FULL FINDINGS

[Providing keen insights from 101 U.S. Chief Financial Officers of insourcing companies, firms that operate in the United States and are headquartered overseas.]

March 2014

ORGANIZATION for INTERNATIONAL INVESTMENT
Global Investment Grows America's Economy

pwc

Summary

The Organization for International Investment (OFII) and PricewaterhouseCoopers, LLP (PwC) are proud to present the 2014 Insourcing Survey. This survey provides keen insights from 101 U.S. Chief Financial Officers (CFOs) of insourcing companies, firms that are headquartered overseas and operate in the United States.

The ability to attract foreign investment is a key component of U.S. economic growth. According to the U.S. Bureau of Economic Analysis, annual inflows of foreign direct investment have averaged $179 billion per year since 2000. By 2012 the total stock of foreign direct investment in the United States reached $2.65 trillion, about a third of which ($899 billion) is in the manufacturing sector.[1] U.S. subsidiaries of foreign companies employ 5.6 million workers with $438 billion of payroll, employ 17 percent of America's manufacturing workers, produce over 20 percent of U.S. exports, conduct 16 percent of U.S. private sector R&D and pay 15 percent of U.S. federal corporate income taxes.[2]

Overall, CFOs expressed confidence in the U.S. economy. Despite the slow economic recovery, CFOs ranked the U.S. business investment climate more favorable than in the prior two surveys. Many U.S. subsidiaries are beginning to shift to a growth mode: 51 percent of survey respondents plan to increase U.S. employment in 2014 and 64 percent plan to increase U.S. investment.

Despite rising confidence in the U.S. economy, challenges remain. While the United States compares favorably to other advanced economies in terms of access to capital and proximity to customers, CFOs say the U.S. lags in terms of its corporate income tax system. Reform of U.S. taxation and regulation is viewed by CFOs as the most important areas for improvement to increase foreign investment in the United States.

Nancy McLernon,
President & CEO, OFII

Joel Walters,
U.S. Inbound Tax Services Leader, PwC

[1] http://www.bea.gov/international/di1fdibal.htm

[2] All data is from the Bureau of economic analysis for 2011, except federal corporate income tax data which is from the IRS and is for 2010.

KEY TAKEAWAYS

Insourcing CFOs Have Growing Confidence in the U.S. Economy
CFO confidence in investing in the U.S. economy is up 20 percent from 2011.

Increased Confidence Means More Investment and Employment
Nearly two-thirds of CFOs anticipate increased investment in the United States within the next 12 months, and more than half expect to increase employment over that same period.

U.S. Manufacturing and Exports on the Rise
More than 70 percent of insourcing manufacturers expect to increase output over the next five years. Similarly, 60 percent of insourcing companies that export from the United States expect to increase exports over the next five years.

Emerging Markets Viewed as Top Location for New Investment
Nearly three-quarters of CFOs identify a BRIC country as their "top location for growth and new investment" over the next five years. Only 13 percent list the United States.

Among Advanced Economies, America Offers a Better Business Environment
The percentage of insourcing CFOs who say America offers a better business environment compared to other advanced countries has increased dramatically, climbing 35 percentage points since 2011 (from 23% to 58%).

Corporate Tax Rate Is the Top Tax Policy Impacting CFO Investment Decisions
Among tax policies, 54 percent of CFOs say the corporate tax rate is the most impactful factor affecting their business.

Ensuring Fair Treatment of Insourcing Companies Is Critical
Four in 10 insourcing companies say unfair tax treatment has negatively impacted their U.S. business operations and more than a quarter have faced discrimination in bidding on government contracts.

Ways America can Attract More Global Investment:
Insourcing CFOs rank: 1) the "Tax System," 2) "Regulatory System," and 3) "Skilled Workforce," as the most important issue areas where the United States can improve in order to increase global investment.

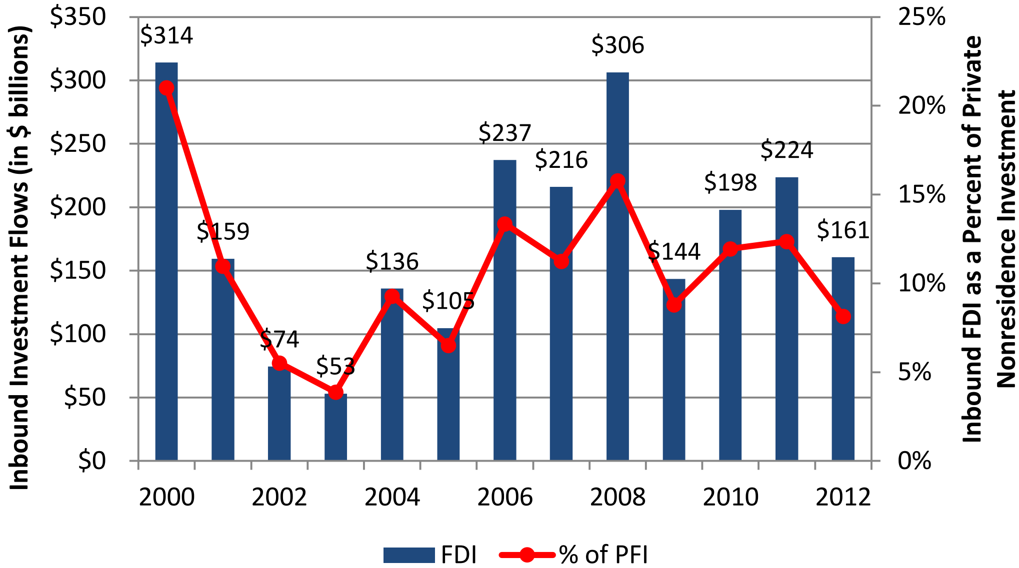
What States can Do:

- ✓ Beyond economic and tax incentives, CFOs says "**state corporate tax policy aligning with international norms (i.e. federal tax treaties)**" is an important consideration when evaluating states as locations for new investment.
- ✓ Once a company has located in a state, **connecting businesses with new local customers** is the most important service a state can offer to ensure insourcing companies grow and expand employment in the state.
- ✓ More than half of CFOs identified **educational priorities** as the most important service a state can provide to encourage greater investment and growth.

HISTORICAL TRENDS

Insourcing companies are an important source of U.S. investment. According to the U.S. Bureau of Economic Analysis, annual inflows of foreign direct investment have averaged $179 billion per year since 2000, averaging 11 percent of private nonresidential fixed investment (see **Figure 1**).

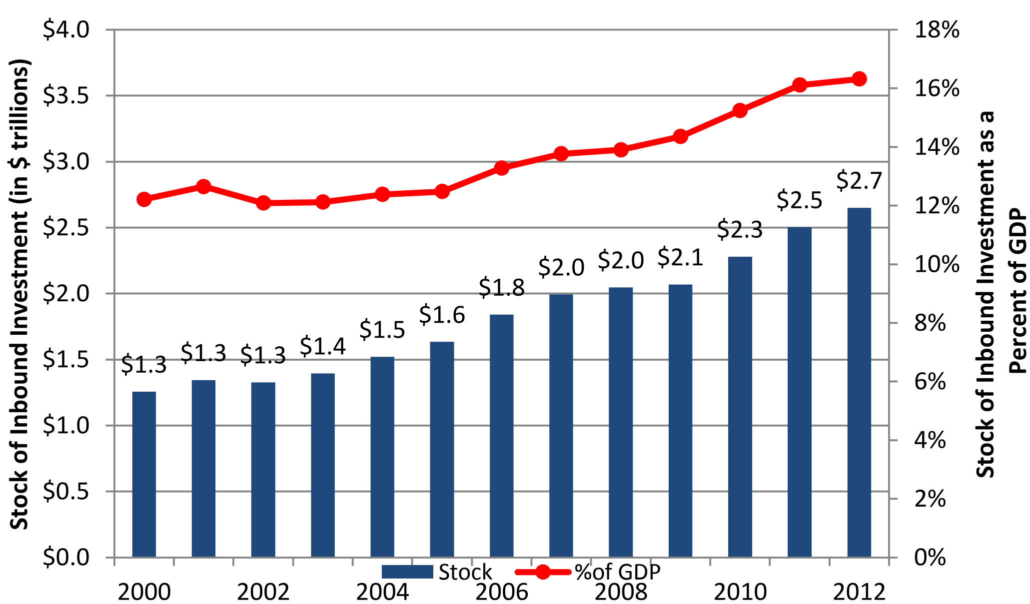
Figure 1 – Annual Inflow of Foreign Direct Investment in U.S., 2000-2012



Source: U.S. Bureau of Economic Analysis and PwC calculations.

The total stock of foreign direct investment in the U.S. grew to $2.65 trillion in 2012, or more than 16 percent of U.S. GDP (see **Figure 2**). According to the BEA, about one third of the U.S. stock of inbound investment ($899 billion) is in the manufacturing sector.

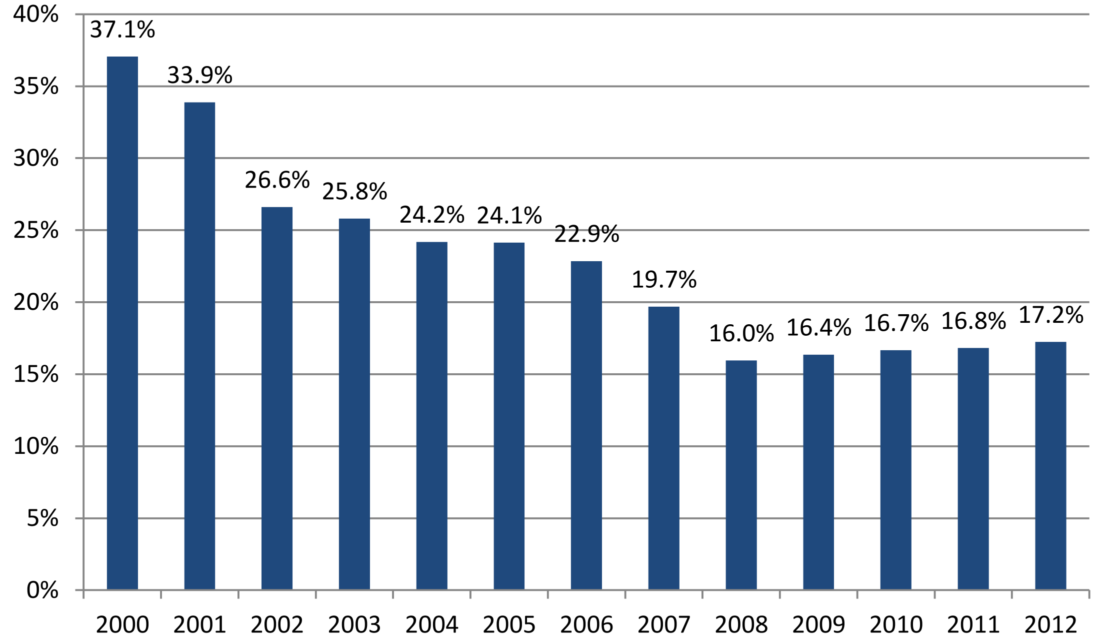
Figure 2 – Stock of Inbound Foreign Direct Investment in U.S., 2000-2012



Source: U.S. Bureau of Economic Analysis and PwC calculations.

