

Official US FDI data release provides first corroborated evidence on the “pull” of incentives provided by the US CHIPS Act and IRA

Simon J. Evenett, 17 July 2023

Last week’s little noticed US data release on FDI inflows for 2022 casts doubt on claims that European firms moved quickly to redirect investment across the Atlantic in the months since the enactment of the CHIPS Act and the IRA. In fact, European firms reduced their planned expenditures on greenfield investments from a 2021 high of \$20.5bn to just \$5bn in 2022. American inducements have yet to reverse the decade-long trend decline in EU greenfield investments in the United States.

Last Friday’s *Financial Times* [recounted](#) European critiques of the subsidies enacted during the Biden Administration. The authors of that article wondered “Will Europe’s response be enough to halt the slide of investment shifting to the US?” Slide? Given the delays in publishing official FDI data, my reaction was “how could you know?” What credible, corroborated evidence is there of a big switch in European investment to the USA?

Turns out that last Monday, the US Bureau of Economic Analysis [released](#) its official FDI inflow data for 2022. Bearing in mind the CHIPS and IRA acts were enacted early in August 2022, if firm investment can be redirected as quickly as some evidently fear, then surely the 2022 release should show some uptick in greenfield investments into the USA from Europe and elsewhere? What’s particularly useful about these BEA data releases is that they report not just the actual value of FDI inflows in the latest year but the planned expenditures of greenfield investors in years after.

It’s important to bear in mind that, while foreign firms don’t mind buying into oligopolistic American markets through M&A, for a decade they’ve been wary of making major greenfield investments. Just 3.5% of the \$2.5 trillion of FDI flows into the United States from 2014 to 2022 involved building new factories or expanding existing greenfield facilities owned by foreigners. Have Biden’s 2022 subsidies moved the needle?

Figure 1 shows the total amounts of money non-European firms committed to greenfield investments from 2014 to 2022. Before the Biden Administration took office, the planned future greenfield expenditures of non-European investors had already risen from 2019 lows. In 2022 those planned expenditures spiked, reaching over \$69 billion. Bear in mind that less than \$3.4

billion of that total was actually spent on greenfield projects in 2022. Still, those promises may be kept.

European firms directing investments across the Atlantic into greenfield projects, which include setting up new factories and expanding existing ones, followed a different pattern, see Figure 2. Their planned greenfield expenditures in the USA spiked in 2021 (reaching \$20.5 billion). In 2022 the total level of current and planned future expenditure by European firms fell below \$5 billion.

Now, if non-European firms had been wary of redirecting investment to the USA in 2022, then one could have argued (perhaps implausibly given the amount of media attention given to the matter) that it takes time for foreign corporate boards to spot and act on new American incentives. But non-European firms announced plans to significantly scale up greenfield investments in the USA in 2022, while European firms made fewer commitments than in 2021. This speaks to the stickiness of investment in Europe rather than a rush to claim American state largesse.

More doubt on the pulling power of US incentives is provided in Figure 3, which shows the number of one billion+ US dollar greenfield sites announced in 2022. There was definitely a pick-up of projects in the \$1-5bn range. But only three greenfield projects with planned investments over \$5bn were announced in 2022, none of which can be European (given the statistics reported above). Evidence of a big foreign contribution to American reindustrialisation, this is not. Given last week’s US FDI release, best not go to the wall making the case that Biden Administration subsidies have transformed the attractiveness of the US economy to European greenfield investors. Once again, the narrative is far ahead of the evidence.

Figure 1: Non-European Greenfield FDI commitments in the USA spiked in 2022, even if actual outlays in 2022 remained subdued.

