstances therefore, the confidence and future strength of the U.S. economy is the primary reason for foreign direct investment. And while no one is writing off the U.S. economy by any stretch, the U.S. must fix its underlying economic infrastructure in a bipartisan truly impactful way. If not, the U.S. will have to shift its focus away from consumption of goods to promoting exports of those goods in order to truly compete in future FDI.

And I think everyone here understands that would come with a host of other challenges. Not least of which is securing a massive shift in the acceleration and negotiation of free trade agreements. In my opinion, what really needs to happen is a combination of both. Secure the U.S. domestic market attractiveness by getting the federal house in order and looking to radically improve the export orientated infrastructure.

In addition to tackling these big issues, there are a number of other things that could help the U.S. retain its appeal to foreign investors; ensure a level playing field. Companies seeking investment opportunities aren't necessarily looking for favors, as much as fairness. That means removing regulatory barriers and other unnecessary impediments to foreign investment. Don’t try to pick winners and losers. In the race to develop new technology, there is a great temptation for government to favor one technology over another. History shows the best technological advances emerge from competition, not favoritism.

Some other considerations; foster a positive business and political environment that welcomes positive foreign direct investment, ensure a competitive tax code truly exists, and allow foreign companies access to government contracts, especially those that will encourage investment and production.

The Brookings Institute continues to contribute to that debate by encouraging discussions and events like this. And with the really valuable research and policy advice. Volkswagen has been part of Americas economic and cultural fabric since the first Beetles arrived here more than 60 years ago. Today we have a larger presence than ever before and we're growing. We are at home in America. We are here to stay and our story is a great example of the benefits of foreign investment for all concerned.

The United States has been a welcoming country. That attitude has contributed to its success and strength. The question is: will the U.S. continue to attract the kind of investments that Volkswagen and others have made? Can companies be confident that building here will deliver an adequate return on investment?

We live in a big world with a lot of choices. If the U.S. makes the right choices to sustain and enhance the conditions that made investment so attractive to Volkswagen and many others, the answers to those questions for sure can be yes.

Thank you and I look forward to your questions.

MR. BAILY: Thank you for that and I'm going to throw the questions open to the floor, but I just want to start with one question sort of something we had a chance to talk about when we met earlier, but you mentioned the amount of work that Volkswagen has done in terms of training of workers and the kind of skills that are needed. So I wonder if for this audience you could say a little bit more about why that was so necessary. What are the skills that are lacking when high school kids come to you and are looking for jobs? What do you think might be done in our education system to make investing in the United States more attractive?

MR. BROWNING: Well, you know, certainly perhaps the two economies that have got the most experience of and perhaps contrast to the U.S. are the UK and Germany. If you look at the way the German educational, particularly training system works. I think it is the best example of providing the right sort of feeder mechanism for manufacturing and engineering industries in particular.

Martin, you're probably familiar with the jewel of vocational approach --

MR. MARTIN: Right.

MR. BROWNING: -- that you can in Germany where people will start working with companies, but maintain vocational training in parallel with that firsthand work experience and this is something that VW really embraces as a group around the world and tries to replicate in different context. So for example, in Chattanooga before we built the plant we built the training academy and this is a state of the art training academy and every employee not only goes through the selection process through a number of hands on, you know, tests and interviews and team working exercises, but every employee goes through a specific training program in that training academy before entering the plant and starting working in the plant.

And the ability to then continue that educational process in parallel with working in the plant is really fundamental to building the skills that we need. And so as I mentioned in my comments, that has a capstone MBA program at the top of it, as well as other programs leading up to it. That really is a fundamental part of having this capability to compete for these high quality manufacturing investments going forward.

MR. BAILY: So do you think the United States should try to initiate an apprenticeship kind of a program the way that Germany has, or do you think there's another way that we can do it? I'm just -- I think the -- it'd be a tough road to go down to try to get that started at this point in the United States. So --

MR. BROWNING: Yeah, I --

MR. BAILY: -- or have you found a sort of a different way of getting to the same place?

MR. BROWNING: I think, as you say, the history of that system is very deeply embedded in the German nation and the culture. And so I don't think you can simply flick a switch and say that's how we want to operate in the U.S., but I do think there can be a lot of encouragement to companies to work with educational institutions to develop that sort of infrastructure and make this a much more typical way of bringing people into the manufacturing sector and developing those skills.

MR. BAILY: Okay. Let me ask for some questions from the floor. Yes, at the back there.

MS. MISO: Thank you for your wonderful speech.

MR. BAILY: Could you identify yourself?

MS. MISO: Yes, my name is Miso and I'm with the SOSA Group. I'm recently approached by some Chinese investors who are interested in investing in the U.S. As you know, that we're seeing a growing interest coming from China. And they ask me this question, they say, well, if the U.S. companies cannot expand under such economy why can we be sure that we can have the success here? I can't answer this question, so I thought maybe you can answer that.

MR. BROWNING: I --

MR. BAILY: Let's start with an easy one.

MR. BROWNING: Yeah. Well, let me just narrow the focus down perhaps to the specific experience that we've had and other companies have had. You know, I think, you know, when you look back over the past four to five years of the experience that Volkswagen have of coming in and investing specifically in Chattanooga and Tennessee.

