

Foreign Direct Investment by US Firms in Mexico

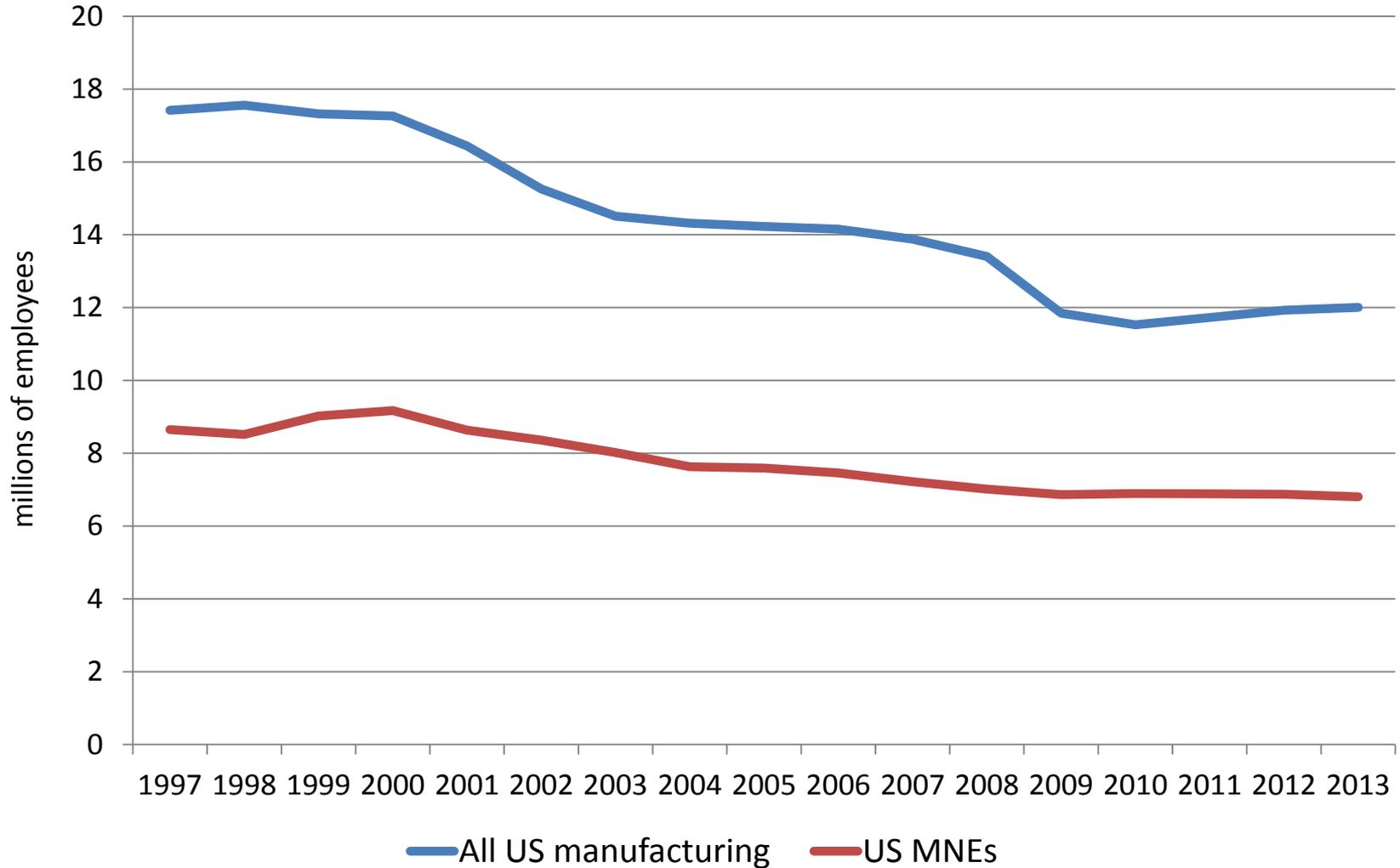
Lindsay Oldenski

Georgetown University and
Peterson Institute for International Economics

Introduction

- In 2014, affiliates of US firms in Mexico sold \$292 billion of goods and services, and employed 1.5 million Mexican workers, up from \$32 billion in sales and 550 thousand workers in 1990.
- US manufacturing employment has fallen over the past few decades.
- Is offshoring to Mexico to blame for declining US manufacturing employment?

