

# Bringing in New Money: Foreign Direct Investment

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*Foreign Direct Investment should be one component of a robust economic growth strategy that also includes attracting domestic firms, promoting entrepreneurship, building infrastructure, and developing human capital.*



# Why target FDI?

- ▶ Take advantage of expanding markets and economies overseas
- ▶ New investment and funds in the economy
- ▶ Catalyst effect/ spillover effects

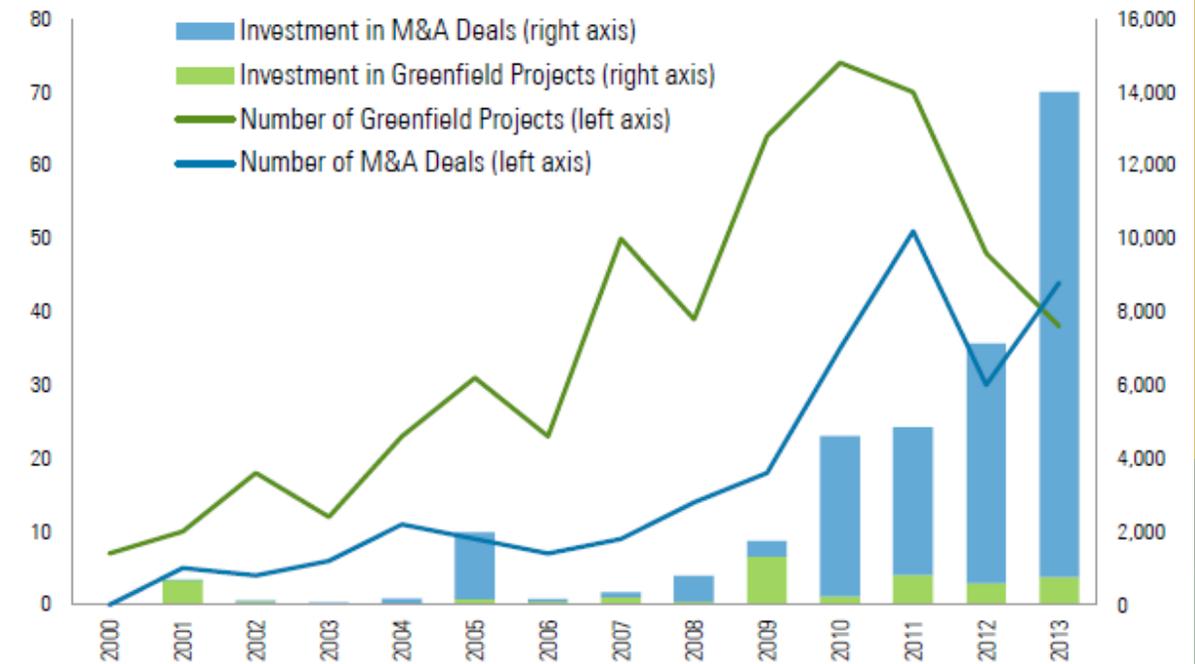


# FDI in the US *at a glance*

- ▶ \$12 trillion in foreign-owned asset stock
- ▶ Employs 5.6 million
- ▶ Pays average salary of \$78,000 annually
  - ▶ **50% more than U.S. average**
- ▶ \$45 billion in annual R&D
- ▶ \$3.5 trillion in annual sales