We went through a very rigorous process and as I mentioned, over 400 different locations, but be very clear about both let's say the hard factors and the soft factors that we were looking to bring together for a successful execution of the project. And clearly there were some technical infrastructure elements. There were some specific needs in terms of the location and the infrastructure around it, but even more important was this sense of real partnership and commitment both with the very local communities, but also at a state level as well.

And I think that is perhaps the most important factor is the chemistry between the local stakeholders and the particular organization that's making the investment. And so that chemistry has worked exceptionally well from our perspective in Chattanooga, in Tennessee and is a very, very strong partnership.

MR. BAILY: I think we'll probably get Steve Olson to talk about that when he comes up on the panel. Another question? Let me -- okay, let me throw another one at you then. You talked about the -- one of the things that I know Volkswagen has prided itself is on is its sort of green factories and the whole issue around energy use and pollution and so on. You didn't mention that much in your speech, so I'm giving you an opportunity to --

MR. BROWNING: Thank you.

MR. BAILY: -- brag a little bit about that. I'm also interested, obviously saving energy is a cost saving thing, but when you made those decisions was it primarily to -- because you felt it was the right thing to do, or do you think it was an economic decision as well to focus on a sort of green factory?

MR. BROWNING: A little of everything really. Just to take the opportunity to provide the plug, the advertisement. Chattanooga is actually the only manufacturing facility, not just in the automotive sector, but across all sectors that has achieved a platinum lead certification. And that's something that we're extremely proud of. So thank you for giving me that opportunity.

So we achieved that --

MR. BAILY: You're welcome.

MR. BROWNING: -- platinum lead certification and why did we kind of go to the effort because it was a significant effort to make that happen? As I mentioned, we've got almost 100 production facilities around the world. We've been adding to that number significantly in a number of the growth markets and what happened in Chattanooga was really -- this was a case of bringing all the best practice from around the world amongst our manufacturing engineering, logistics teams all together and saying, how do you really execute a state of the art manufacturing facility?

And in our mind a state of the art manufacturing facility is not only producing quality vehicles with high efficiency, but it's really minimizing its environmental impact or indeed having a neutral environmental impact. We have an overall environmental, let's say, theme orientation within the company that we call Think Blue.

Going beyond green to blue.

And what we mean by that is making sure that to the extent possible, we have a neutral environmental impact, but we still maintain the joy, the freedom of personal mobility. And so it's not sacrificing everything that personal mobility represents --

MR. BAILY: Right.

MR. BROWNING: -- for doing good from an environmental point of view. So it's those tween objectives coming together and that's why we really put this effort in place.

MR. BAILY: Yes, question then. There's mic coming and if you could identify yourself that would be great.

MR. HOCK: My name is Matias Hock, good morning. I'm with the German Financial Times. Talking about green and blue, the Chevy Volt is not selling pretty well and also Nissan is not happy with the sales numbers I believe. How do you see from nowadays perspective the future of electric mobility and did your opinion change maybe compared to last year?

MR. BROWNING? Thank you. The, you know, we've already always had this perspective that there will be a range of alternative propulsion systems. Electric will be part of that. Electric in different guises in terms of hybrid, plug in and pure electric vehicles, but we also believe there are other technologies that can deliver benefits in the market place today and into the future.

And so for example, the Paris Motor Show last week, we were revealing the next generation of the Golf, the seventh generation of the Golf. And here's a vehicle that has the technical infrastructure to operate in, let's call it a traditional, but very efficient internal combustion engine format with diesel powertrains, but also with hybrid, electric and also potential hydrogen fuel cell capability on into the future.

And so our view is that we have to provide that range of capabilities and technologies and hence, one of my comments in the prepared comments this morning, that I don't believe it's the place of government to choose between those technologies. I think that narrows the scope of innovation. It narrows the customer benefits that are derived from those different alternatives and allowing those technologies to compete and to emerge is very important.

MR. BAILY: Can I just follow up on that and then I'll come to your question. I've gotten sort of excited about the potential for increased production in natural gas, which is already happening in the United States. I know there are environmental concerns and they need to be dealt with, but under the assumption we can do this in an environmentally friendly way, potentially the U.S. and maybe other countries as well, could have much bigger cheap supplies of natural gas. Are you at VW thinking at all about that being part of the transportation mix as well? Natural gas vehicles?

MR. BROWNING: Yeah, coming back to my example of next generation Golf. We have today as well in our future products capability for the compressed natural gas C and G vehicles. So it's more a question of market demand and I think the question is: why don't we see that demand developed further in the U.S. as it does in some other countries? A simple answer to that is, infrastructure in terms of refueling --

MR. BAILY: Right.

MR. BROWNING: -- capability and so --

MR. BAILY: Right.

MR. BROWNING: -- for a market to emerge there has to be some infrastructure in place. So today we really see the only application of C and G vehicles in use in the U.S. to a very specific fleet who have their own refueling infrastructure.

MR. BAILY: Is that something you said and I understand and sympathize with, you don't want government picking winners and losers, but is that an area where government could help? I mean, it is a network affect right? That you can't just get a single refueling station, you need a whole network. Is there something that government could do to facilitate --?

MR. BROWNING: Yeah --

MR. BAILY: -- that process?

MR. BROWNING: -- absolutely. I think as opposed to kind of have a singular focus on electric vehicles and electrification, there are these other alternatives out there where some level of seed investment to provide initial infrastructure has potential.

MR. BAILY: Good. There was a question there.