US Manufacturing Employment



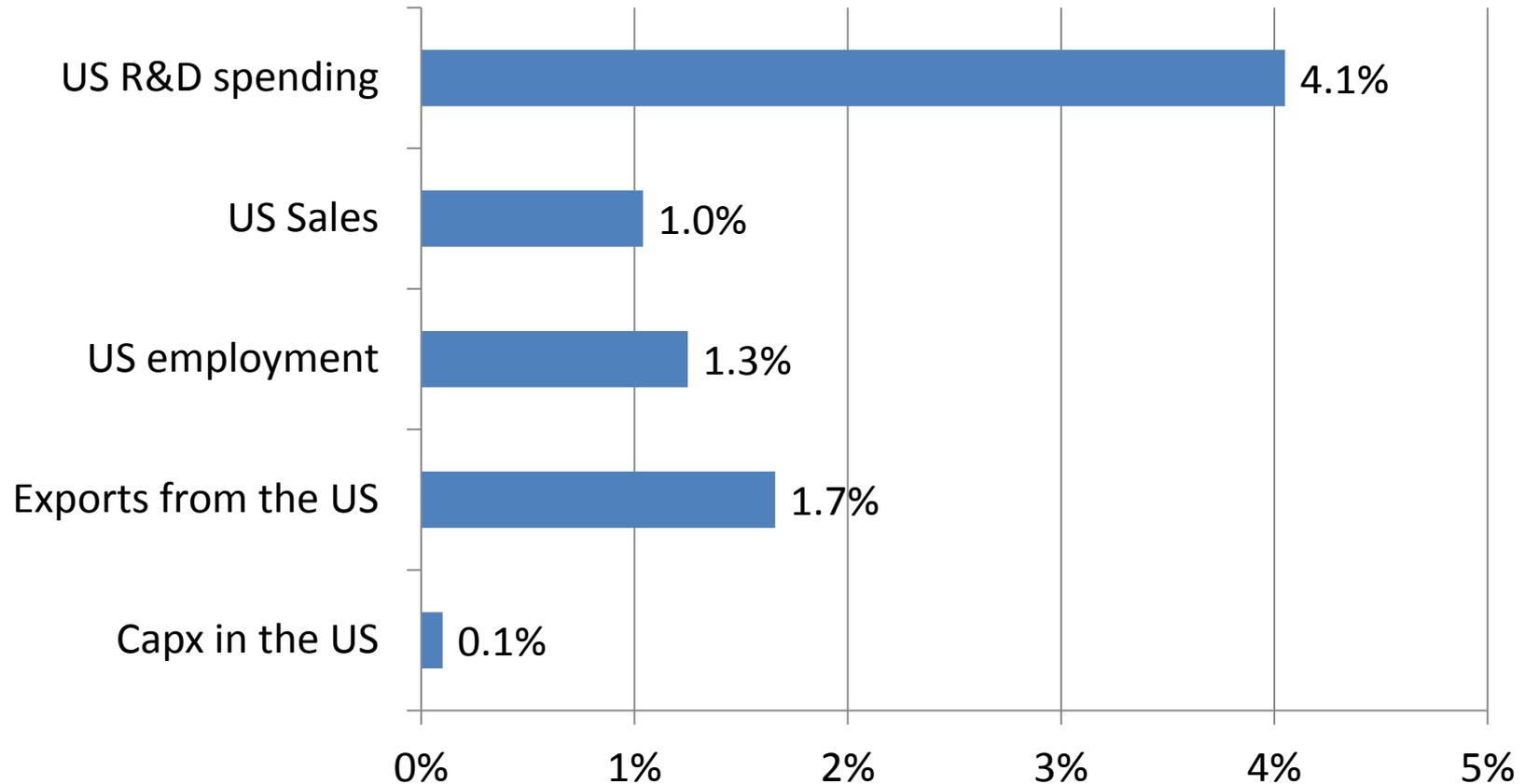
Are Offshoring and Domestic Employment Substitutes or Complements?

- **Case 1:** Firms have a fixed number of jobs, which can be filled with workers in either in the US or another country. Policies restricting outward FDI would benefit domestic US workers. (*Substitution*)
- **Case 2:** Firms expand abroad for reasons unrelated to US labor markets. Restricting FDI would not impact US workers.
- **Case 3:** Expanding abroad makes US companies more productive and leads to new sales opportunities, increasing the number of US workers they hire. Restricting foreign expansion by US MNCs would hurt US workers. (*Complementarities*)

What do the data say?

- **Data:** Use firm-level data on all US MNEs over 20 years. Panel-data econometric methods control for other factors affecting firms and manufacturing as a whole.
- **Results:** Expansion abroad by US firms is associated with greater sales, employment, exports, capital investments, and R&D spending in the US
- **Caveat:** Doesn't mean that there are no negative effects of offshoring, just that the positive effects are larger

A 10% increase in employment at affiliates of US firms in Mexico is associated with:



Source: Theodore H. Moran and Lindsay Oldenski "How US Investments in Mexico Have Increased Investment and Jobs at Home." NAFTA 20 YEARS LATER. PIIIE Briefing No. 14-3. 2014.

Translating the empirical results into employment numbers

- The average US firm in the sample employs 25,642 US workers and 1,311 Mexican workers.
- A 10% increase in employment at affiliates in Mexico corresponds to about 131 jobs in Mexico.
- This is associated with a 1.3% increase in employment per MNE in the US, or 333 US jobs per firm.

Conclusions

- US manufacturing productivity has been increasing while employment been decreasing.
- Offshoring to Mexico is not responsible for the fall in US manufacturing employment, as direct investment by US firms in Mexico has a net positive effect on domestic US investment, employment, and sales.
- Repealing or weakening NAFTA would hurt US firms and their US employees.