**Figure I: Chinese FDI Transactions in the United States, 2000-2013**

Number of transactions and value in USD million



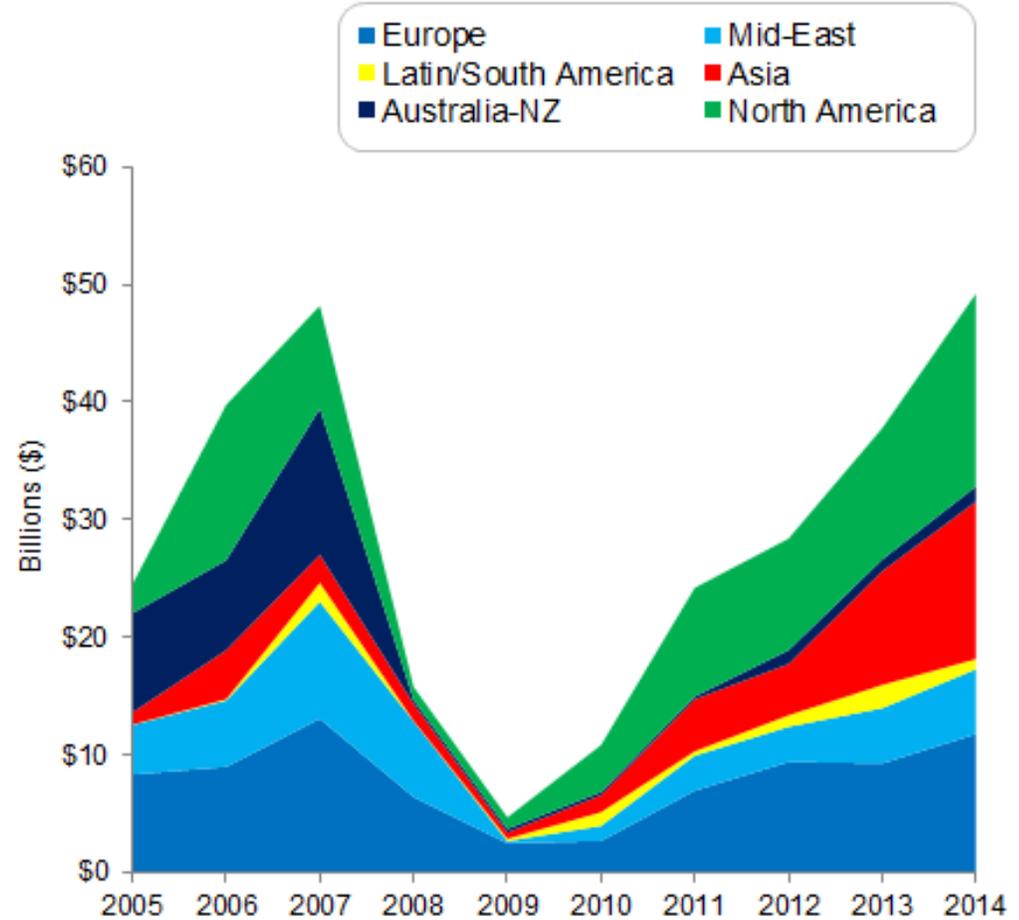
Source: Rhodium Group. \*Numbers are constantly updated and therefore subject to adjustment. A detailed explanation of sources and methodology can be found at: <http://rhg.com/interactive/china-investment-monitor>



# Sources of FDI

- ▶ Most FDI comes from industrialized economies
- ▶ China, Brazil, India, and Russia are a *growing* source of FDI