MR. ALDEN: Thank you. Ted Alden from the Council on Foreign Relations. I think the administration would be troubled by your statement that the United States doesn't really make sense as an export platform. What would it take, in your mind, to change that? If not, you know, not even necessary just for Volkswagen, but more broadly for manufacturing? How could the United States be a more attractive location for investment oriented towards export as opposed to just the domestic market?

MR. BROWNING: Well, I think there are a number of things. I mean, the most obvious is in terms of, as I mentioned, some of the free trade agreements that exist between U.S. and different parties around the country, but also in terms of our infrastructure to facilitate, enable and really make sure that there is a focus within, let's say the administration to assist companies who do want to export in a more, let's say, joined up way.

MR. BAILY: Is it like port, transportation facilities, or is it permissions, or what's the blockage?

MR. BROWNING: Yeah, I think you can say it's a number of those things, Martin, rather than pick out one. If you want to pick out one it is the free trade agreements, but then there are a number of smaller enablers that can make that process more simple and less risky.

MR. BAILY: Do you think they EU would be open to a free trade agreement with the United States?

MR. BROWNING: I don't think I'm the best person to ask that question.

MR. BAILY: All right.

MR. BROWNING: I'm sure there's many others in this room.

MR. BAILY: Yes. Question there.

MR. SWAMI: Shri Swami, I'm with the McKinsey Global Institute. I wanted to ask you about the links between production and --

MR. BAILY: Can you speak up a little bit, Shri?

MR. SWAMI: I wanted to ask you about the link between production and innovation. You know, this past debate here in the U.S. that say the U.S. can never compete on an added cost of production and we should instead focus on attracting FDI for R&D activities, you know, for advanced innovation those kind of things.

There's a counter to that debate that says, but if you don't have production in the supply chain with it, it doesn't make sense to have innovation. And I wanted to figure out, you know, from your perspective, when you look at Volkswagen's production network versus innovation network. Is there an overlap between them? How do you make the innovation location decisions?

MR. BROWNING: Yeah. I absolutely believe there is a connection between having that manufacturing base, the supply chain and let's say the engineering capability that allows innovation to emerge.

In our particular case, as well as very strong focus on quality and manufacturing engineering capability and the innovations in the process there. We also have electronic research, the bar tree. In Silicon Valley we have the lab at Stanford University as well. And so by being significantly present in the U.S. market through, let's say, the more traditional operations it gives you an insight into what else is going on in that particular market.

Now, obviously Silicon Valley has a global reputation. It doesn’t take it just to be here, but by being here and engaging with local institutions there's a much greater likelihood that you partner with those local institutions that are really at the leading edge of various types of innovation. And so I believe this is an extended network that really supports each other and when you talk about engineers joining a company like the Volkswagen Group, obviously there's array of brands, but there's an array of activities that in a smaller organization wouldn't necessarily be open to.

And so having that full range of activities here in the U.S. is a very strong enabler of commitment to innovation beyond just the products that we're selling today in this marketplace.

MR. BAILY: I think we're about out of time at this point. Do you have any sort of last comments? Otherwise, I think we'll move to our panel, but thank you very much for your presentation. I understand you're going to stay with us and we may draw on you depending on the panel discussion. But thank you so much.

MR. BROWNING: Thank you. Thanks, Martin.

MR. BAILY: And I'm going to hand the reigns over to Eduardo so, if the panel members could come on up please. It will take us a minute to do the -- get the microphones.

MR. PORTER: Well, hello, good morning. My name is Eduardo Porter. I write the Economic Scene column for the Times. Martin was nice enough to invite me here to this panel today and it's really an honor to be here with these distinguished experts.

We have Steve Olson from the Commerce Department right at my left. Then Nancy McLernon of the Office for International Investment. Martin Baily and Jason Furman who is principal deputy director of the National Economic Council to talk to us perhaps about the White House's perspective on things.

But we've heard today from Mr. Browning about the concern there is that the United States is falling behind in a global competition for capital. And that concern is clearly shared by others, Congress -- they're discussing the global investment in American Jobs Act, which would direct the Department of Commerce I think to identify all the obstacles to for an investment in order to make it, you know, bigger.

And I think that's an interesting thought in light of the fact that we still draw so much foreign investment, if I'm correct. There's somehow $230 billion in foreign direct investment last year, which was by far the largest amount, twice as much as China in second place. And so that led me to believe well, are we really falling behind. I mean, and to some extent it seems to me natural that China did not exist in 1999 as an investment destination. And it clearly exists as an investment destination now and that has very little to do with regulations and policies in the United States, but more about a billion Chinese that are buying things.

And so perhaps this move towards China is kind of inevitable and actually something that we should welcome in terms of global economic development. So with the -- this is a subject I like to take on with the panelists and perhaps start with Steve about how you take this view that the United States is falling behind and not doing enough. Would you agree with this statement? And if so, what do you think the United States should be doing differently perhaps to take on the challenge that was issued earlier?

MR. OLSON: Thank you, Eduardo. It's terrific to be here. Well, I guess I would say that I agree with the statement that Jonathan made that while we remain a wonderful place around the world to invest, we can't take that for granted. So it's that statement we can't take it for granted that I would agree with wholeheartedly.

