

# Bringing in New Money: Foreign Direct Investment

Tracy Kitts



INTERNATIONAL  
ECONOMIC DEVELOPMENT  
COUNCIL

# Why target FDI?

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

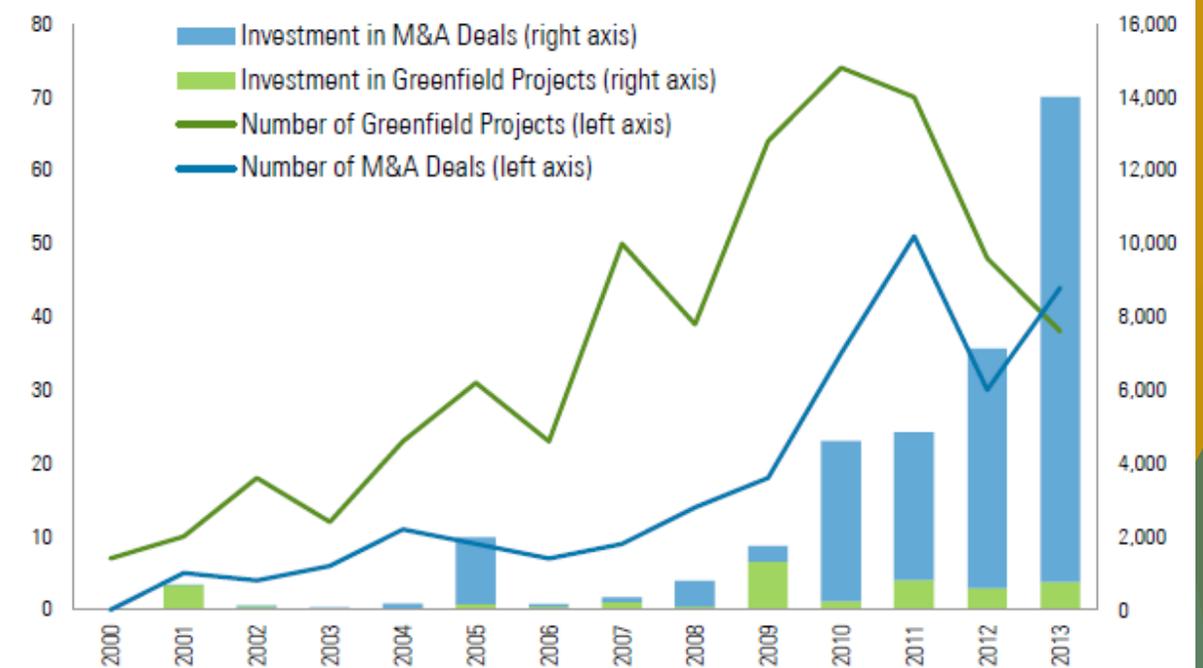


# FDI in the US *at a glance*

- ▶ \$12 trillion in foreign-owned stock
- ▶ Employs 5.6 million
- ▶ Ave. 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**