Chart 2  
Foreign Capital Invested in U.S. CRE



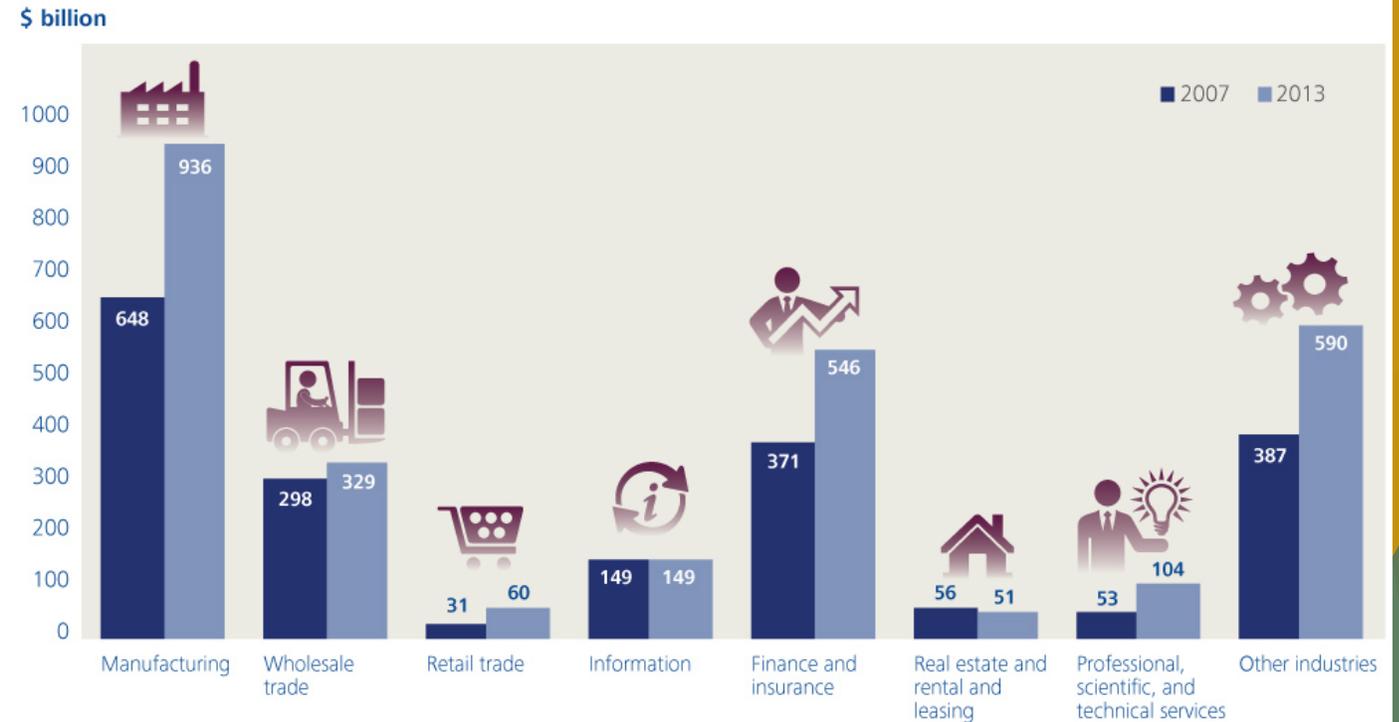
Real Capital Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta



# FDI by industry

- ▶ Top job-creating FDI-supported sectors
  - ▶ Manufacturing
    - ▶ Transportation equipment
    - ▶ Chemicals
    - ▶ Electronics
  - ▶ Business services
    - ▶ Finance & Insurance
  - ▶ Information technology