We do remain the largest destination for global investment in the world, but our share of global investment has shrunk, as Jonathan noted. And what's interesting while, you know, this certainly has in many cases been good for U.S. companies who have invested successfully overseas, including in the emerging markets in the Brit countries. What's interesting is some of our competitors for global investment and Western Europe and Canada, Japan; their share of the global investment market has not decreased to the same degree as ours has.

As Jonathan noted, really we've seen a steady decline over the last 30 years from a point where we had about 45 to 50 percent of the global market and investment in the 1980s and we're down to under 20 percent now. So I think there -- I think we need to do more to attract this investment in the United States. I certainly think that President Obama in creating SelectUSA took a step in the right direction, the program that I am executive director of, to try to put the United States at the same level as our global competition when it comes to efforts to attract and retain this kind of investment.

MR. PORTER: And could you maybe be a little bit more specific on what these initiatives are? And perhaps I'd love to hear your take on the effectiveness of these efforts?

MR. OLSON: Sure. Well, we've started out -- we were created last summer. So we're just coming out of our pilot year and it essentially we provide our two big groups of clients would be global and domestic firms on the one hand, and state and local economic development organizations on the other.

And what we have concentrated on in our pilot year is training the foreign commercial service officers and the 25 countries around the world that represent well over 90 percent of the foreign direct investment to the United States. And for those of you who have not had the benefit of working with our foreign commercial service officers, they are, I think, one of the true gems of the federal government. These are transactional people. They want to get things done. They know their markets. And for decades they have focused on, very successfully, on export promotion.

Now, for the first time, particularly in these 25 markets, they have as part of their assignment to look for ways to attract investments. So the other side of the coin. And specifically that's happening in a number of ways. We are both at headquarters, where I operate here in Washington, my staff here at headquarters we are counseling state and local economic development organizations on how to best go about attracting this kind of investment. And we're taking a very data driven approach to that.

So looking at, you know, fortunately in the Commerce Department I'm just down the hall from the U.S. Census Bureau and the Bureau of Economic Analysis so it's very easy to get our hands on this kind of information. And we're able to tell the city of Chattanooga, Tennessee, for example, where they are succeeding, what other cities similar to theirs and what other regions similar to theirs are attracting investment and from where and in what sectors. To put together a, either country specific or a broad based foreign direct investment attraction strategy for them.

At the same time, we can help them when they go overseas to attract this kind of investment. Again, using the foreign commercial service officers in the post countries we can do everything from putting on an event. What we call, there's always a name for everything in the government, a single location promotion event or SLP. Where we can -- we'll issue the invitations to the event on embassy card stock, which makes a big difference. Frankly, better than the city of Chattanooga stationary I would argue.

And we can do that. We can also put together rather than you've heard of a trade mission. Well, we can do an investment mission, where we will sponsor a group of local mayors, governors, and economic development professionals at something like the Hanover Mesa event every year in Germany.

MR. PORTER: And well, thanks and I'd love to hear your take on what the government does and does not do, Nancy. And I mean, there's concerns that I think go beyond these issues to questions of legislation, regulation that where the government does not seem to be taking into account the concerns of foreign companies, as you were telling me earlier this morning.

MS. MCLERNON: Yeah.

MR. PORTER: Now, how do you think that the policy making process should change perhaps to take more into account?

MS. MCLERNON: Thank you, Eduardo. And I appreciate being here today. My organization represents companies that have already invested in the U.S. So they are the VWs. They are the Daimlers. They are the Nestles and Sonys and so these companies have already made a decision to be here and so the work that Steve is doing certainly very important. The work that we tend to look towards is about how these companies are able to succeed once they are here, which of course has an impact in whether the country is able to recruit more companies to invest here.

But let me touch just briefly on what you said earlier in terms of if we're still the largest single destination for foreign investment, is there really a problem? Given the fact that the global pie has grown, why wouldn't we want to try to get more of that? Why would we try to leave, you know, jobs on the global table for other countries to go after? And the extent to which we have such a smaller piece of it makes it all the more desirable to try to go after that because we've been successful in the past.

And, you know, the House of Representatives certainly recognized this when they passed the global investment in the American Jobs Act right before they left in -- just a couple of weeks ago and it was a bipartisan piece of legislation. They got a lot of support. So I think that there is this recognition that we need to work harder to bring foreign investment here. Unlike, you know, 20 years ago when the U.S. was getting 40 percent of foreign direct investment. There was a lot of concern at the time about the impact of global investment in the U.S.

This concern of buying up of America. Japan Corp was going to come and take us all over. There isn't that concern anymore, but yet we're not getting as much as we could be getting right now. So what are the things that are happening that is preventing that? And that's one of the things that the legislation is trying to do.

You know, if you go around and you talk to governors who really get the very practical benefits of foreign investment, they like the fact that the U.S. at the federal level is also trying to step up its game so that they're not in it alone. So I think the work that SelectUSA is doing is great. I think the legislation, which looks to see what are the policies that may prevent more investment in the U.S. is a critical component of being able to attract more companies to locate here.

MR. PORTER: Let me ask a question about a specific obstacle. As you may all know just a few days ago the Obama Administration blocked a Chinese company, or actually asked a Chinese company who owns some wind farms in Oregon near a naval base where they were flying drones, to divest from these companies after a recommendation from Syphius. And I wonder whether that process is a problem? Viewed as problem? Whether Syphius process is considered perhaps not transparent enough, or somehow a legitimate? Some commentators have noted that this decision by the Obama Administration came very near presidential election, at a moment where sounding tough on China pays political dividends.