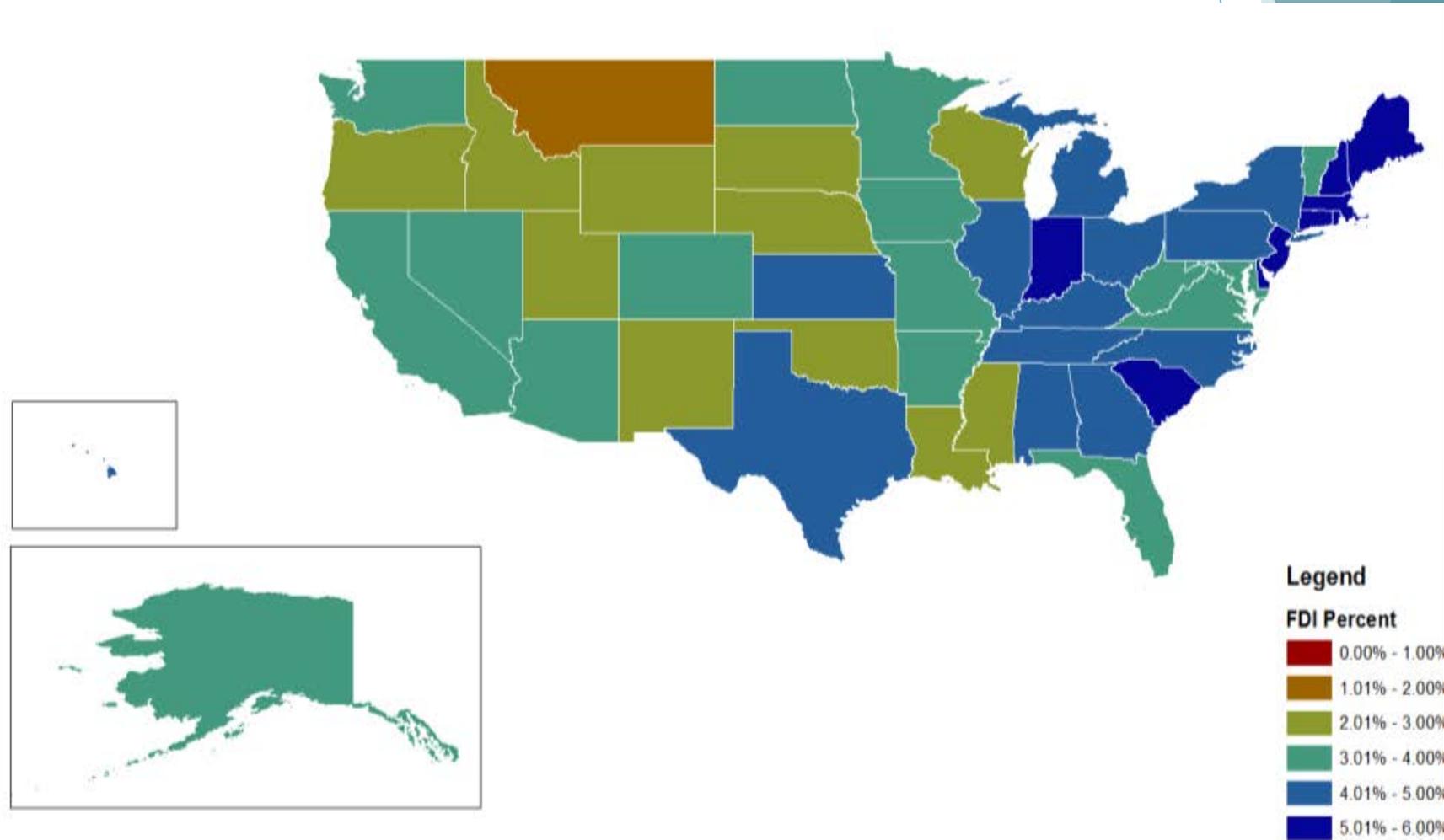
Number of transactions and value in USD million