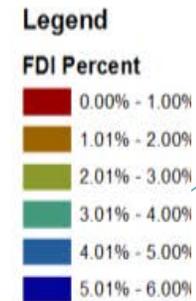
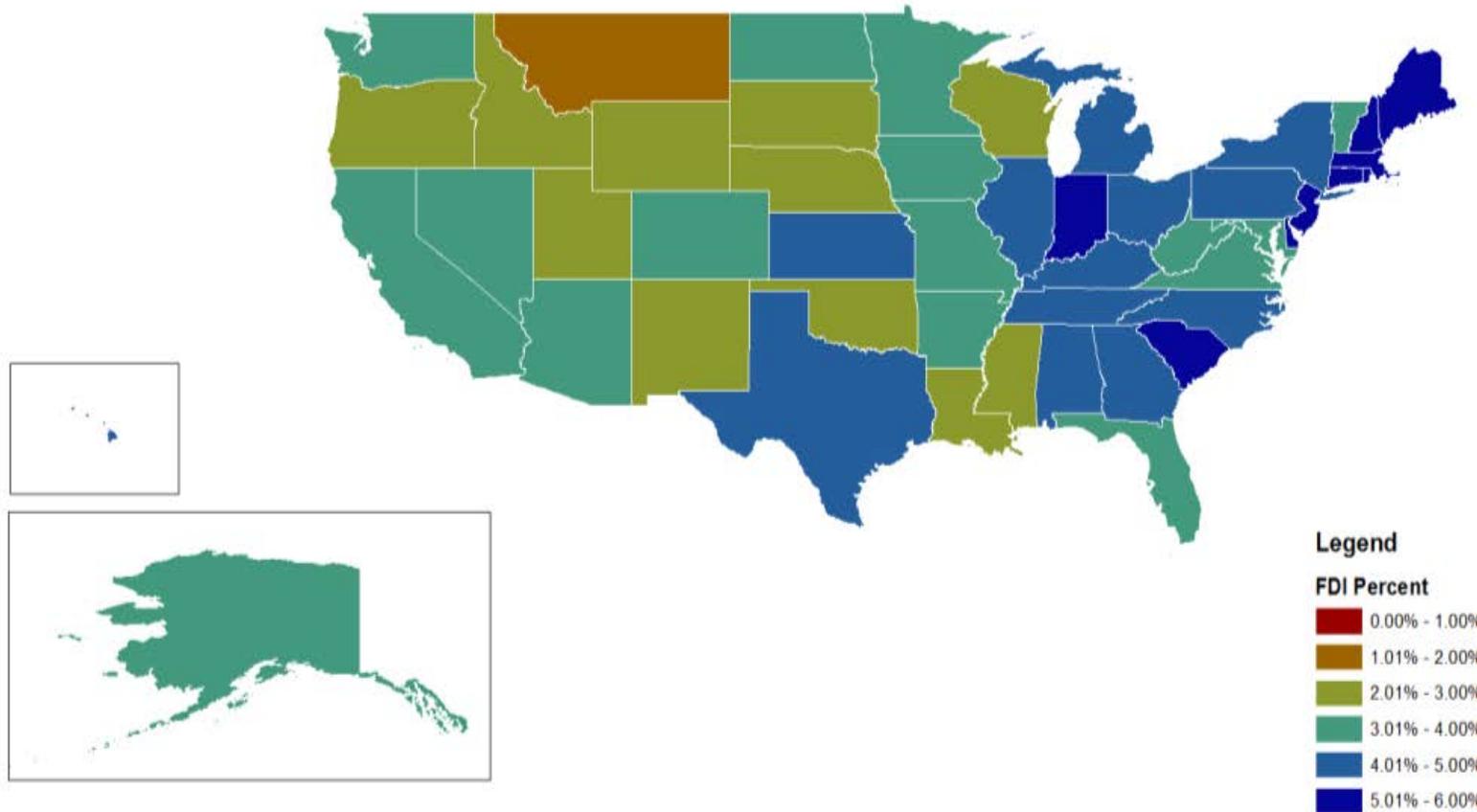
Figure 3. US total FDI position by industry (historical cost basis)