And so, you know, I was wondering whether that kind of national security consideration is viewed as a problem? And I don't know, perhaps before opening to you as a representative of the foreign investment community, I would like to hear Jason's view as a representative of the White House about the Syphius process.

MR. FURMAN: I am, you know, Eduardo, as you know it's a very serious rigorous process that brings people together from the national security and the economic side in making these types of determinations. I can't obviously go into any of the details or specifics in this case, but it was a recommendation that was made to the president. And a recommendation that the president accepted.

Stepping back from it it's exceedingly rare that you get to this point. Almost all foreign investment in the United States is approved. Almost all of it is approved expeditiously and that's as it should be, absent serious security concerns. FDI in America is a great thing. It pays higher wages. It's more likely to undertake investment, research, exports and it really enriches our country, but there are those rare cases where you need to balance that against our national security and we wouldn't have a strong economy without a strong national security either.

So in some sense those two are complimentary to each other, but, you know, did want to agree with your opening point that we have -- we are the biggest destination in the world for foreign direct investment, 15 percent of it, $2.5 trillion that's been growing rapidly. I wanted to agree with Steve's agreeing with Jonathan that we really can't take that for granted and we very much recognize that there's a lot that we need to do both solving the immediate challenges we face, but also solving them in the right way. And I suspect in more of the Q and A we'll be able to come back to that.

MR. PORTER: Yeah. All right. Do you have any thoughts about Syphius?

MS. MCLERNON: Just I think a strong Syphius review process is actually very important to the international -- to companies, right? If that process has a thorough scrub of deals for national security concerns there are less likely that there might be politicization of a process that actually may bring another concerns and issues into play that really shouldn't be into play. So I think that the transaction that was blocked last week was in fact very rare. I think that of course we would want to make sure it didn't become a trend of any sort, but, you know, I don't know the specifics of that deal.

Chinese investment is ramping up. A lot of it is going to be through acquisitions as most foreign investment is through acquisitions. And so in some ways somewhat inevitable. I don't think we should read too much into one decision, but I think that it's important to keep a watch of because acquisition is the best way for a new company to enter into a market and that's true in any country.

In the U.S. about 80, 85 percent of foreign investment is not through Greenfield Investment, but through M and A policy. And when thinking about the attractiveness of the U.S. I would look more toward the concern that globally engaged companies want to be in countries that are globally engaged. So like Jonathan pointed out, trade agreements, business immigration policy, tax policy, there are other -- lots of other things that I think can work toward attracting more foreign companies to the U.S. The Syphius process seems to work as it is.

MR. PORTER: Okay. I'm going to open it to the floor in a minute. I just wanted to ask Martin a question here. Perhaps we're presenting the dispassionate observer of these processes and I'd like to get your sense of where foreign direct investment around the world is going. I mean, my intuition would be that as the bricks keep growing faster than rich countries, more multinational investment will be drawn to them, kind of regardless of what we do about it, but they will be gaining a larger share, China and Brazil, India and some other developing countries.

And I would like to -- I would love to get your sense about whether you agree with this and whether there's anything that will -- what this will depend on? Whether the, you know, right now we're in a moment of enormous economic instability around the world and also what -- how that instability will play into the patterns of multinational investment decisions?

MR. BAILY: Well, I'll try to answer at least some of that -- some parts of that question. I'm not sure I can give the whole answer. I do have occasion to talk to business groups, boards of directors, sometimes managers, senior managers and my first comment is that the view that's -- that you're expressing that there's sort of a friend in the Commerce Department and we're doing everything we can to bring people in, that's not what I hear from the business people that I talk to.

And it's not that I know, I'm just reporting what they say, which is they feel that there are a different agencies they have to get permission from. That they have to tackle both federal and the state and local and that's it's really become quite cumbersome and they mention environmental stuff in a lot of ways in which they see barriers to investment in the U.S. So I really applaud what you're doing, but we've got to get to the point where folks really see some of those things actually happening.

Now to try to be more specific in answering your question. What I think companies, U.S. companies and foreign companies are looking at is that the growth rate is much faster obviously in China and in the Brits and India, Latin America than it is in Europe and the United States. So on the one hand they say we understand doing business in Europe and United States. We think that politically it maybe is more stable. We don't think that things are going to blow up. Maybe that's not just so true about Europe, but I think in the long run it's true of Europe.

But on the other hand, we're only going to get GDP growth that's maybe 2.5 percent or 1 percent if we're lucky. Whereas in China and these other countries, at least once they get through the current problems, they're going to be growing as 7 percent or 5 percent if it's Latin America. Not only that, but they also see the sort of middle class so the big lump in the income distribution starting to get through that point where you really have the size of the middle class is expanding very rapidly.

So a lot of companies that are in the consumer goods area, or they are serving that expanding middle class. Not only do they see an economy that's growing more rapidly, but they see a middle class that's growing explosively. So they're just sort of salivating about that opportunity.

So where do I think foreign investment is going? I think the U.S. is going to get a smaller share than it has gotten traditionally. I think we are still, you know, there's still a lot of money here and they'll still be a lot of investment here, but the challenge in a way is to say let's make sure we continue to get our share because that expanding economies and expanding middle class is going to make investing in China and India and Latin America, Africa even, is much more attractive than it has been historically.