While the United States is the largest recipient of foreign direct investment, its share of global investment has declined from 37 percent in 2000 to 17 percent in 2012 (see **Figure 3**).

Figure 3 – U.S. Share of Global Inbound Investment Stock, 2000-2012



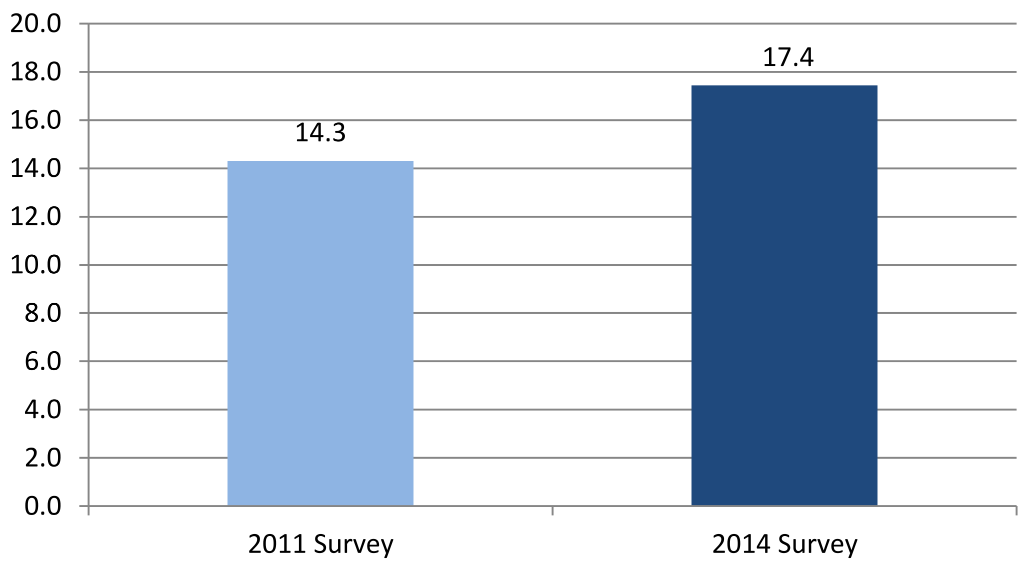
Source: UNCTADStat database (downloaded on February 11, 2014).

INSOURCING CFOS HAVE GROWING CONFIDENCE IN U.S. ECONOMY

Despite the slow recovery from the 2008-2009 recession, CFO confidence in the U.S. economy is improving. When asked to rank their confidence on a scale of 1 to 25, respondents to the 2014 CFO Survey gave the U.S. economy an average score of 17.4, a more than 20 percent jump from the 2011 survey (see **Figure 4**).

Figure 4 – CFOs' Confidence in the U.S. Economy is on the Rise

As a global executive, how would you rate your overall confidence in investing in the U.S. economy?
(1= Poor/Weak, 25=Excellent)



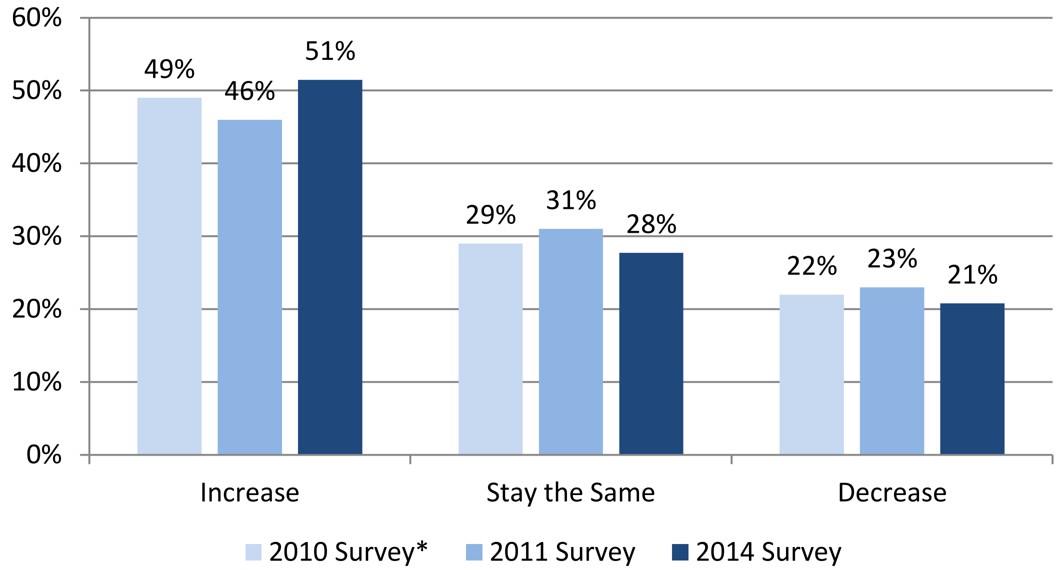
Number of respondents: 100 for 2011 survey and 101 for 2014 survey.

Increased Confidence Means More Investment and Employment

The significance of that growing confidence is best viewed in terms of what it means for U.S. workers. More than half (51 percent) of CFOs plan to increase employment in the United States in the next twelve months, compared to 46 percent in the 2011 survey (see **Figure 5**).

Figure 5– Increased Confidence in the U.S. Leads to Increased Employment

How will the level of your company's employment in the United States change over the next twelve months?

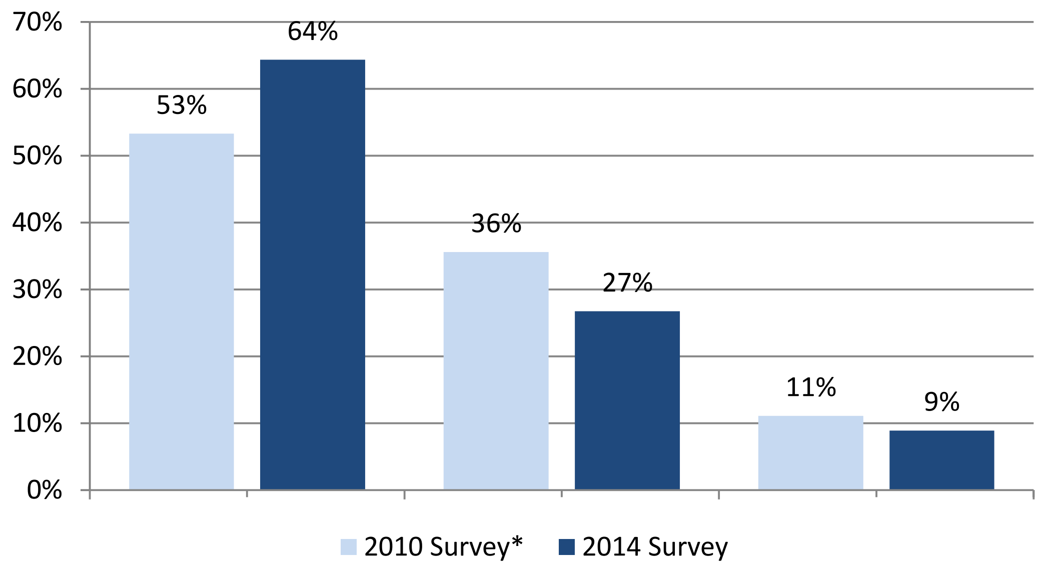


Number of respondents: 90 for 2010 survey, 100 for 2011 survey, and 101 for 2014 survey.
**In 2010, respondents were asked about their plans over the next 12 to 18 months.*

Almost two-thirds (64 percent) of CFOs plan to increase U.S. investment over the next 12 months. By comparison, in the 2010 survey, 53 percent of CFOs planned to increase U.S. investment in the following 12 months (see **Figure 6**).

Figure 6– Almost Two Thirds of CFOs Anticipate Increased U.S. Investment in 2014

How will the level of your company's investment in the United States change over the next twelve months?



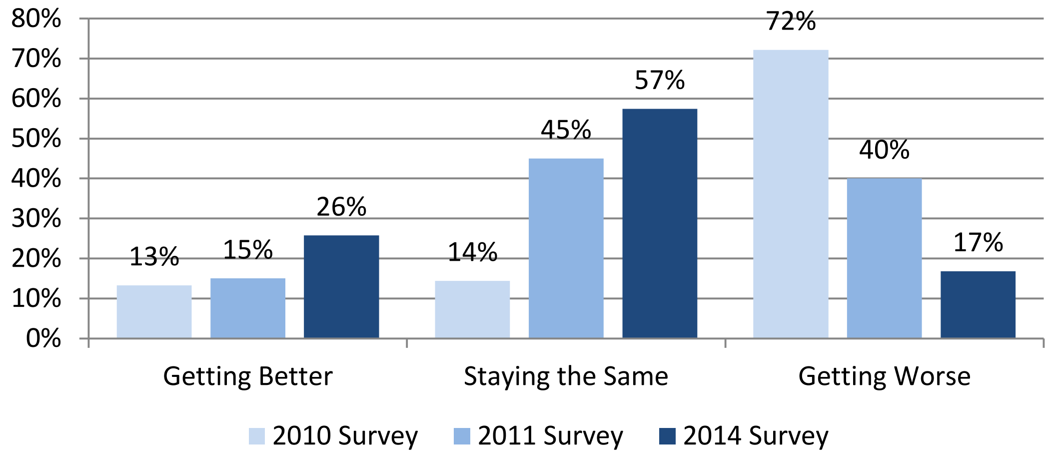
Number of respondents: 90 for 2010 survey and 101 for 2014 survey.
**In 2010, respondents were asked about their plans over the next 12 to 18 months.*

U.S. Business Climate Improving

The share of CFOs who view the U.S. business climate as improving has more than doubled since the 2010 survey, from 13 percent to 26 percent. More importantly, the share of CFOs who view the U.S. business climate as getting worse has plummeted 55 percentage points since 2010, from 72 percent to 17 percent (see **Figure 7**). In fact, more than 80 percent of insourcing CFOs think the business climate today is as good or getting better than last year.

Figure 7– CFO's Views on the U.S. Business Climate Have Greatly Improved since 2010

How would you say that today's U.S. business climate is for foreign companies?