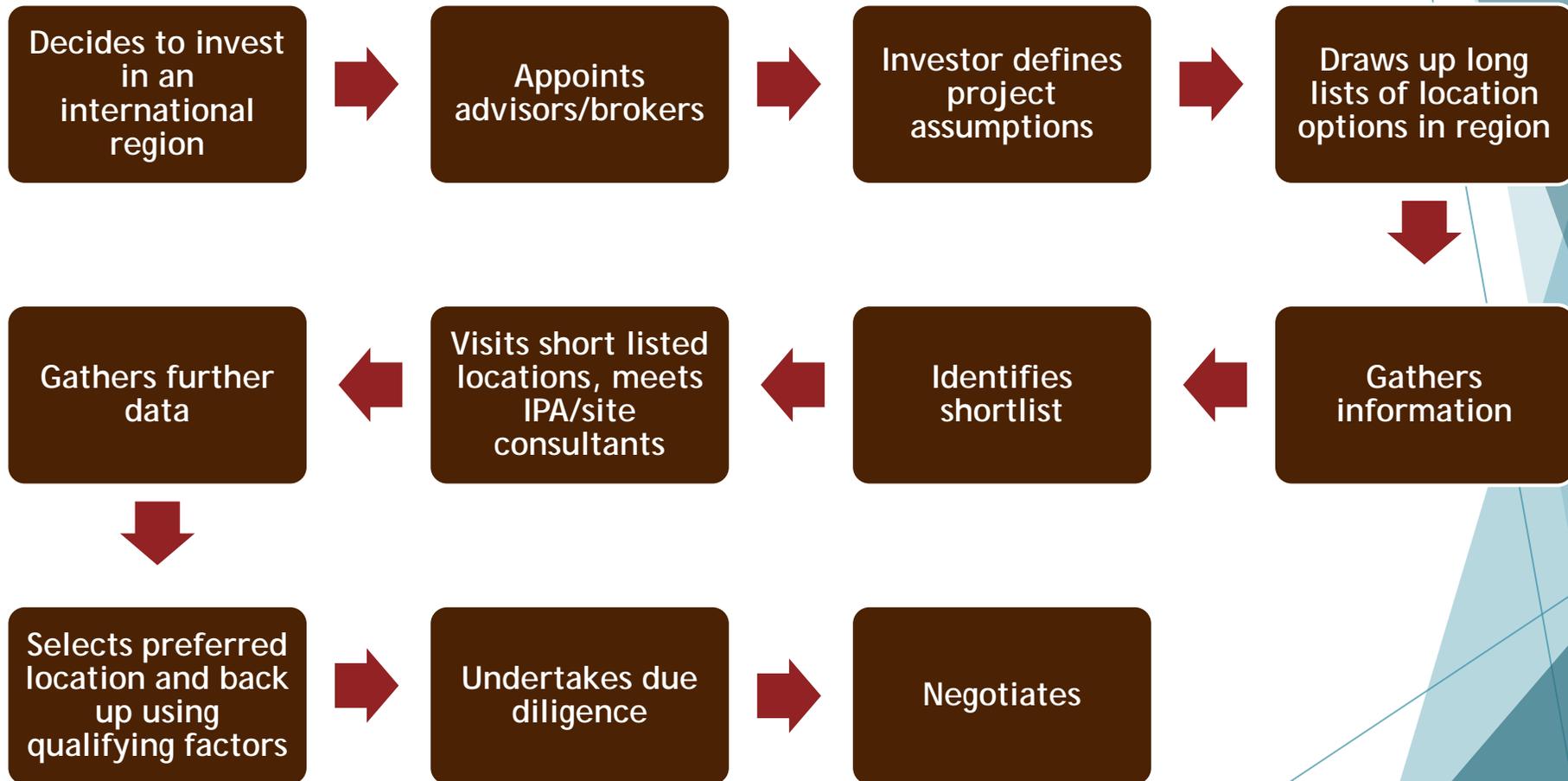
Source: US Bureau of Economic Analysis.  
Graphic: Deloitte University Press | DUPress.com