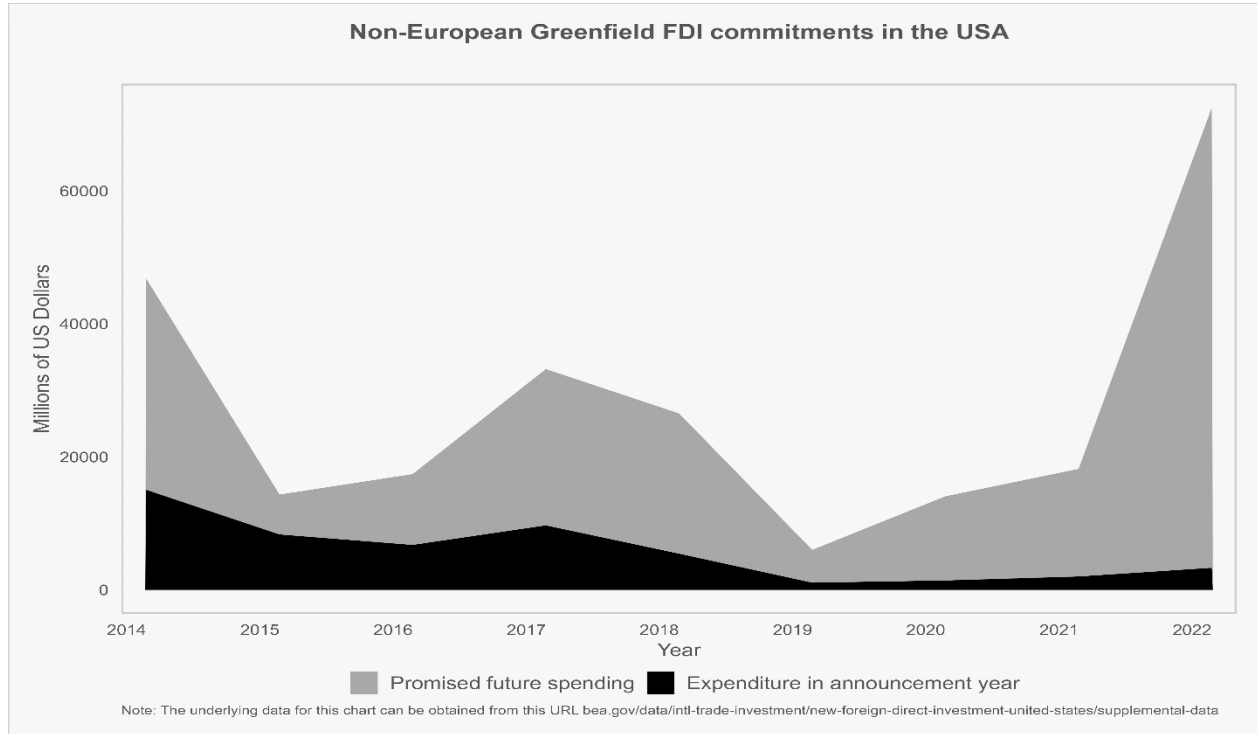


Figure 2: In contrast, European Greenfield commitments in the USA fell despite the passage of the CHIPS and IRA Act.