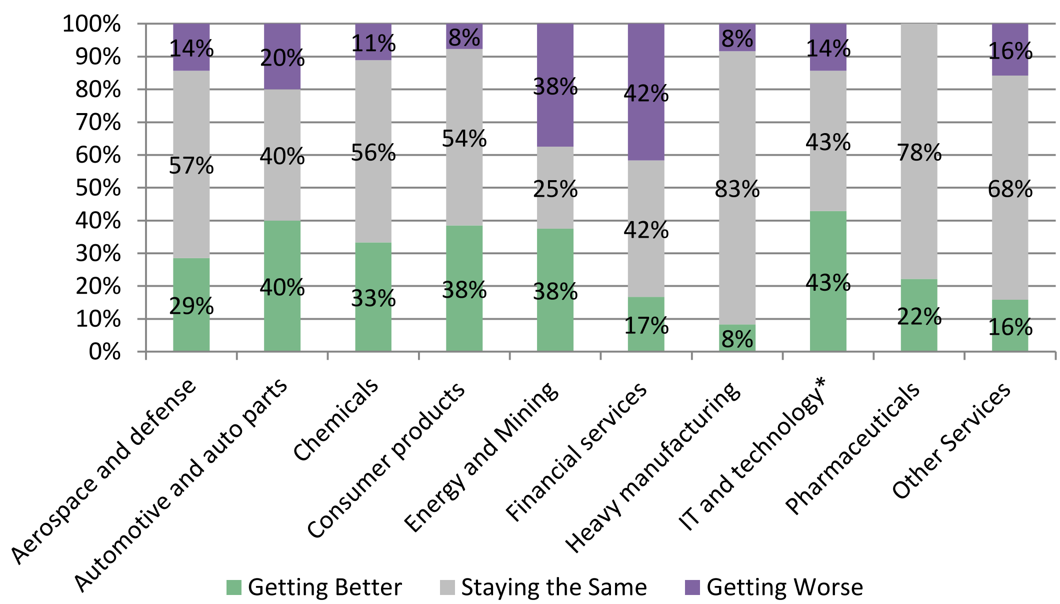


Number of respondents: 90 for 2010 survey, 100 for 2011 survey, and 101 for 2014 survey.

Views on business climate vary across different industries. The percentage of CFOs who view the U.S. business climate as improving is highest in the IT and technology, consumer products, and chemicals sectors. By contrast, the percentage of CFOs who view the U.S. business climate as getting worse is highest in the energy and financial services sectors. In fact, more than 40 percent of CFOs in the finance services sector view the U.S. business climate as worsening (see **Figure 8**).

Figure 8– Business Climate for Foreign Companies, By Industry

How would you say that today's U.S. business climate is for foreign companies?



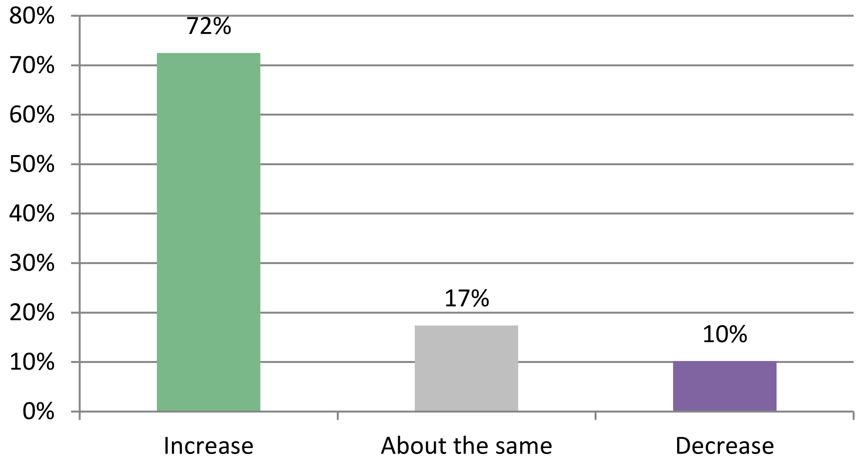
*Number of respondents: 101: Aerospace and defense (7), Automotive and auto parts (5), Chemicals (9), Consumer products (13), Energy and mining (8), Financial services (12), Heavy manufacturing (12), IT and technology (7), Pharmaceuticals (9), and Other services (19). *Includes telecommunications.*

U.S. Manufacturing and Exports on the Rise

The President, with strong bipartisan support, has sought to expand the U.S. manufacturing sector. U.S. subsidiaries account for over one in six jobs in the manufacturing sector. Over two-thirds (69 percent) of survey respondents engage in U.S. manufacturing. Of these companies, 72 percent plan to increase manufacturing output in the U.S. over the next five years (see **Figure 9**).

Figure 9– Most Respondents in Manufacturing Industries Expect Output to Increase

If your company manufactures, do you expect your U.S. manufacturing output to increase or decrease over the next five years?

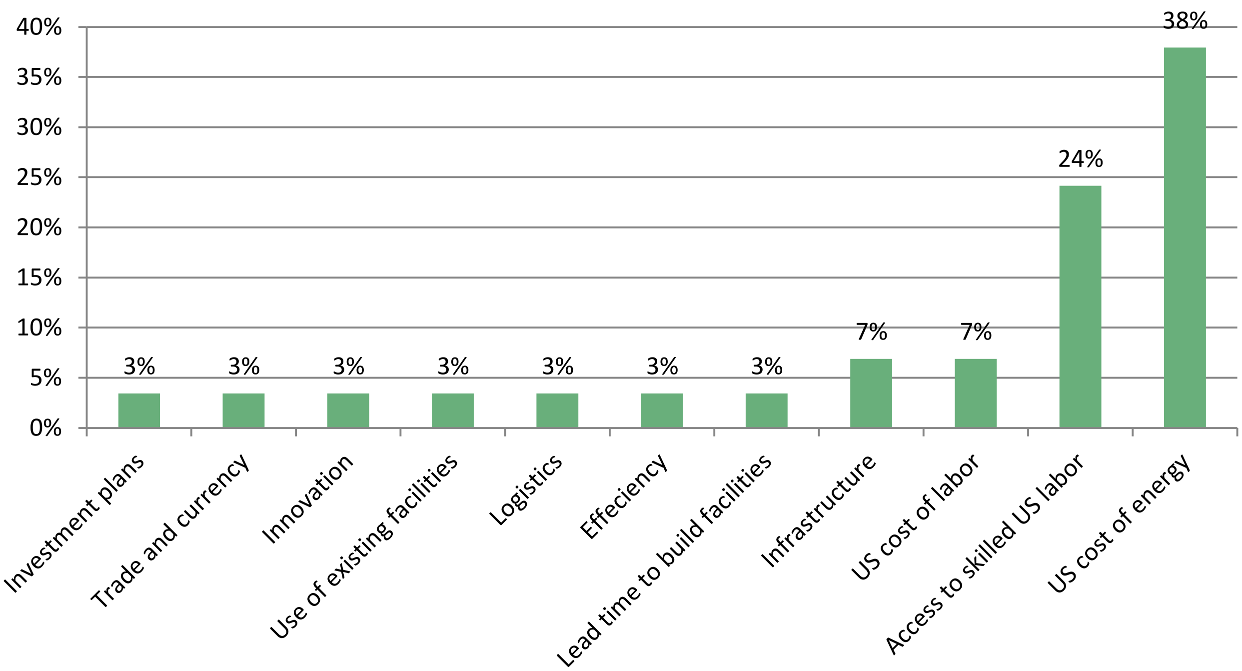


Number of respondents: 69 companies manufacturing in the U.S.

Growing demand from U.S. customers is driving these expected increases, but to better understand what supply factors influence these decisions, CFOs were asked to rank a number of areas that might affect manufacturing output. The top factor they identified was America's low cost energy, followed by access to skilled labor, infrastructure, and affordable labor (see **Figure 10**).

Figure 10– For Manufacturers Planning to Increase Output, Cost of Energy is the Most Important Supply Consideration

Which of the following supply factors is the primary reason you expect your U.S. manufacturing output to increase or decrease over the next five years?

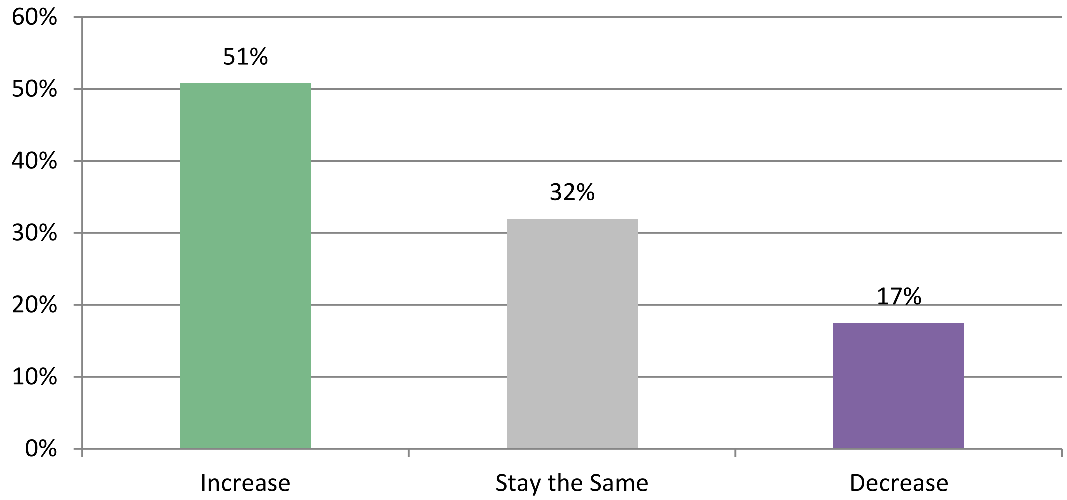


Number of respondents: 29 manufacturers that plan to increase output.

Within the manufacturing sector, about half of CFOs (51 percent) plan to increase U.S. employment over the next 12 months (see **Figure 11**).

Figure 11– Majority of Respondents in Manufacturing Industries Will Increase U.S. Employment in 2014

How will the level of your company's employment in the United States change over the next twelve months?