MR. PORTER: Oh, thanks. I'd like to open it now to the floor if anybody is interested in taking. Sir, at the back?

MR. GONZALEZ: Yes, good afternoon. John Carlo Gonzalez with Talk Radio in the Service. I had a question, this I guess anyone can answer it, Jonathan Browning mentioned that economic and political stability is your pillar. What's the consideration for, or what's the baseline for a country that gets human rights violations that are lodged at the UN? I mean, obviously it can go back and forth. They can say we have something here. They do something over there. What are multinational corporations looking for to say okay that's as much as we can tolerate for investing in a country.

MR. PORTER: I'm sure I got your question. Is it human right's violations in the United States; are they an impediment to investment here?

MR. GONZALEZ: No, no, no. So for example we lodge complaints against China that have violations there. I guess a company like Volkswagen can open up plants there, but what would be their, I guess, their baseline or how would they go about determining that it's okay to go ahead? Is there an intelligence apparatus that says, okay we have relationships with, you know, people in different parts of the government that can tell us okay that's fine, or --

MR. PORTER: Well, maybe that's a question for Mr. Browning, in whether human rights considerations play a role into your decisions on investment?

MR. BROWNING: Thank you. You know, as a corporate entity I think we have to focus mostly on the things that are within our control and we have certain corporate policies and practices in terms of how we operate in any given market. How we work with employees or representatives of employees and those are the things that we very much focus on.

I think in the context of today's discussion you started out by referencing overall levels of economic and political stability. I was reading in the Financial Times just last week some commentary about the world economic forum ranking of global competitiveness of different nations and over the last few years the U.S. has slipped from number one in terms of competitiveness to number seven. And part of that were concerns over governance, macroeconomics stability and infrastructure elements.

So I would bring it back to those broader topics rather than the specifics of an individual corporation.

MR. PORTER: Sir, at the back there as well.

MR. UNIAM: Thank you very much. My name is Nobel Uniam. I'm from (inaudible) a company, a Japanese multinational. I think U.S. has age demography and an open market and the very massive cheap energy tends to share gas and to so forth. So we see a lot of attractiveness, but negative side is infrastructure, aging infrastructure, may somewhat drug the efficiency.

So question is to what extent that you would welcome FDI to boost up the infrastructure? Thank you.

MR. PORTER: Well, maybe that's good -- are you?

MR. FURMAN: Yeah. I think that's a very good and important point and obviously things like demography being one of the only developed countries that still really a growing market and then as you conclude free trade agreements that in effect grows the market you can get through your FDI here more.

Some of our infrastructure, the Boston Consulting Group, for example, has highlighted the amount of spared capacity in America's ports as one of the things that they think is going to make America an even more attractive destination over the next decade, but obviously we need substantial increases in infrastructure investment in this country.

Some of that is only going to be able to be done if we increase the amount of federal investment that we make in infrastructure and that's something we've proposed and that gets to the point of it's not just getting our fiscal house in order, but how you get your fiscal house in order. And one of the reasons why the president thinks a balance plan is so important is that we can't keep cutting, cutting, cutting and putting that all on infrastructure, scientific research, education and training, you know, all the things that makes America an attractive place to create jobs.

But federal investment isn't going to be enough also. We have to leverage our investment and do a lot more to leverage it. One of our ideas for that is an infrastructure bank. It's something that has bipartisan support in the Senate. And something like that would -- the whole goal of it would be to bring private capital in to invest in infrastructure and you'd absolutely want that private capital to come from all over the world. And you see a lot of other countries have been more successful in pushing that forward than the United States. We're getting better and you've seen a lot of banks going to in a bigger way.

A number of states doing innovative things, but there's still much more the federal government could do to catalyze and leverage that type of investment in our infrastructure, which will then help the other forms of investment that we're all talking about and care about.

MR. PORTER: Are there limitations to what a foreigner can do in terms of investing in infrastructure here? I suppose airports and stuff like that would be problematic.

MR. FURMAN: I mean, we talked about Syphius and we talked about how rare it is and how it helps increase your confidence obviously.

MR. PORTER: Didn't Barack counter that investing in -- was it the Oakland Airport or something?

MR. FURMAN: There's obviously an infrastructure investment in, I guess, it was around 2006.

MR. PORTER: That was before your time.

MR. FURMAN: In some of our ports that created a certain amount of controversy in this country, but as a general rule if you're talking about, you know, our highways, you know, in general FDI is good and infrastructure is no exception.

MS. MCLERNON: Eduardo, could I make a comment on that.

MR. PORTER: Sure, sure, yes.

MS. MCLERNON: While there aren't any restrictions at, you know, that are at play here in terms of investment in infrastructure for the most part and setting aside Syphius national security concerns, for those who oppose the concept of public private partnerships in infrastructure they very often use the foreign niche of a company to try to kill the deal.

So again while they're not rules and regulations that might stop it, politics quite often play a role when there's a foreign owned company that is trying to invest in an infrastructure project that can end up working against them. Very often it's only the foreign based companies that are bidding for certain contracts because these companies have much more experience around the world with these public private partnerships. So it's something that, you know, several of my companies have experienced sort of at the local level sometimes when there is an effort to try to kill the concept of a public private partnership. The foreignness is used against the company.