# Employment in Foreign Companies by State



# FDI Location Process



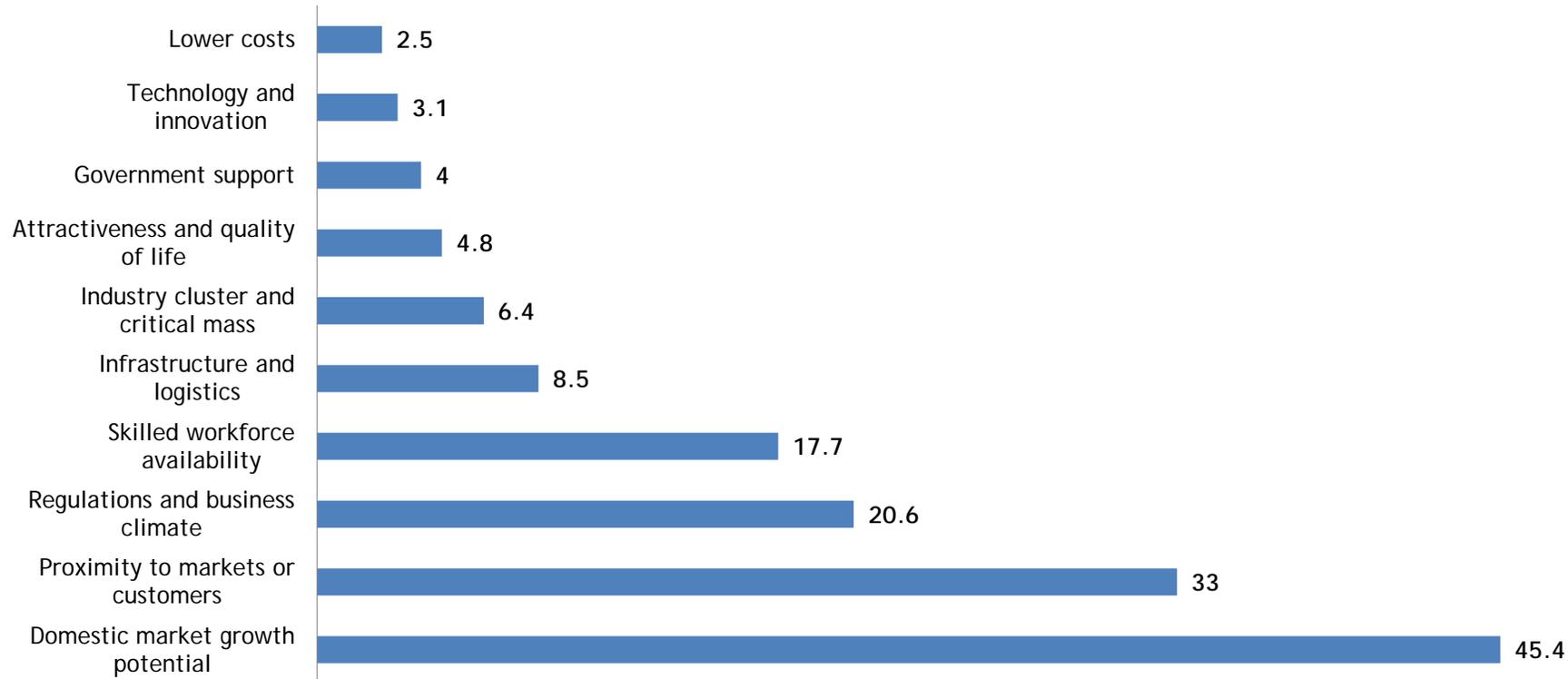
# Bases for Investor Preferences

- ▶ Prior investment in area
- ▶ Competitor's investment in area
- ▶ Major customer or supplier presence
- ▶ Location attractiveness rankings
- ▶ Positive press and media reports
- ▶ Previous business trips or vacation
- ▶ Family ties



# Location Motives for FDI in 2013

■ Percent of respondents agreeing that decisive factor



Courtesy Fingar and Henry Loewendahl, *The fDi Report 2014*, (London: The Financial Times), 2014. Numbers do not sum to 100 because respondents could cite multiple motivations. The survey excluded projects in the US, Japan, Germany, Italy, and France.

# Understanding Measures of Competitiveness

- ▶ Used by location consultants to make initial comparisons and narrow searches
- ▶ Ranking methodologies not always clear and vary between organizations
  - ▶ Rankings often rely on “proxies”
  - ▶ Application may be limited due to proprietary data
- ▶ Rankings may not accurately reflect competitiveness or apply to certain firms and industries



# International & National Competitiveness Rankings

- ▶ A.T. Kearney FDI Confidence Index
- ▶ World Economic Forum Global Competitiveness Index
- ▶ Economist Intelligence Unit Business Environment Rankings
- ▶ World Bank Doing Business Rankings
- ▶ Heritage Foundation Index of Economic Freedom

**ATKearney**

WORLD  
ECONOMIC  
FORUM

**Economist  
Intelligence  
Unit** | The  
Economist

  
THE WORLD BANK

*The*   
*Heritage Foundation*



# Let's take a look at Competitiveness

- ▶ Launched 9/30/2015
- ▶ 12 Pillars of Competitiveness
- ▶ U.S. Ranked #3 after Singapore and Switzerland
- ▶ <http://www.weforum.org/reports/global-competitiveness-report-2014-2015>