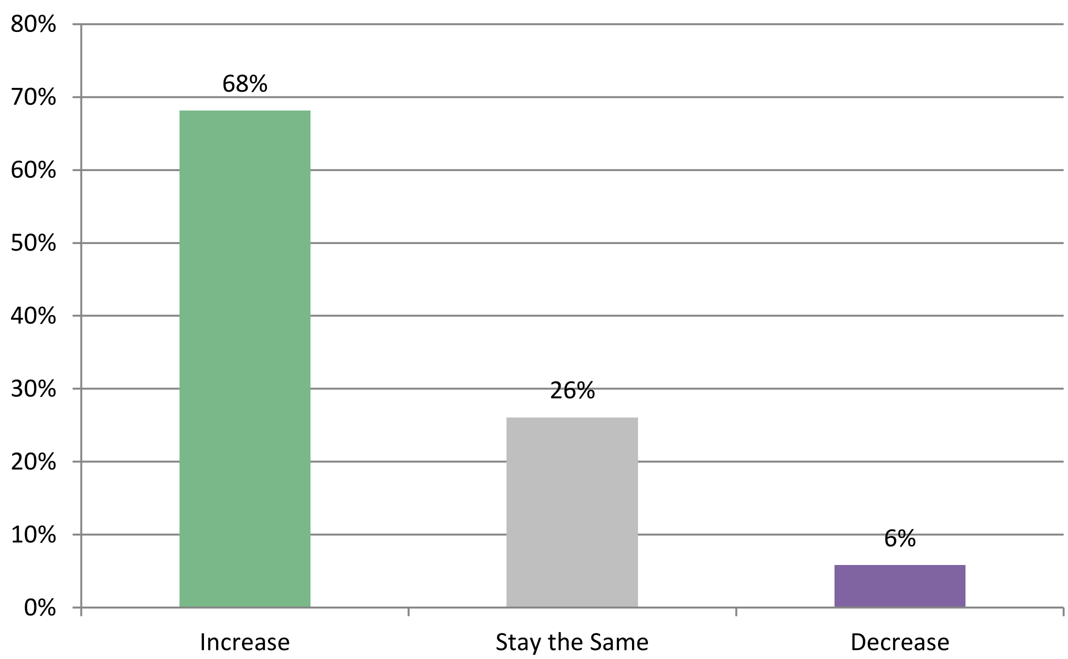


Number of respondents: 69 companies currently manufacturing in the U.S.

Within the manufacturing sector, more than two-thirds of CFOs (68 percent) plan to increase U.S. investment over the next 12 months (see **Figure 12**).

Figure 12– Majority of Respondents in Manufacturing Industries Will Increase U.S. Investment in 2014

How will the level of your company's investment in the United States change over the next twelve months?



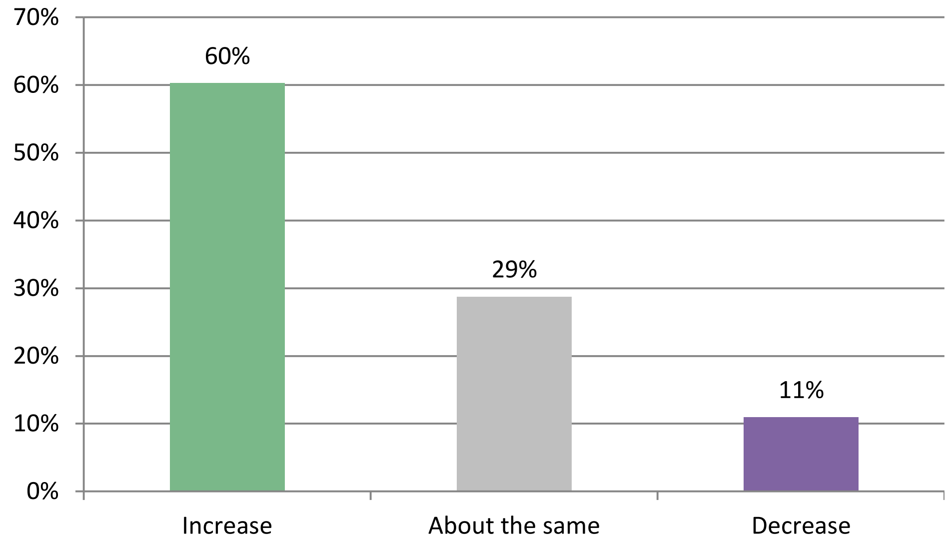
Number of respondents: 69 companies currently manufacturing in the U.S.

Exports are Trending Up

The outlook for exports by the U.S. subsidiaries is bright. Among exporting companies, 60 percent of CFOs plan to increase exports over the next five years (see **Figure 13**).

Figure 13– Exports by U.S. Subsidiaries are Expected to Increase

Do you expect the level of exporting activity to increase or decrease over the next five years?

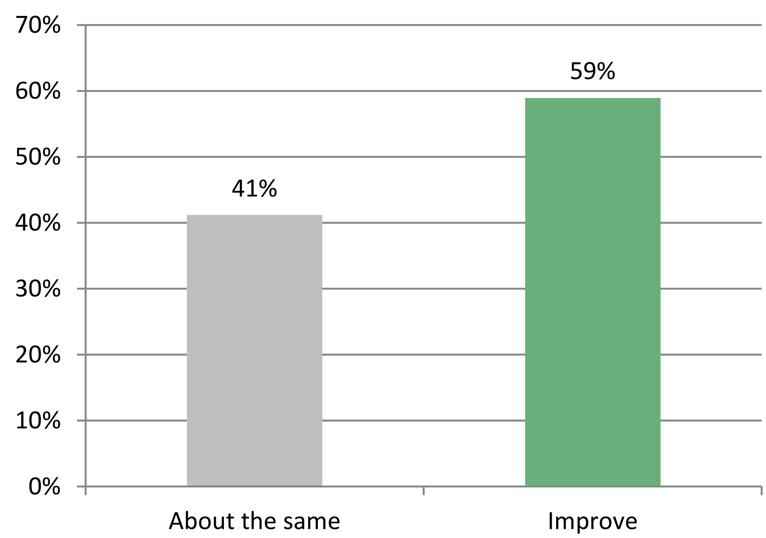


Number of respondents: 73 respondents indicated they are currently exporters. The remaining 28 indicated they are not currently exporters and do not anticipate exporting from the U.S. during the next five years.

Further, 60 percent of insourcing companies that export indicate that enacting comprehensive trade agreements, including the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership will make the United States more attractive for global investment (see **Figure 14**).

Figure 14– Majority of Exporters view Enactment of Trade Agreements as Improving the U.S. as an Investment Location

If the U.S. were to enact comprehensive trade agreements, including the Transatlantic Trade and Investment Partnership and the Trans-Pacific Partnership, what would be the impact on your company's view of the U.S. as an investment location?



Number of respondents: 73

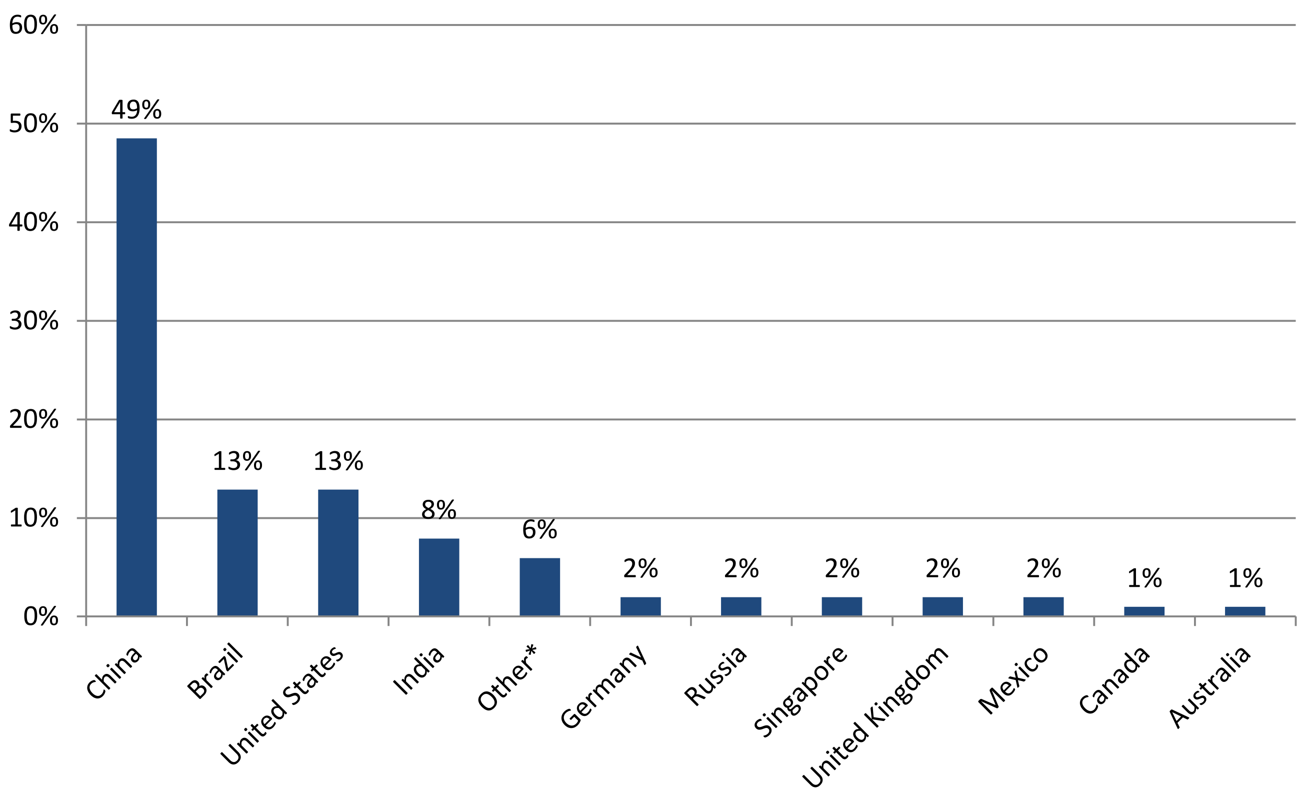
Emerging Markets Viewed as 'Top Location' for New Investment

The U.S. share of global inbound investment has dropped by half since 2000. This decline has been accompanied by an increase in the share of global investment going to Brazil, Russia, India, and China, the so-called "BRIC" countries. In 2012, BRIC countries accounted for 19.5 percent of all inbound FDI flows, up from 5.6 percent in 2000.[3]

The survey suggests this trend will continue. 72 percent of CFOs identified one of the BRIC countries as the top location for new cross-border investment over the next five years (see **Figure 15**). China ranked first among investment locations (selected by 49 percent of CFOs), while the United States was tied for second with Brazil (each selected by 13 percent of CFOs).

Figure 15– China Is the Top Location for Growth & New Investment Worldwide

Outside of your "home" market, which country does your company view as the top location for growth or new investment worldwide over the next five years?



Number of respondents: 101.