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>



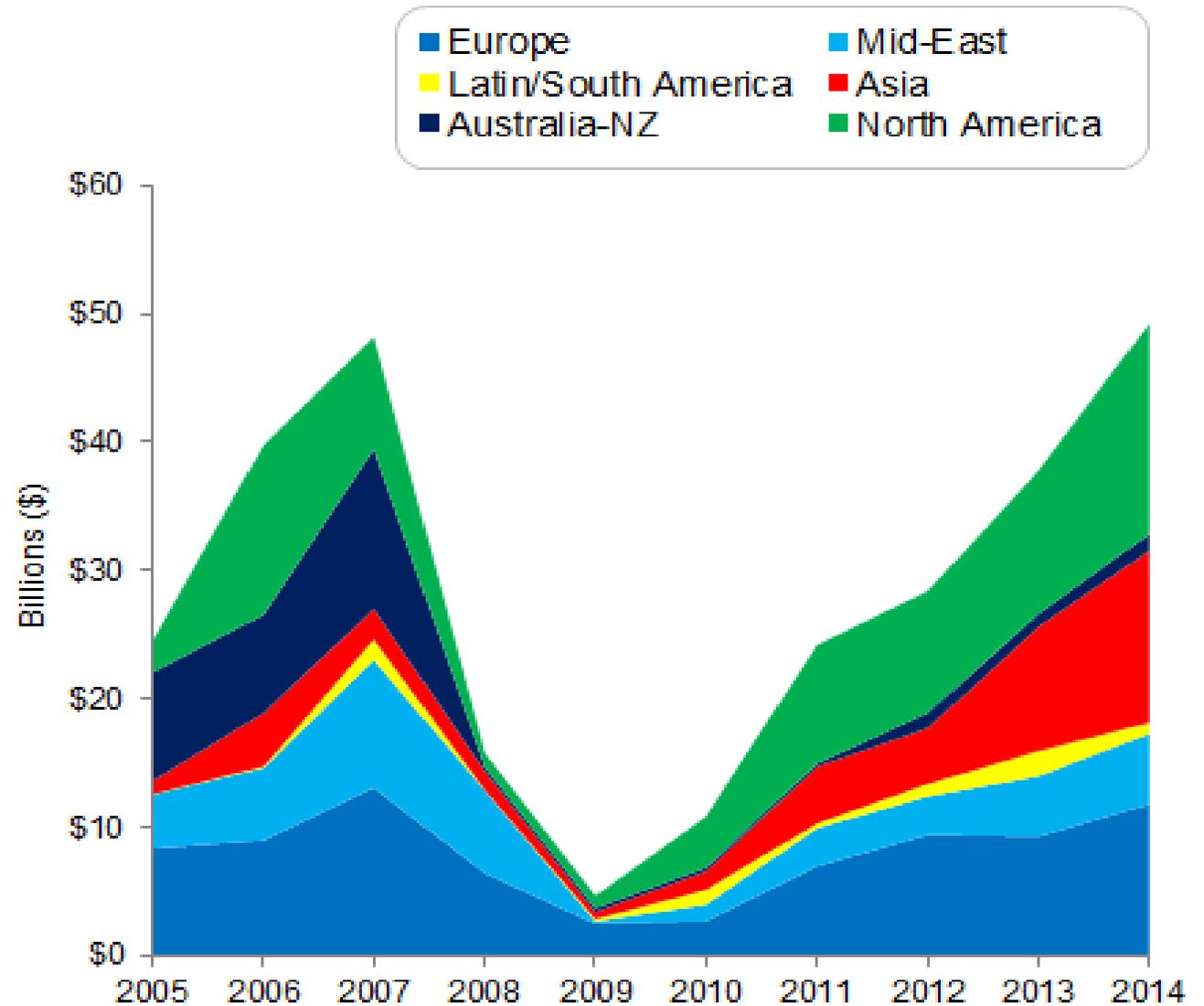
# Employment in Foreign Companies by State



# Where do foreign investors come from?

- ▶ Most comes from industrialized economies
- ▶ China, Brazil, India are a *growing* source of FDI
- ▶ They are not only looking at urban areas but are also establishing in rural America

**Chart 2**  
**Foreign Capital Invested in U.S. CRE**



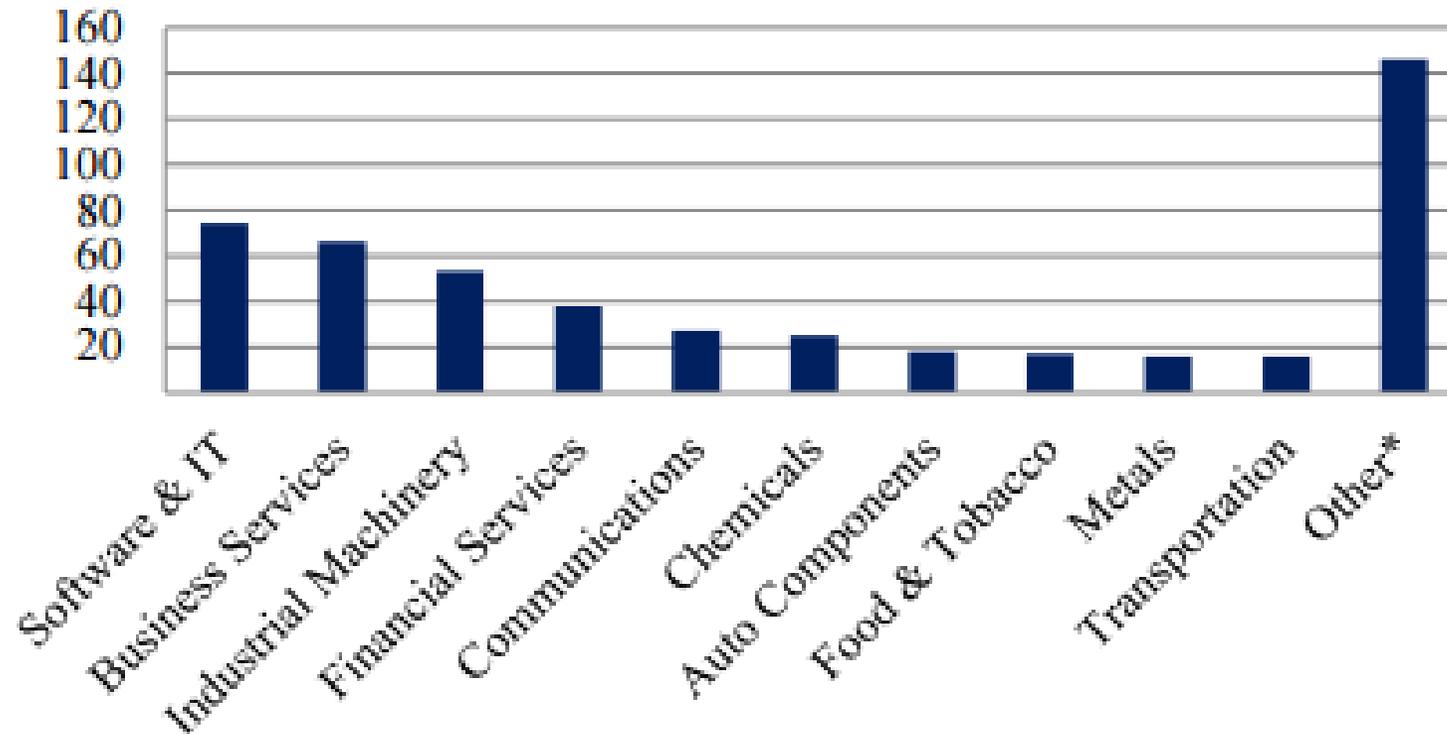
Real Capital Analytics, Risk Analysis Unit/Federal Reserve Bank of Atlanta