# 12 Pillars

## Global Competitiveness Index

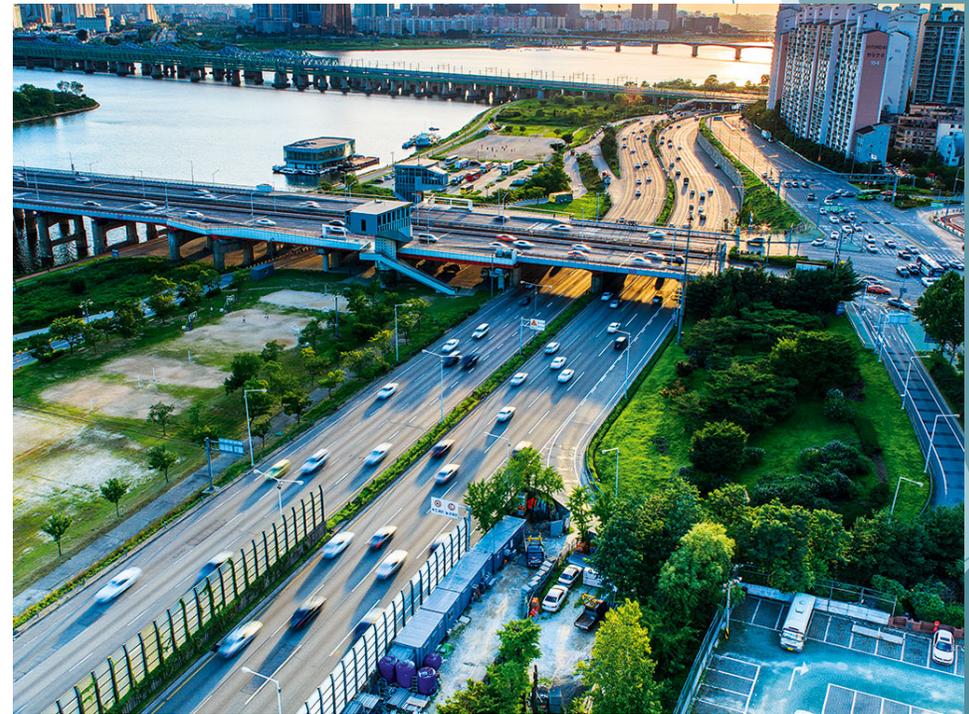
Basic Requirements	Efficiency Enhancers	Innovation & Sophistication
1. Institutions	5. Higher Education & Training	11. Business Sophistication
2. Infrastructure	6. Goods, Market Efficiency	12. Innovation
3. Macroeconomic Environment Stability	7. Labor Market Efficiency	
4. Health & Primary Education	8. Financial Market Development	
	9. Technological Readiness	
	10. Market Size	

“Institutions” refers to government attitude, stability, efficiency - i.e. non-excessive bureaucracy, corruption, over-regulation nor lack of transparency



# Infrastructure

*According to policy experts, underfunded public resources are jeopardizing American competitiveness. This is particularly true in regard to infrastructure, where investment levels as a percentage of GDP are falling in the United States and are rising in much of the rest of the industrialized world.*



*South Korea is becoming known for its impressive high tech infrastructure*



# Industry example: Pillars of Tourism Competitiveness

- ▶ What makes a tourist destination work?
- ▶ Factors in the “enabling environment” for tourism to thrive:
  1. Policy rules & regulations
  2. Prioritization of Tourism by government
  3. Natural Resources
  4. Cultural Resources
  5. Environmental sustainability
  6. Transportation infrastructure
  7. Tourism infrastructure
  8. Communications infrastructure
  9. Safety & security
  10. Health & hygiene
  11. Price competitiveness
  12. Human resources
  13. Affinity for tourism by the community



Source: World Economic Forum 2011

# The State's Role

- ▶ FDI is a priority for almost every governor
  - ▶ Some states also focus on exporting and global trade
- ▶ Key state policies for FDI strategies
  - ▶ Workforce development
  - ▶ Trade missions and marketing
  - ▶ Infrastructure (e.g. ports)
  - ▶ Business climate and taxes
  - ▶ Maintaining relationships with local governments



# Location Consultant's Role

- ▶ Advise companies on location decisions abroad
- ▶ Conduct search (macro and micro)
- ▶ Use experience, rankings, and data algorithms to site select
- ▶ Explain company needs to local communities





# The Key to a Successful FDI Program

*Research, Research, Research, Research  
Research, Research, Research, Research*



# EDO Role: Marketer

- ▶ ED must go to investors. **They aren't coming to you, especially if you're not a "famous" destination**
- ▶ Do your research first
- ▶ Develop marketing for FDI **connected with overall strategic plan**
  - ▶ Target countries, budget, channels
- ▶ Undertake marketing
  - ▶ Trade missions, advertising, networking, introductions, testimonials



# EDO Role: Financier

- ▶ Provides direct incentives to companies
  - ▶ Free land
  - ▶ Tax abatements
  - ▶ Workforce training
  - ▶ Grants and loans
- ▶ Referrals to private, state and federal financing



# Incoming Delegations

- ▶ Provide opportunities for potential investors to:
  - ▶ See jurisdiction for themselves.
  - ▶ Evaluate parcels of land or available real estate.
  - ▶ Meet with members of the public and private sectors.
  - ▶ It is especially powerful if they can meet people from their own country in your jurisdiction
- ▶ If you've met investors on an overseas trip, invite them to see your community.