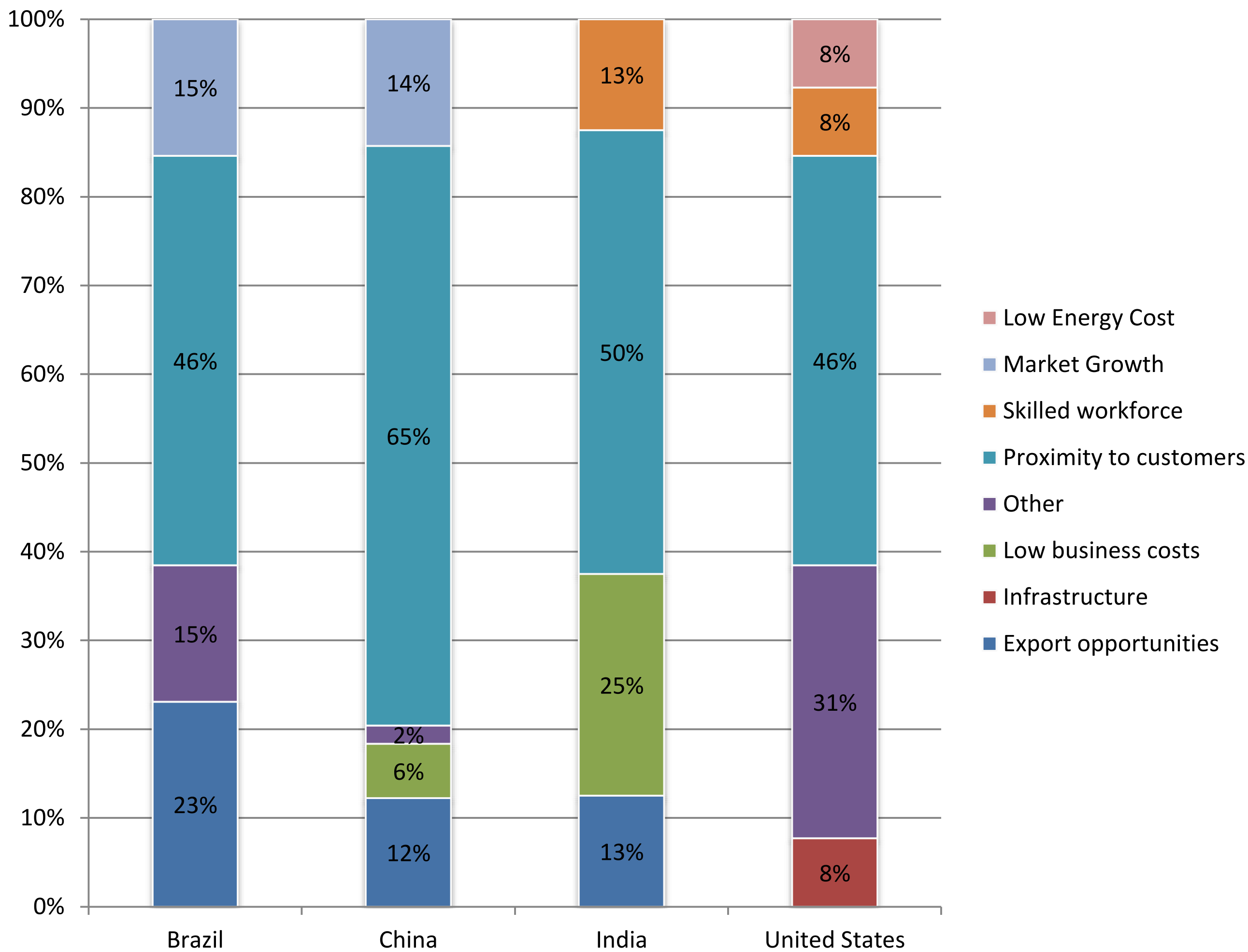
**Other responses include: Latin America, Saudi Arabia, Sub-Saharan Africa, and the Middle East*

[3] Data from UNCTADStat database (downloaded on 2/11/2014).

Countries attract investment for different reasons, including proximity to customers, skilled workforce, infrastructure, low costs of doing business, and export opportunities. Access to customers is the main consideration when evaluating investment options across the top four locations identified by insourcing CFOs. Additionally, export opportunities were identified as an important factor in Brazil, China, and India. Infrastructure and access to skilled labor are considerations in the United States (see **Figure 16**).

Figure 16– Proximity to Customers Important Factor in Determining Location of Investment

Which of the following is the primary advantage the market identified as the top market for growth or new investment offers your company?



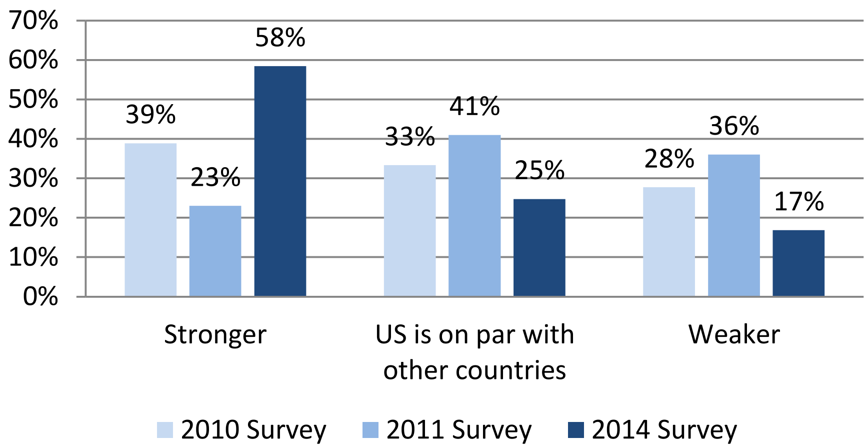
Number of respondents: 83.

Among Advanced Economies, America Offers a Better Business Environment for Foreign Companies

As compared to other advance economies, 58 percent of CFOs see the United States as having a stronger business environment, up from 23 percent in 2011. Only 17 percent of CFOs see the United States as having a weaker business environment than other advanced economies, down from 36 percent in 2011 (see **Figure 17**).

Figure 17– U.S. Business Climate Improving Among Other Advanced Economies

How would you compare the United States to other countries with advanced economies in terms of the overall business environment for foreign companies?

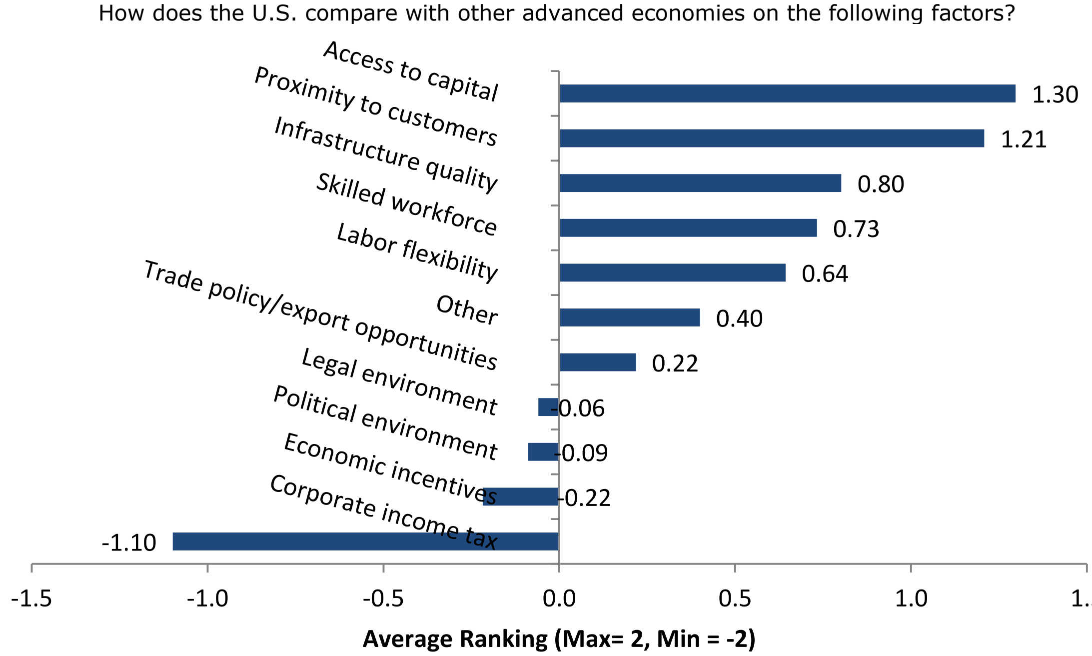


Number of respondents: 90 for 2010 survey, 100 for 2011 survey, and 101 for 2014 survey.

CFOs say the United States compares favorably with other advanced economies in terms of access to capital, proximity to customers, and the quality of its infrastructure and labor force. The U.S. corporate income tax is by far the most uncompetitive factor for the U.S. compared to other advanced economies (see **Figure 18**).

Figure 18– Comparative Advantages and Disadvantages of the U.S. Economy

How does the U.S. compare with other advanced economies on the following factors?



Number of respondents: 101.

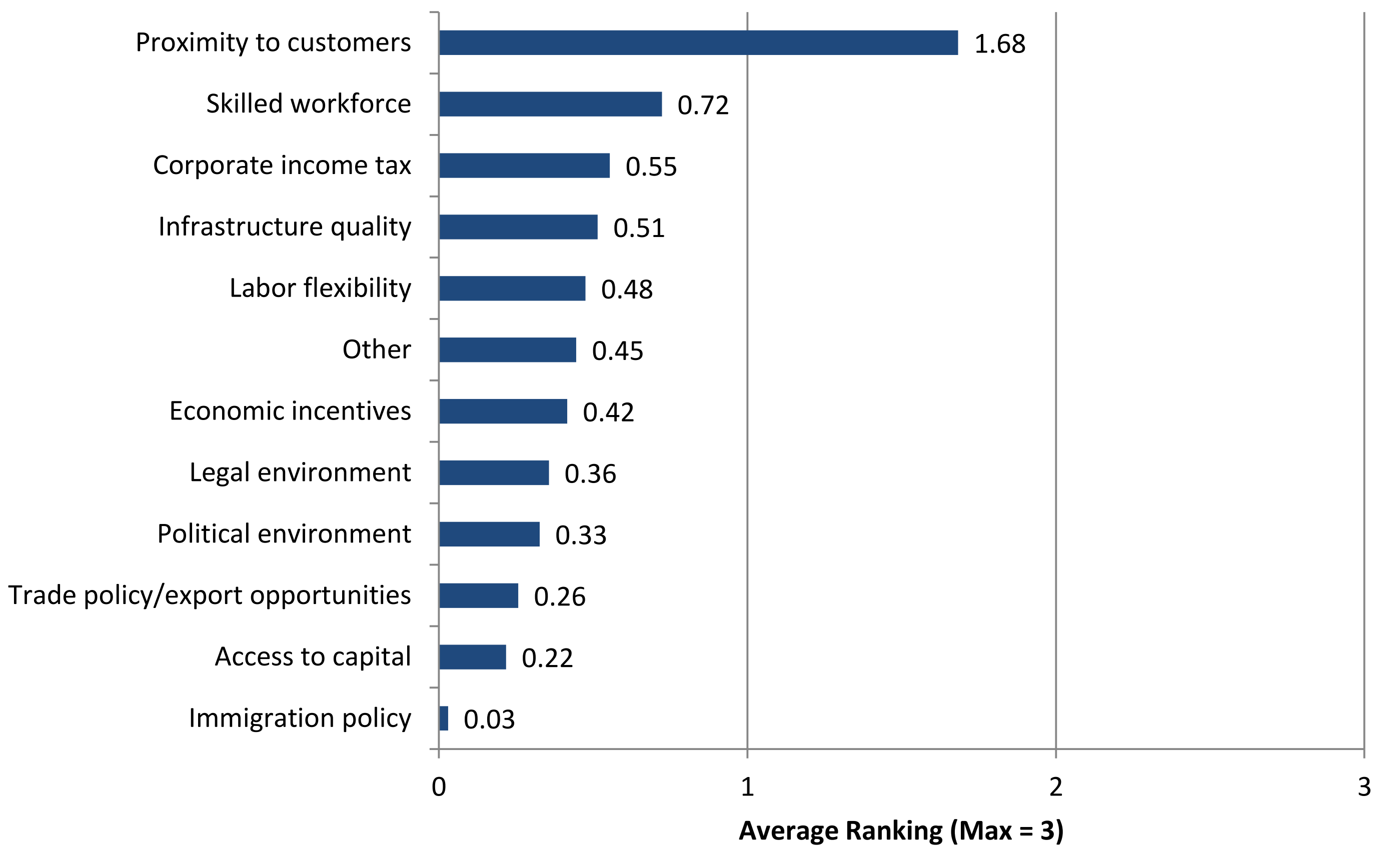
Values represent a weighted average where the highest ranking receives a score of 2 and the lowest ranking receives a score of -2. A score of zero indicates the U.S. is average compared to other advanced economies.