MR. OLSON: That was a point I was going to make. I mean, I think in our country we don’t have as rich a history of public private partnerships as some places around the world and if you add the foreign aspect to it, it makes it a little bit more challenging, but I want to say it is happening. It's absolutely happening at the city level, the state level, the regional level and to Jason's point, we encourage that and frankly we think it is a good source of financing.

MR. PORTER: There was a question. Yeah, there.

QUESTIONER: To me it seems that an important factor for FDI is the role that government plays in business. And there is a huge discussion going on here about whether it was right or not to save the Detroit automakers in 2008 and 2009 was billions of taxpayers' money. Obama might have the opinion that it was a successful move, how do you see it from your perspective and from the perspective of companies investing here? Did the bailout of the big three help you to attract foreign companies or is it just the other way around?

MR. FURMAN: I can start with that. I mean, I think we've seen a tremendous increase and consistent flow in the transportation sector. I think the transportation sector is one of the largest sectors of foreign direct investment. And there's no doubt that much of that is due to the successful U.S. auto base of manufacturing.

I heard, you know, part of my job we're meeting with local economic development folks all the time. Had an interesting conversation with someone in Detroit recently, which will run counter to many of your impression of Detroit. It is almost impossible to identify and locate large and medium sized manufacturing facilities in and around the Detroit area right now, because of this demand and attract, you know, auto part companies coming in.

Another part of the United States the Greenville Corridor in South Carolina has been very successful with BMW and Michelin and actually a point Jonathan made earlier, there these auto part companies and auto manufacturers are successfully I think doing tie ins with community colleges, which really, in my view, are the sweet spot for workforce training. And I think it's a wonderful model to sort of cluster based cooperation between state and local government, federal government sometimes and universities and community colleges. So to throw that point in there I think the auto parts sector has one that we've seen that done very successfully.

MR. PORTER: Martin?

MR. BAILY: On a clear sunny day I don't think in a market economy you bailout a banks that's in trouble or a company that's in trouble, but we were not on a clear, sunny day. This was a catastrophe happening and I think it was essential. You didn't mention the banks, but it was essential to support the banks. We couldn't let the financial system collapse. And I don't think it would have been wise policy, in fact it would have been very unwise policy to let such a big industry as the auto industry go down.

So, you know, what the normal pattern of letting successful companies get smaller or fail and unsuccessful ones get smaller then the successful ones gets bigger, that's something the United States generally does pretty well. I very much supported what was done then just because we had to do that at that time.

MR. FURMAN: And let me stress something Martin said, which he sees that the auto industry, so the goal wasn't to companies, the goal was entire industry and a network of their suppliers and a whole eco --

MR. BAILY: Exactly.

MR. FURMAN: -- system here in the United States and that's why you saw for example, Ford Motors, which didn't receive any funding through it supported. They didn't say oh great our competitors are going down, we'll take their market share. They said, oh no, you know, they're going to take a whole bunch of suppliers with them. That's going to make it a lot harder for us to produce cars here in America. I don't know, you know, what Volkswagen America and everyone else thought of it, but if you want to have an auto industry in America with a whole bunch of players in it, the strength of those going through what was a temporary and massive shock outside their control was very important, not just for them, but for the whole industry.

MR. PORTER: Mr. Browning, I'd love to hear your thoughts on this. Would this kind of like an unfair subsidy, the government picking winners or would you agree with Jason?

MR. BROWNING: I think Martin captured it very well when you say in a perfect set of circumstances on a clear, sunny day maybe it wouldn't have been action that you would promote, but in the circumstances it was essential and particularly not so much for the individual companies, the tier one OEMs, but that whole supply base, the supply chain, the manufacturing and economic infrastructure associated with them. Yeah, I think no question. As a short term expedient measure.

I think the issue now is how to avoid any sense of an uneven playing field between the Detroit three and the rest of the industry on an ongoing basis.

MS. MCLERNON: And if I would just add just two cents is that, my hope is that the U.S. and the administration, other policy makers see the success of the global autos as part of the success of the U.S. auto story. So it's not just about, you know, the success of just two or three companies, it's about the success of all of them.

And the opinion that Jonathan gave in terms of concern about the whole supplier base was from all my global auto companies. So it wasn't about necessarily wanting those companies to go down, but the concept that the U.S. auto industry is only two or three companies is a false one today. And you have companies that are headquartered outside the U.S. that are making things here, not just for our market, but for export. And the more that we sort of embrace that and sort of, you know, look toward that future I think the better off.

MR. PORTER: There's a question way at the back there.

MS. FRENCH: Hi, Lauren French with Politico. And Jason, this question is for you. If the U.S. can't take FDI for granted like you said, what is the administration willing to do tax and regulation wise to make investments so much more attractive and competitive for these foreign investors?

MR. FURMAN: Well, I --

MR. BAILY: Can I just have a quick request? I'm freezing. So if there's anybody who's got control over the thermostat, just throttle it back.

MR. FURMAN: Well, I have --

MR. BAILY: Apologies for interrupting.

MR. FURMAN: -- a half an hour speech prepared on that topic. So I'll just move over there and deliver it.

I think the brief version is one, we obviously have to successfully navigate the immediate set of challenges we face in terms of the fiscal cliff, but we have to do it in the right way. So reforming our tax codes and the president has placed a lot of emphasis on bringing the corporate tax rate down to 28 percent with an additional deduction for manufacturing, it would be 25 percent for manufacturing in America.