# Your Role: Ambassador

- ▶ Learn foreign culture and pitfalls
- ▶ Build relationships with potential investors
- ▶ Serve as intermediary between investor and local business, federal government
- ▶ Providing a 'soft landing' in your community

*Beware of expensive gifts, offers of travel, etc.*

*Keep relationship transparent.*





# Trade Missions

*Group overseas trips or participation in industry-specific trade shows for the purpose of marketing a city, state, or region to targeted investors. These overseas activities provide opportunities for delegations made up of public and private sector officials to develop personal relationships with investors in countries looking to expand in the United States.*



# SelectUSA Services

## Services for EDOs:

- ✓ EDO Counseling
- ✓ Advocacy Assistance
- ✓ In-Market Investment Promotion
  - ✓ Facilitated Investment Missions (FIMs)
  - ✓ Single Location Promotion (SLP)

## Services for Investors:

- ✓ Information, Research, and Counseling
- ✓ Providing Federal Agency Connection & Ombudsman Assistance



# Global Industry Trade Shows & Leading Industry Shows

- ▶ Provide opportunities to promote to foreign investors in certain industry sectors.
- ▶ Guaranteed audience & large number of potential leads.
- ▶ Opportunity to target efforts to a particular industry.
- ▶ Disadvantage: Competition





# Key Success Factors

- ▶ Full schedule of presentations about an area and its key industries, networking receptions, and focused, one-on-one meetings with potential investors.

## The EDO's role:

- Background research on the target country and investors.
- Inviting, organizing, and briefing the participants in the delegation.
- Coordinating schedules with industry associations or foreign investors in the target foreign country.
- Planning all logistical details; and funding some, if not all, of the travel-related activities.



# Planning and Executing

## The Productive Delegation

vs.

## The “Junket”

- ▶ Well researched, planned, and executed.
- ▶ Effective flow of information
- ▶ Develops an understanding of local culture in the target country.
- ▶ Generates leads for FDI in the delegates home jurisdiction.

- ▶ Poorly executed
- ▶ Does not generate FDI leads.
- ▶ Inadequate follow-up
- ▶ Benefits only the participants
- ▶ Perceived simply as a luxurious, expensive foreign trip.
- ▶ Often criticized as a waste of resources.



# Public Perceptions & Dealing with the Media Regarding FDI and Overseas Trips

- ▶ There tends to be concerns about type and origin of FDI.
  - ▶ Skepticism and resistance to FDI may be caused lack of information or misinformation of the public.
- ▶ Be truthful and maintain integrity in dealing with the news media.



# The Importance of Due Diligence

- ▶ Take time to screen companies
- ▶ Time and energy can be lost assisting investors that do not hold much promise.
- ▶ Ensure that investors actually have the financial resources to invest.

If an investor appears promising, the information used to justify the investment must have the consistency and quality to be evaluated to establish a positive pattern.

Small companies and entrepreneurs may be difficult to screen. A history of investment and growth may not exist. Determine whether the investor currently exports; international trading is a good indicator of a company's track record of growth.



# Indicators of Investors with Growth Potential

- FDI track record
- History of investing abroad
- International mergers and acquisitions
- Increasing employment



# FDI Example: Strategic Marketing by a small U.S. Territory

- ▶ Targeted Asiana Airlines to invest on the ground
- ▶ Requested introductions through other local Korean firms
- ▶ Convinced a local golf course to sell
- ▶ Asiana invested \$10M in the property, \$40M more in new resort facilities, created 200 jobs
- ▶ Investment served as a catalyst for other foreign investment, resulting in millions more in Korean FDI and 100K in tourists annually

