

Summary: *Sterling Assets*

The US and UK have the largest overseas trade and investment relationship in the world.

The importance of this relationship – and of the benefits that it brings to the economies and the peoples of both countries -- was highlighted by a new report published by the Confederation of British Industry (CBI) earlier this year.

While the CBI report focuses on UK investment in the USA, an equally impressive story could be told of US investment in the UK. For every dollar that UK companies have invested, and every American that they have employed, in the US, an equivalent dollar has been invested, and an equivalent Brit employed, by US companies in the UK.

The report is particularly timely coming as it does as a time when protectionism is again becoming an increasingly attractive shibboleth on both sides of the Atlantic and foreign investment is coming increasingly under suspicion.

The Numbers

As of year-end 2006, the UK had \$303 billion invested in the US -- 16.9 percent of the nearly \$1.8 trillion of foreign direct investment (FDI) in America. That investment keeps nearly one million Americans in work.

This makes UK investment almost 50% greater than that of any other country – Japan is the closest, on \$211 billion. By contrast, China's investment is minute, at less than one percent of FDI in the US.

The UK is also far ahead of the competition in terms of 'Americans employed'. 18% of the 5 million "in sourced" jobs in the US (i.e., jobs created by the U.S. subsidiaries of foreign-owned companies) are supported by British investment – again, almost 50% more than are employed by Japanese-owned subsidiaries.

The Impact

British investment is spread right across the country. Every state in America has workers in jobs that are sustained by British companies – a total of nearly one million American jobs.

British investment is equally diverse in sectoral terms. Leading sectors include manufacturing, accounting for close to 300,000 jobs; wholesale trade, accounting for more than 100,000 jobs; and information services, accounting for more than 70,000 jobs.

British investment is also good for the US economy in other ways. For example, U.S. subsidiaries of British-owned companies operating in the United States generated a total payroll of \$58.7 billion in 2005. That means the average annual compensation (wages and benefits) of a worker in a British-owned company was about \$65,000 --

compared to the annual compensation of the average American worker, which was approximately \$50,000.

Gross capital stock investment of over \$207 billion by British subsidiaries in U.S. property, plant, and equipment also adds value to each state economy; British subsidiaries invested \$12.8 billion in commercial real estate; and British-owned companies spent nearly \$6 billion on R&D in the US, representing almost 20 percent of the total R&D expenditure by foreign affiliates located in the United States. These R&D activities help to spur the competitiveness of the US economy and the discovery of new products and processes, generating economic growth as well as improvements in the quality of life.

Finally, British subsidiaries also help the U.S. trade balance, exporting \$17.7 billion of goods from the US – more than 10% of the total exported by foreign-owned affiliates. And a significant proportion of those undoubtedly went back to the UK, as the UK is the fifth largest merchandise export market for the United States, behind Canada, Mexico, China, and Japan.

The Conclusion

The Report makes a compelling case for the mutual benefits of foreign investment – and in particular the benefits to the host country in terms of its contribution to employment (and the quality of that employment); to the economy; to competitiveness and innovation; to the tax base; and to exports.

One additional benefit -- that is not quantifiably tradable but is equally important in a global economy – is the benefit that foreign investment brings in internationalizing the US economy and better equipping it to compete in the global marketplace.

The Report

The CBI Report, *Sterling Assets*, sets out the national picture of British investment in the US, and also goes on to break it down state-by-state, showing how much US subsidiaries of British companies contribute to each economy. It also covers, briefly, some of the policy areas that the CBI believes have the greatest impact on bilateral investment – tax policy and regulatory co-operation, as well as classic trade and investment policy frameworks.

BritishAmerican Business will be using the report to support our policy work in support of open markets. We would encourage you to do the same. You can download a copy from www.cbi.org.uk/pdf/SterlingAssetsReport.pdf