TOP FACTORS DRIVING GLOBAL INVESTMENT DECISIONS

Insourcing CFOs ranked proximity to customers, skilled labor force, and corporate income tax as the three most important factors when evaluating investment options around the world (see **Figure 19**). With 95 percent of the world's consumers living outside the United States and 62 percent of CFOs identifying China and Brazil as the top locations for new investment due in large part to the proximity of customers and growth potential, it is increasingly important for the U.S. to outshine our competitors in the areas policymakers can impact, such as skilled workforce, corporate tax, and infrastructure quality (see **Figures 15** and **16**).

Figure 19–Top Factors in Evaluating Investment Options Around the World

When your company evaluates different investment options around the world, what are the most important factors in deciding a location for your company's major investments?



Number of respondents: 101.
Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0. Other responses include: Economic gain, Market access, Regulatory environment, Local growth prospects of industry, and Total manufacturing costs.

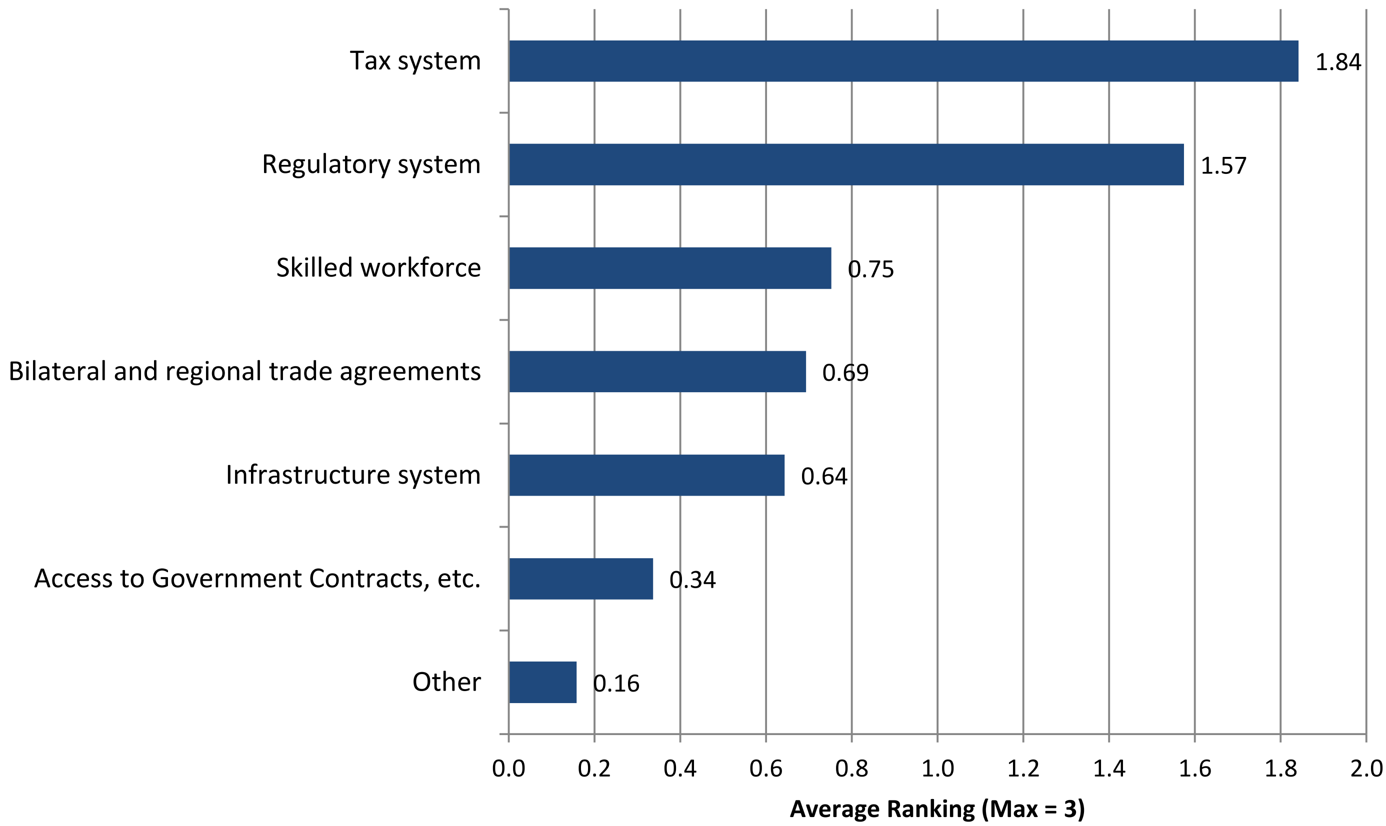
HOW AMERICA CAN ATTRACT MORE GLOBAL INVESTMENT

Tax and Regulatory Reform are Important

With CFOs identifying corporate income tax as the area in which the United States is least competitive relative to other advanced countries, it is no surprise that the most important area for the U.S. to improve in order to increase foreign direct investment was the U.S. tax system. Improving the regulatory system was also identified as another top priority (see **Figure 20**).

Figure 20– Tax and Regulatory Systems Are Most in Need of Improvement

What are the most important issue areas the United States can improve in order for your company to increase investment in the United States?



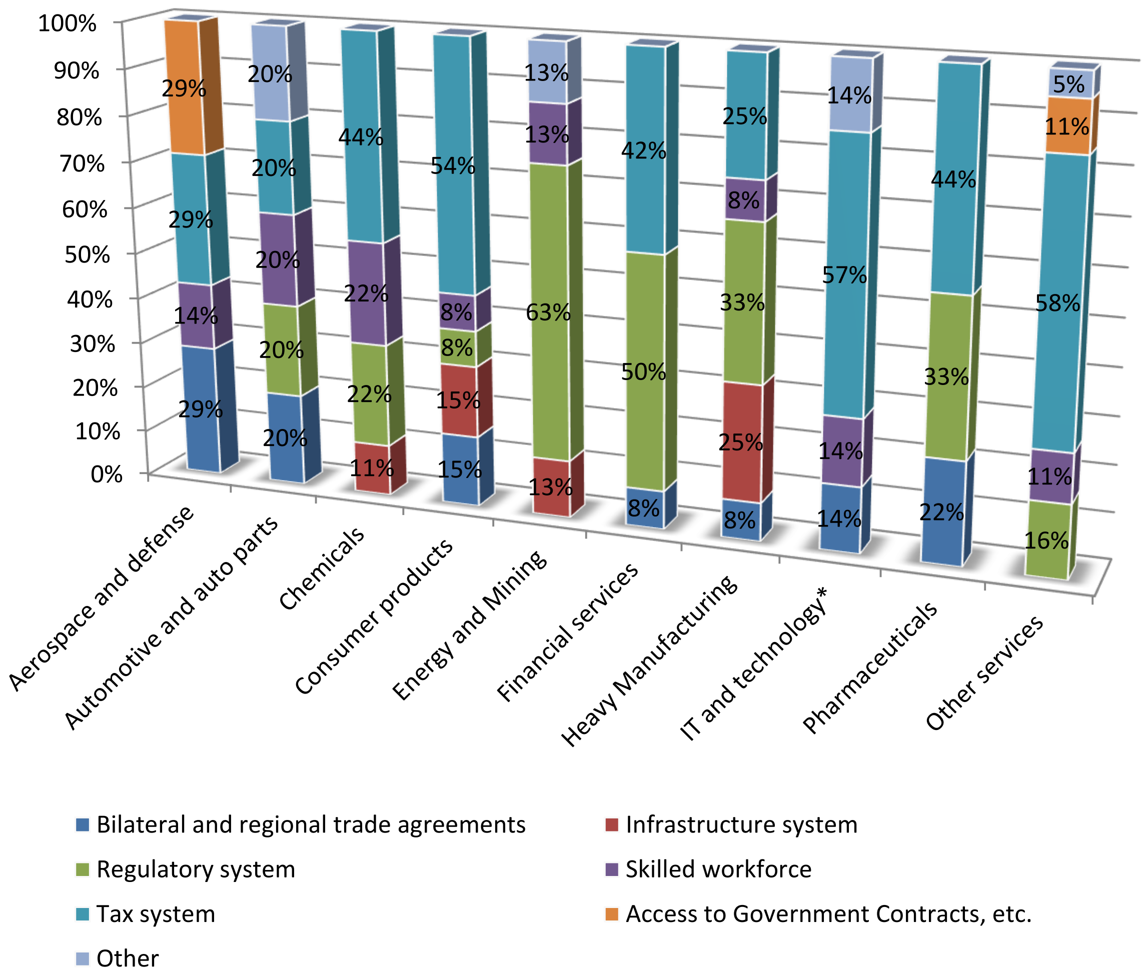
Number of respondents: 101.

Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0.

