From Wolfsburg to Chattanooga
Foreign Investment, Economic Growth, American Jobs

Thank you, Martin (Baily). It is a pleasure to be with you this morning. Brookings is known worldwide as an incubator of quality research and forward-looking ideas, and I'm honored to have this opportunity.

I'm going to start with the assumption that this audience understands the benefits of foreign direct investment.

But what I would like to do is add some real-life perspective on the subject 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;
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> Second, the importance of education as a key foundation that both benefits from FDI and is also a pre-requisite for continued future investments;
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> And, third, the reality that the US has lost ground in terms of FDI and the risk that this trend continues.

You have all seen the facts: U.S. affiliates of foreign companies provide 5.3 million jobs in this country — about 4.7 percent of all private sector employment.

The average compensation and benefits for those workers is around $77,500 — 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 at 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 at businesses that benefit from these employee paychecks generates more than 15 million additional indirect jobs. The combined wages, salaries and benefits from all of those FDI related jobs amounts to approximately $1.2 trillion.

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

Rather than debate the pros and cons of FDI, I'd like to talk about how it plays out in the real world, using Volkswagen's experience as an example.

Volkswagen is a reference point for companies that have made foreign direct investment an integral part of their global strategic vision.

[map of global production locations]

We employ more than half a million people worldwide and sell cars in 153 countries. We operate 99 production facilities in 26 countries on five continents….and we are currently adding five more plants around the globe. At our core we are an engineering company, indeed we employ over 34,000 engineers worldwide, that's more than three times the amount 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 are known for their passenger cars; Ducati for motorcycles; and Volkswagen Commercial Vehicles, Scania and MAN for their vans, trucks and heavy equipment.

Our aim is to become the world's leading automaker by 2018. That is relevant in today's discussion because decisions about where to invest in this world of choices are driven by this long-term strategic goal.

[Map of recent US investments]

Volkswagen has invested $4 billion in this country over the past five years because we believe it will help us achieve our global objectives.

Gaining a larger share of this market is an essential part of our global growth strategy. To do that, we have to forge a closer connection 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 United States. You don't find many pickup trucks in Manhattan, and there aren't many tiny, two-seat cars in Montana.

Americans may be 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 why leveraging our global capabilities.

[Photo of Chattanooga plant]

In 2008 we took our commitment to the US market to another level by announcing a $1 billion investment in a new state-of-the-art manufacturing plant. In effect, we doubled down on the U.S. market.

Our U.S. production facility is more than just a place to build cars: It is a gateway to a deeper and closer relationship with our U.S. customers. Our understanding of this market grows every time a German executive or an engineer visits our U.S. plant, or meets with dealers and customers — and that happens quite often. As I'm sure all of you agree, reading about or hearing about another region is no substitute for experiencing it first-hand.

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

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

We viewed the plant site selection process in much broader terms than simply some kind of auction to be 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 a shared interest in the success of our new plant. We were very impressed by the political, personal and emotional support we found in Chattanooga, Tennessee.

One small sign of that local commitment had a big impact on the decision makers. After visiting the undeveloped plant site, some of our executives were skeptical that 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 let us see the progress in real time.

[Volkswagen Academy Photo]

On a more substantive level, educational authorities agreed to work with us, establishing a community college campus to complement 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 overemphasize the importance of skilled workers for attracting investment. There is a lot of talk about the manufacturing sector in this election year, and with good reason. Manufacturing supports about 17 million U.S. jobs.

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 a consistent mantra calling for jobs, jobs and more jobs. Yet, as millions look for work, there are more than 600,000 open positions in the manufacturing and technical sector today waiting to be filled.

Technical education is absolutely critical to the economic vitality of any nation, including the most advanced nation on earth. Automotive manufacturing jobs helped build the middle-class in this country, and they continue to do so today.

In Tennessee – and 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 school systems to the Oak Ridge National Lab. Beginning this fall, our on-site education program includes MBA courses in cooperation with the University of Tennessee Chattanooga.

[PHOTO –group shot Chattanooga employees-]

Our plant has delivered countless benefits to the local community and the state of Tennessee, including more than $379 million spent regionally for construction and more than $307 million spent each year in the same area for auto manufacturing supplies.

It has become the lifeblood of small businesses like Wingard Quality Supply, a minority-owned enterprise that supplies wheel assemblies. This smaller company alone has hired around 20 people at its new facility in the Volkswagen Supplier Park in Chattanooga.

We have a goal of 10 percent of our suppliers being owned by minority suppliers, and we are well on our way to achieving that target. We currently stand at 8.7 percent, but 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 another 1000 jobs.

We are pleased that our investment has paid off for Chattanooga, but clearly we are also pleased that it appears to be paying off for Volkswagen. As I said a moment ago, we have been intensely focused on producing cars for the U.S. market.

[IMAGE: VW- Jetta, Beetle, Passat- sales figures]

You can see the results of that effort in the all-new Passat, produced in Tennessee and the newest version of the Jetta. Those cars and the all-new Beetle are leading the resurgence of the Volkswagen brand in this market.