With have to do it in a way that's consistent with continuing to make the types of investments that are important. We've been talking about infrastructure and also investments in education and training. A lot of our focus has been especially on areas like community college, pairing businesses up together with local community colleges to develop curriculums that really would place and achieve the president's goal of two million people placed into jobs.

Regulation is a very important part of that. The president signed an

Executive Order a year and a half ago enshrining and continuing to enshrine the use of cost benefit, building on that a regulatory look back. We have 100 regulations that we have either finalized or proposed to look back and do. Getting rid of regulations that are redundant and unnecessary. Trying to harmonize some of them internationally, which I think is something that's especially important for FDI.

So if you have different warning labels in Europe, the United States, Canada, you know, maybe big companies can handle that and figure out how to deal with all of them. For small companies it can be an impediment to locating here. It can be an impediment to exporting and trying to create some of that harmonization. A lot of that work is starting with Canada.

And, you know, finally we need a level playing field. And a level playing field includes opening up markets and that's why we're so proud that we're able to get things like the Free Trade Agreements with Korea. And I'm done. And at the same time, you know, enforcing our trade agreements. You know, when we've had problems with China what we've done is worked through the multilateral system and take them to the WTO and we brought those cases at twice the rate that the previous administration did.

And I think something like that is very consistent with opening trade. The more people have confidence that it's being done fairly, that you have a level playing field, the more they're going to be able to integrate and work together around the world. So I think all of those are critical ingredients; the fiscal side, the investment side, the tax reform side, the regulatory side, the leveling the playing field side.

MR. OLSON: If I could just make a related point. When the president created SelectUSA by Executive Order last summer, he also created an interagency working group that I co-chair with the National Economic Council with Jason's boss, Jean Spurling.

And Martin, to your point, I think it's fair to say that in our first year we have been more focused on the promotional aspects. The United States didn't have an investment promotion agency. We were the only major economy and probably the only medium economy in the world without one, but the policy aspect of our role is equally important.

And I think it's particularly important now we have been able to develop a pipeline of over 600 investment cases which I view as the unique asset in the U.S. government now. And we're able to, with that I think, to inform the policy debate in a way that perhaps we weren't before. So there is this interagency mechanism.

We use it right now every day on behalf of companies and economic development agencies that are confronted with regulatory issues, with maybe just questions about grant application processes; maybe it's Visas. Every day right now working at the staff level to resolve these issues as quickly as possible. That never existed before at the federal level.

It was, as you say, you have to go to a hundred different agencies or 12 different agencies, whatever it may be. Now we have this process. Like any new process in the government, like any new program, I think we need to continue to work hard to get the word out so that people know this exists, but there is this interagency working group, both at the staff level and at the policy level to help address these things.

We've also discussed this recent bill that Nancy mentioned, HR5910, that does specifically, the language of that bill specifically directs the interagency working group at the direction of the Secretary of Commerce to work to identify and address these barriers real and perceived. And, you know, it's a working group as I said that is consists of representatives from across the federal government.

MR. PORTER: I'd like to hog the last question before go. I wanted to

Mr. Browning and to anybody on the panel who wants to take any of this. How important is the price of labor in consideration for investment in the United States? And perhaps not just the price of labor, but labor market policies. You have the experience of Germany. I have the United States where they are entirely different sets of regulations. Union relations are entirely different and I'd love to hear you sense about how important unions, the price of wages and other labor relations are in your decisions to invest?

MR. BROWNING: Sure. Let me kick off the response by saying, in the automotive sector specifically, cost of labor is typically, you know, less than 15 percent, often less than 10 percent of the total cost of production. So it's an element, significant element, but it's not let's say, a singularly dominating element in investment decision process. And I think one of the panelists referred to the BCG study that was released last week. And I think in that study it even compared overall labor cost between China and the U.S. coming down to less than .10 difference in the future.

So I don't think labor costs is the big driver. It's an important part. It's more about the quality of that labor supply and it really comes back to what I was saying in terms of the educational infrastructure, the technical training and how those sources of labor work with the investor in terms of really making sure its specific needs are addressed. And in terms of, you know, organization of labor, we work with a whole variety of different structures around the world and so again, that's not a pre-determinant of where our investment would be focused.

MR. PORTER: And so much of the car industry has come to the south where right to work states where there's, you know, there's no unions. One would suspect that this is an important consideration.

MR. BROWNING: As I said, we went through a selection of over 400 different sites in coming to that specific conclusion and so there were a whole rafter of topics that came into the decision process.

MS. MCLERNON: Interestingly, foreign based companies actually have a higher percentage of unionization than the business community overall. So for their entire business community it's --

MR. BAILY: That's because they're mostly in manufacturing --

MS. MCLERNON: In manufacturing, but nonetheless, the companies are not scared away from it.

MR. FURMAN: Okay. And I think, you know, ultimately what you care about is, you know, some concept like unit labor costs, which takes into account -- is a reflection of your productivity. And what the strength of America is going to be is not, you know, lower and lower and lower wages to attract everyone from the rest of the world. It's going to be better and better and better productivity and better and better and better, you know, and that comes back to education and training and all the other factors, you know, we've been talking about.

MR. PORTER: Well, I think we're just a little bit past our time. I'd like to thank our panel for being here and answering all these questions. And thank you for coming.

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CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

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