# Foreign investment in Illinois

## Publicly Announced FDI Projects into Illinois by Industry, 2003 – January 2015

\$18.9 billion investment  
272,800 jobs



Source: SelectUSA

Illinois fact sheet: <http://selectusa.commerce.gov/state-fact-sheets/2015-01-10%20FDI%20State%20Fact%20Sheet%20-%20Illinois.pdf>

# Investor Preferences

- ▶ Prior investment in area by other companies of the same nationality
- ▶ 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 in the area



# Foreign investors pay attention to competitiveness rankings

- ▶ FDI Confidence Index - Kearney
- ▶ World Economic Forum Global Competitiveness Index
- ▶ Economist Intelligence Unit Business Environment Rankings
- ▶ World Bank Doing Business Rankings



# 12 Pillars of Competitiveness

3 categories of business needs:

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



# The State's Role

- ▶ FDI is a priority for almost every governor
- ▶ Key state policies for FDI strategies
  - ▶ Trade missions and marketing
  - ▶ Infrastructure
  - ▶ Business climate and taxes
  - ▶ Building 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



# Your Role: Local 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.*





# The Key to a Successful FDI Marketing Program

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



# Marketing Advice

- ▶ Do research first
- ▶ You may need to go to investors. **They may not come to you if you're not a well-known destination**
- ▶ Develop marketing for FDI **connected with overall strategic plan**
- ▶ Undertake marketing in cooperation with the state and region
  - ▶ Trade missions, advertising, networking, introductions, testimonials, social media



# 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.





# 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 U.S.*



# SelectUSA Services

## Services:

- ✓ Economic development counseling
- ✓ In-market investment promotion
  - ✓ Facilitated Investment Missions
  - ✓ Single Location Promotion
  - ✓ Select USA Summit

## Services for Investors:

- ✓ Information, Research, and Counseling
- ✓ Ombudsman Assistance



# Global Industry Trade 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



# Who should go

## Possible Participants:

- ▶ State or local government officials
- ▶ Economic Development Professionals
- ▶ Chamber of commerce officials
- ▶ Industry associations that represent business clusters
- ▶ Business people with capability of partnering



# Key Success Factors

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

- 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.



# The Importance of Due Diligence

- ▶ Take some time to screen unknown foreign companies
- ▶ Time and energy can be lost assisting investors that don't hold much promise.
- ▶ Ensure that investors actually have the financial resources to invest.
- ▶ U.S. embassies overseas can help investigate companies for you.

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

- History of investing abroad
- Track record of international mergers and acquisitions
- Increasing employment



Even small communities  
can attract FDI:  
Kankakee, Illinois

- ▶ In 2014, CSL Behring, an Australian biotech manufacturer announced a \$67.5M expansion of its plant in Kankakee
- ▶ Will create 90 new jobs in this community of 27,000
- ▶ The company operates in 30 countries

*Questions?*