Our sales increased by 20 percent in 2010, 26.3 percent in 2011 and we are on track for stronger gains this year with sales up over 37 percent YTD

[Map of US locations]

Our U.S. connections go well beyond the 3000-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 stretches from coast to coast. In addition to our 30,000 dealer team members, the Volkswagen Group of America operates in more than 30 locations, including our headquarters in Herndon, Virginia; an Electronic Research Lab in Silicon Valley, a design center in Santa Monica, an Automotive Innovation Lab at Stanford, a new $27 million research and development center in Oxnard, California, and a customer relations and after-sales support center near Detroit.

It is too early to declare “mission accomplished,” but it is not too early to conclude that Volkswagen’s investments have been good for us, good for Tennessee and good for the United States. However, we are just one example of the benefits of FDI.

[World of Choices]

How do we build on this success? What kinds of policies promote positive foreign investments?

I must issue a note of caution here: The United States has been a magnet for foreign investment for more than a half century. This has long been the wealthiest, most stable, transparent and open market in the world. My message to you is: Do not take it for granted.

We live in a world of choices. The competition for beneficial foreign investment — the kind that generates jobs and economic growth — has gone global. My personal work history illustrates the point.

As you can probably tell, I am British. I've worked for American companies in 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 not only competing with itself, state against state. Rather, you are increasingly competing with aggressive and expanding markets like India, China and Russia — and with our neighbors in Mexico, Canada and South America.

There are already signs that the competition is catching up too. This country captured more than 41 percent of all foreign direct investment globally in 1999. It has since 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 surpassed the United States to become the world's biggest vehicle market three years ago and in three more years, is likely to be bigger than the combined totals of the U.S., German and Japanese vehicle markets.

It should come as no surprise, then, that Volkswagen has 12 production plants in China and at least three more on the way. Or that one of our competitors is spending nearly $5 billion to build eight new plants in China by 2015.

So how do you ensure you get your fair share – or better yet – your <u>disproportionate</u> share – of the global FDI pie?

At the macro level, it starts with economic and political stability. They are the pillars of success for any nation in this global economy. Without that foundation, the risks can 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. I say this as a great admirer of the United States and with the full recognition that Europe is struggling with its own significant problems.

But I have to be 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 partisanship and ideology that is causing the gridlock we see today.

We never wavered in our commitment to Chattanooga, even during the worst global recession in more than 60 years. But huge investment decisions have to look into the future, and the future of this market is dependent on the strength of this economy…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; a looming fiscal crisis and a polarized electorate. Standard & Poor downgraded the U.S. credit rating for the first time ever. Now Moody's says it is also considering a downgrade.

Congress and the Executive Branch seem to lurch from crisis to crisis, without achieving a 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 <u>and</u> avoidance. The continuous fight over the debt ceiling is a good example.

If the United States 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 not typically a base for export operations. It is hard to imagine – certainly in the automotive sector – that a foreign company would invest in a manufacturing plant in the U.S. to primarily sell products in non-NAFTA markets. Volkswagen came here because we saw huge opportunity in the domestic car market.

[VWGOA logo]

As an example, just last month Audi chose the Mexican state of Puebla 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 is operating in 2016.

This location was chosen because 70 percent of production is expected to be exported outside the NAFTA region. While it makes complete sense to build in the NAFTA region to strengthen our currency hedge, it simply doesn't make sense to build in the US if exporting is central to that investment decision.

By choosing Mexico for the new plant, Audi can avoid a 10 percent tariff on cars shipped to a host of countries that have trade agreements with Mexico, but not the United States.

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 consume the vast majority of the production, then you can afford to build in the US.

In these circumstances therefore, the confidence in the future strength of the US economy are the primary reasons for foreign direct investment. And while no one is writing off the US economy by any stretch, the US must fix its underlying economic infrastructure in a bi-partisan, truly impactful way. And soon.

If not, the US will have to shift its focus – away from <u>consumption</u> of goods – to promoting exports of those goods in order to truly compete for future FDI.

And I think everyone here understands that would come with a host of other challenges – not the 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 US domestic market attractiveness by getting the federal house in order, and look to radically improve the export oriented infrastructure.

In addition to tackling the big issues, there are a number of other things that could help the United States retain its appeal to foreign investors:

> Ensure a level playing field. Companies seeking investment opportunities aren't looking for favors as much as fairness. That means removing regulatory barriers and other unnecessary impediments to foreign investment.
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> 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 that the best technological advances emerge from competition, not favoritism.
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> Some other considerations….. Foster a business and political environment that welcomes positive foreign direct investment. Ensure a fair tax code exists; allow foreign companies access to governmental contracts – especially those that will encourage investment and employment.

Brookings contributes to that by encouraging discussions with events like this, and with valuable research and policy advice.

Volkswagen has been part of America’s economic and cultural fabric since the first Beetles arrived here more than 60 years ago.

Today, we have a larger presence here than ever, and we are 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 always been a welcoming country, and that attitude has contributed to its success and its strength.

The question is will the United States continue to attract the kind of investments that Volkswagen and others have made? Can companies be confident that building here will deliver adequate return on investment?

We live in a big world, with a lot of choices. If the United States makes the right choices to sustain and enhance the conditions that made investment so attractive to Volkswagen – and many others – the answer for sure can be yes!

Thank you and I look forward to your questions.