While the tax system was identified as the most important policy area to improve in order to attract greater foreign investment overall, CFOs in the energy and financial services industries say the regulatory system is the top priority. The regulatory system was also identified as important to the pharmaceutical and heavy manufacturing sectors. Heavy manufacturing identified infrastructure as an important priority. The aerospace and defense, pharmaceuticals, and automotive and auto parts sectors indicated that action on trade agreements would help attract greater investment (see **Figure 21**).

Figure 21– Top Issues Where the U.S. Can Improve, By Industry

What are the most important issue areas the United States can improve in order for your company to increase investment in the United States?



Number of respondents: 101: Aerospace and defense (7), Automotive and auto parts (5), Chemicals (9), Consumer products (13), Energy and mining (8), Financial services (12), Heavy manufacturing (12), IT and technology (7), Pharmaceuticals (9), and Other services (19).

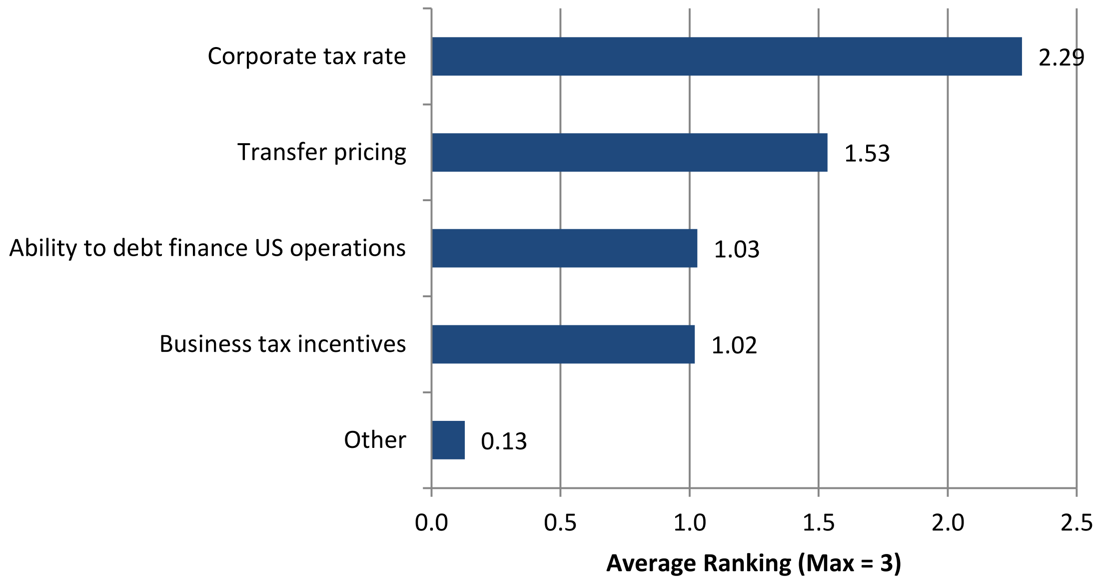
**Includes telecommunications.*

Corporate Tax Rate is the Top Tax Policy Impacting CFO Investment Decisions

CFOs say the U.S. corporate tax rate and transfer pricing rules are the tax policies with the largest impacts on their companies (see **Figure 22**). In fact, 54 percent of insourcing CFOs indicated that the corporate tax rate is the most important aspect of U.S. federal tax policy that impacts their company (see **Figure 23**).

Figure 22– Corporate Tax Rate Impacts CFO Investment Decisions the Most

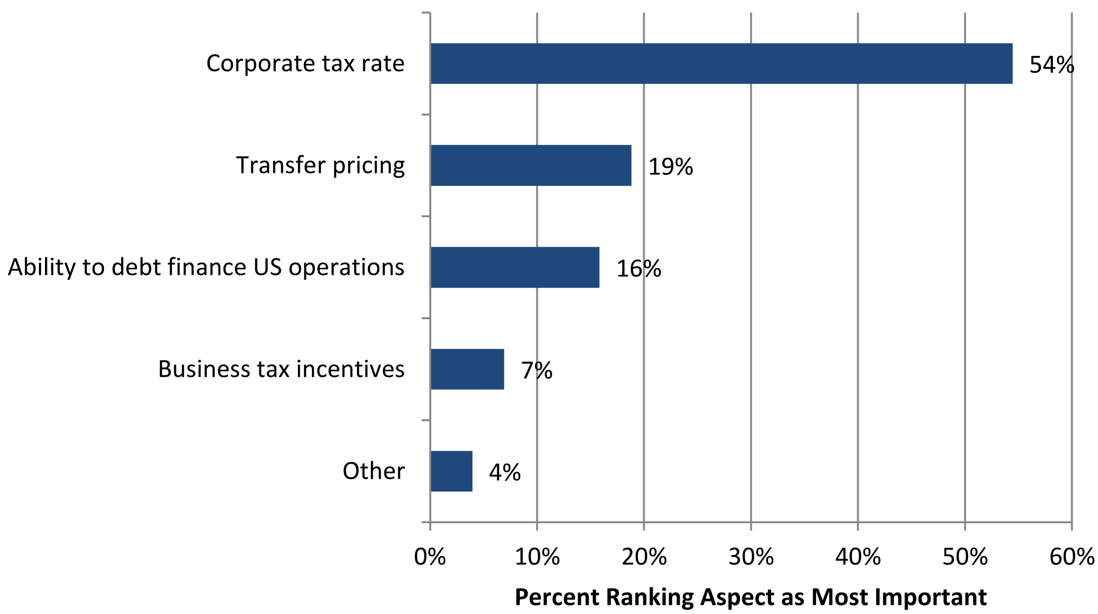
When investing in the United States, which aspect of U.S. federal tax policy impacts your company the most?



Number of respondents: 101. Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0.

Figure 23– Majority Say Corporate Tax Rate Impacts CFO Investment Decision the Most

When investing in the United States, which aspect of U.S. federal tax policy impacts your company the most?



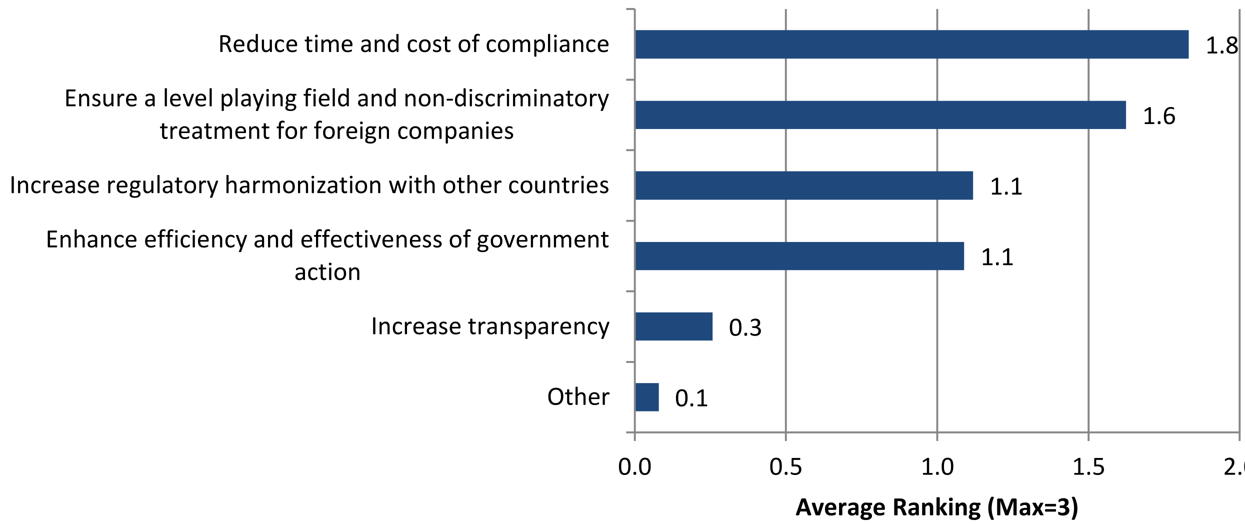
Number of respondents: 101.

Ensuring Fair Treatment of Insourcing Companies is Critical

CFOs say the U.S. regulatory environment would be most improved by reducing the time and cost required for compliance and ensuring non-discriminatory treatment for U.S. subsidiaries with foreign parent companies (see **Figure 24**).

Figure 24– Ways the U.S. Can Improve the Regulatory Environment

What are the most important ways the United States can improve its federal regulatory environment in order for your company to increase investment in the United States?

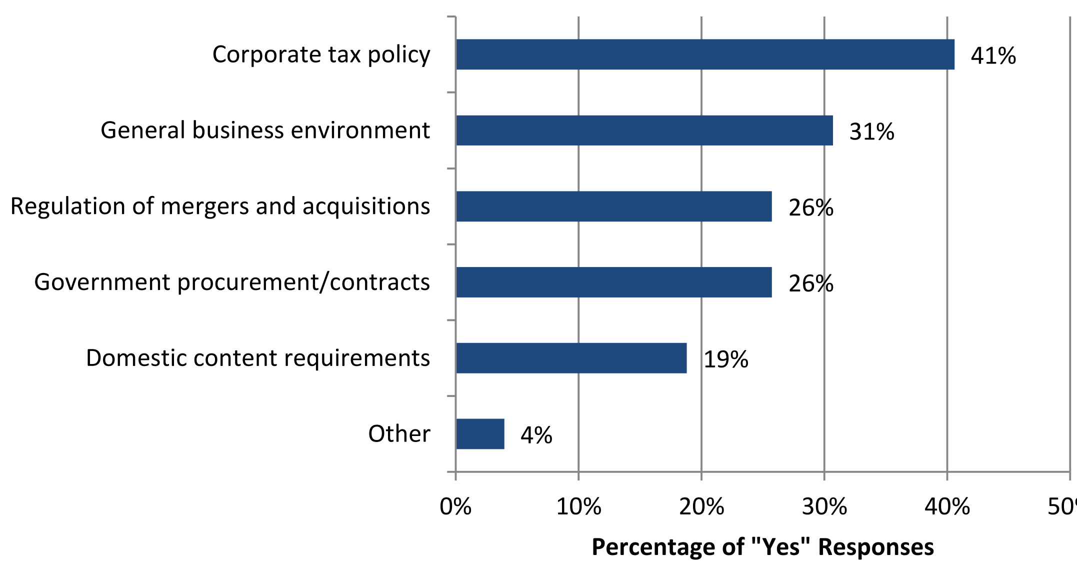


Number of respondents: 101. Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0.

CFOs say that foreign companies doing business in the United States face greater discriminatory treatment in taxation than in other areas of government policy. In fact, 41 percent of CFOs say that discriminatory corporate tax treatment has had a negative impact on their U.S. business operations or their decision to invest in the United States (see **Figure 25**).