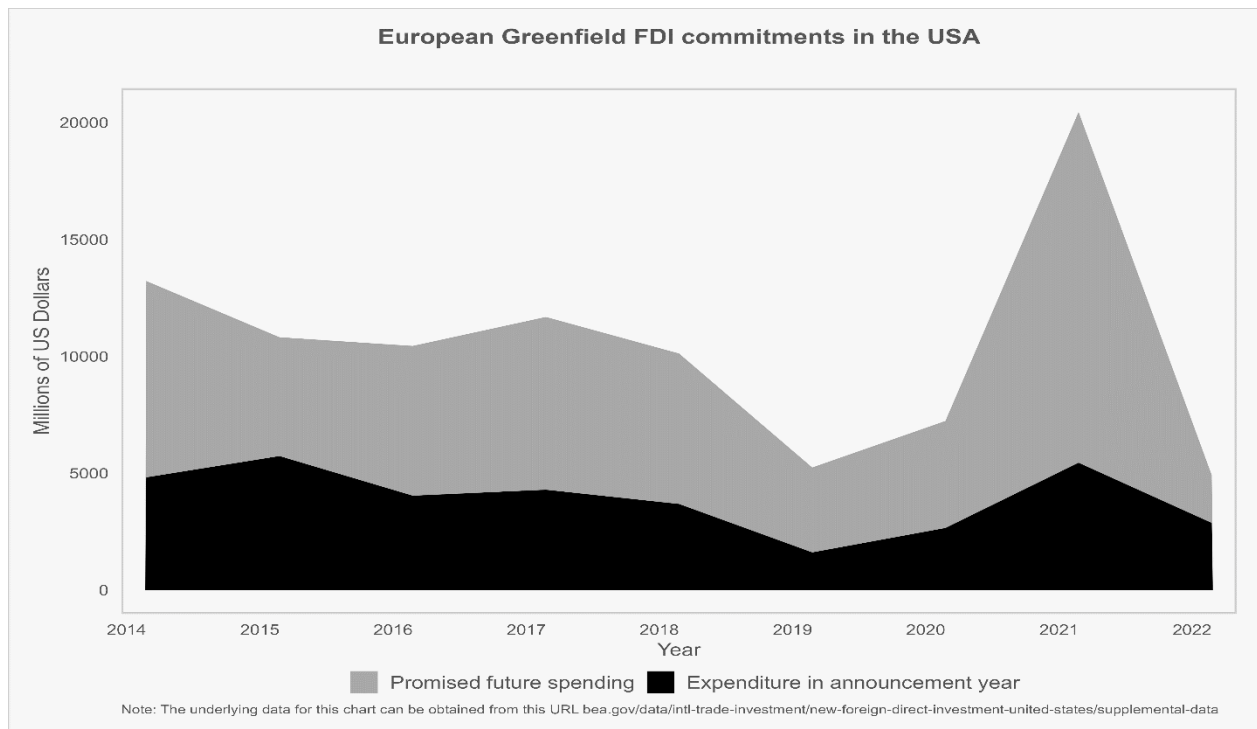
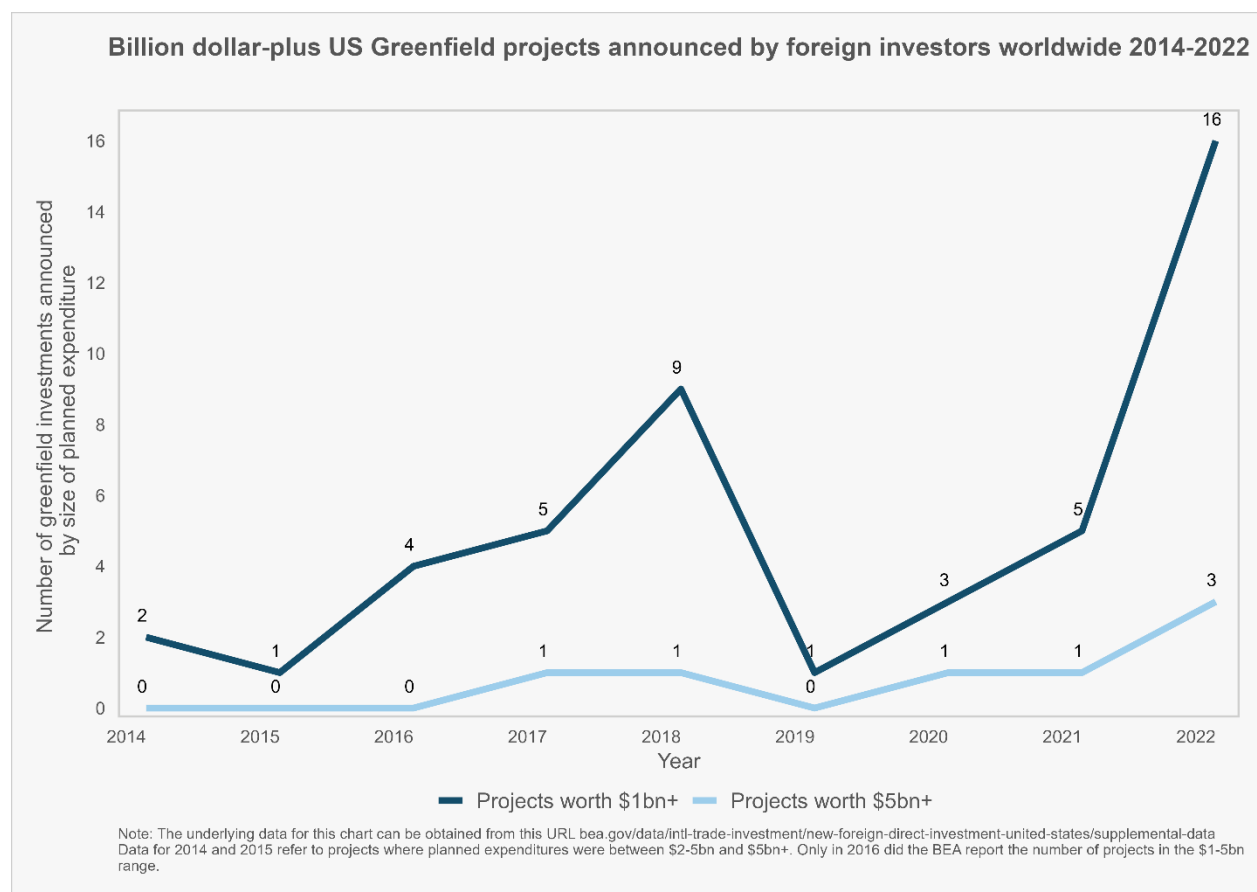


Figure 3: Foreign investors made a handful of \$5 billion+ Greenfield commitments in the USA in 2022.



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