Figure 25– Corporate Tax Policy & General Business Environment Are the Top Issues that Negatively Impacted Foreign Companies in the U.S.

In the past, foreign companies have faced discrimination in U.S. federal policy and regulation. Has discriminatory treatment in any of the below issue areas had a negative impact on your U.S. business operations or investment decisions?



Number of respondents: 101.

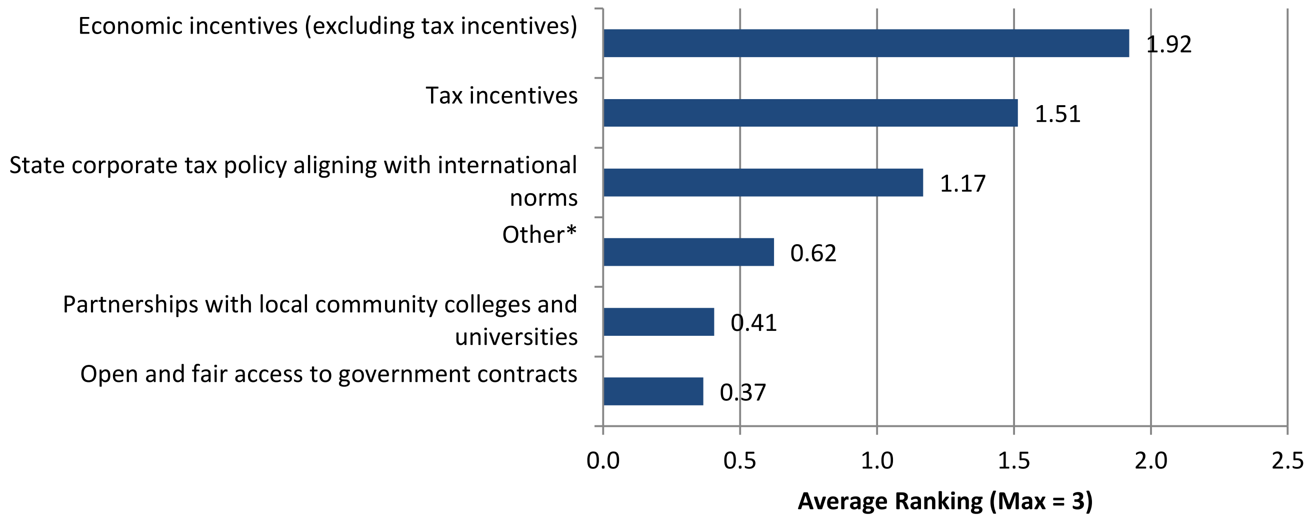
WHAT STATES CAN DO TO ATTRACT GLOBAL INVESTMENT

Ensure Fair Tax Treatment of Insourcing Companies

Many states compete for investment through a variety of economic and tax incentives as well as through policies and programs designed to promote a better business environment. While economic and tax incentives do help attract insourcing companies, states should also work to ensure that their tax and procurement policies align with international norms and standards. Unfair or discriminatory tax treatment would undermine a state's attractiveness to insourcing companies (see **Figure 26**).

Figure 26– Top Factors Sought by CFOs in States

When deciding where to invest between competing U.S. states, which are the most important factors impacting your company's decision?

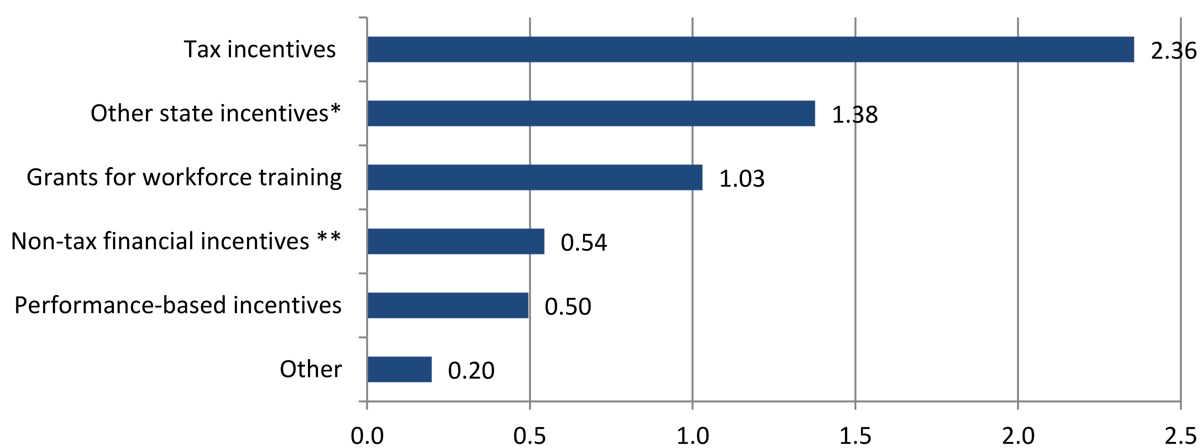


*Number of respondents: 101. Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0.*Other responses include: Skilled work force, Proximity to customers, Growth, Location of emerging technologies, Labor cost, and Energy costs.*

As states evaluate local incentives for business investment, CFOs say that tax incentives (including credits, refunds, exemptions, and deductions) and other state incentives, such as infrastructure upkeep and utility rate breaks, have historically been the most valuable types of incentives (see **Figure 27**).

Figure 27– Evaluating State Incentives

What state and local incentives have historically been most valuable to your company when choosing to invest in a state?



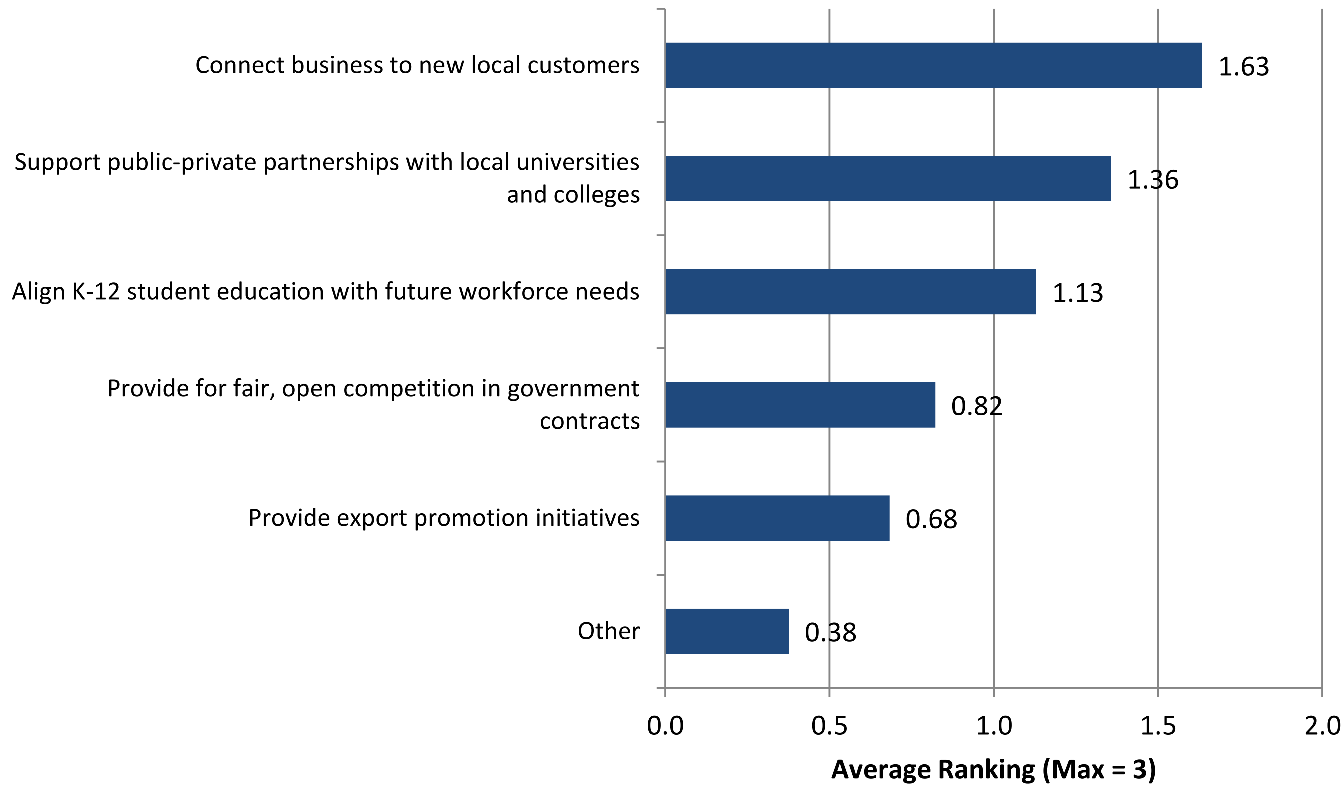
Number of respondents: 101.
*Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0. * i.e. infrastructure upkeep and utility rate breaks. **i.e. bonds, loans, and loan guarantees.*

Connect Businesses with New Local Customers and Invest in Education

Once a company has chosen a state in which to locate its investment, CFOs say connecting businesses to new customers is the most important service the public sector can provide to help companies retain or increase employment. For example, some state and local governments organize or sponsor trade shows that bring together companies, suppliers, and customers. Similarly, more than half of CFOs identified educational priorities, such as public-private partnerships with local universities and better alignment of K-12 education with future workforce needs, as the most important service state governments can provide to encourage greater investment (see **Figure 28**).

Figure 28– Most Important Services the Public Sector Can Provide Once a Company has Located in a Specific State

Once your company has located in a state, what are the most important services the public sector can provide to help your company grow or retain employment levels?



Number of respondents: 101.
Values represent a weighted average where the highest ranking receives a score of 3, the lowest ranking receives a score of 1, and no ranking receives a score of 0.

APPENDIX: ABOUT THE 2014 CFO SURVEY

The *2014 U.S. Insourcing Survey* was distributed by email to approximately 225 CFOs of U.S. subsidiaries of foreign companies in October 2013. The CFOs were invited to participate in the online survey, which was jointly developed by OFII and PwC and was administered by PwC. Survey responses were due in mid-January 2014.

PwC received 101 complete responses and the results presented in the report are based on these responses only. The survey responses covered companies in a number of different industries and companies of all sizes.

Responses by Industry	
Aerospace and defense	7
Automotive and auto parts	5
Chemicals	9
Consumer products	13
Energy & Mining	8
Financial services	12
Heavy manufacturing	12
IT and technology*	7
Pharmaceuticals	9
Other services	19

**Includes telecommunications.*

Responses by Size of Revenues	
Revenues < $1 billion	12
$1 billion < Revenues < $5 billion	36
Revenues > $5 billion	53