Building a FDI Task Force in Los Angeles: Assessing Existing Resources and Proposing Strategy for the Future

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EXECUTIVE SUMMARY

The United States of America has been a largest net recipient of foreign direct investments globally, even since the end of the World War II. Throughout this period, foreign investors brought to the United States new capital, new ideas and new jobs. Many of these benefits were taken for granted, and most US states and cities, including the city of Los Angeles, never got a designated government agency or department devoted to attracting foreign capital.

However, the world is rapidly changing and so are the patterns of FDI flows. Any successful FDI strategy has to account for this. While in the past century, most of the FDI flows were coming from the “developed” nations, academics and practitioners now agree that in the decades ahead of us most FDI will come from “developing” nations. Therefore, the key to a successful FDI strategy today is attracting and maintaining investors from world fastest growing economies such as China, India or Brazil. In our report, due to our clients needs, we tend to focus on Chinese investors.

The City of Los Angeles seeks to improve its economic vitality and generate new sources of revenue. Increasing the level of foreign direct investment (FDI) is likely to be a critical component in achieving this goal. The experiences of leading metro areas have shown that a well-funded, strategic effort to reach out to foreign companies could have an enduring impact on both job creation and economic activity. However, Los Angeles lacks a clear strategic industry and geographical focus in attracting foreign investors. Moreover, it lacks institutional capacity in a form of local government department or agency that would be at service for foreign investors.

Around the globe, Los Angeles is known for its appealing climate and lifestyle, movie industry and fashion. But the economic activity in the city and its surroundings is spread around dozens of industries and there seems to be a lack of specific, well-defined clusters. The
incentives that various institutions provide to the city are almost equally appealing to both domestic and foreign investors. To successfully attract investors from distant parts of the world, Los Angeles will have to tailor a specific FDI specific strategy and ensure that this strategy is supported by institutional structure.

In defining a winning strategy, Los Angeles should consider examples from both literature and current practice of other cities. The literature that deals with local FDI promotion is very limited, as these efforts are usually undertaken on the level of state or national government. However, given the size of Los Angeles and the strength of its economy, many of the lessons are applicable. In addition, numerous initiatives taken around the world from cities such as Toronto or Chicago could also be helpful in helping Chicago attract more FDI.

Our findings indicate that Los Angeles could benefit by focusing on specific comparative advantages that it has, while avoiding the trap of spending significant time and resources on the tactics that have not worked well in the past. Specifically, we believe that the city should leverage its size and position, sophisticated customer base, high-value added service and manufacturing capacities, excellent human capital, well developed global brand, existing FDI and strategic position to Asia, especially China.

We recommend that the Los Angeles follows examples of its North American peers, Toronto and Chicago, and forms a local agency devoted to attracting FDI. The first step in establishing such an agency would be forming a task force that would work on defining strategic industry and geographic focus for the city’s FDI targets. The task force would be built immediately with representatives from variety stakeholders across the Los Angeles County. The new agency would serve as a one stop shop for foreign investors in the county. Its first goals would be to recruit a firm group of informal ambassadors of Los Angeles among global businessmen and to organize a yearly FDI conference in the city that would demonstrate firm institutional and political commitment to bringing new foreign investors.
INTRODUCTION

a. Overview of foreign direct investments

The Organization for Economic Co-operation and Development (OECD) defines foreign direct investment (FDI) as an investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor1. In the view of the OECD, the lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise. A widely accepted standard in academia and in statistical analysis is that the direct or indirect ownership of 10% or more of the voting power of an enterprise resident in one economy by an investor resident in another economy is evidence of such a relationship1.

Throughout the examination of FDI related academic literature, one can notice a wide consensus among analysts that the foreign direct investments were one of the key elements in international economic integration that we have witnessed at least since the end of the World War II2. Around the globe, FDIs are providing means for creating direct and long-term links between diverse and geographically distant national economies. Given their nature, historically FDIs have been monitored only on the level of sovereign nations. However, local communities, cities, counties, regions, states and other subnational entities

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have much to gain from attracting foreign investments and they are increasingly devoting
time and resources to attract credible investors.³

We are witnessing this movement among subnational entities because they are
becoming increasingly aware that under the right policy, foreign direct investments can
serve as a strong driver of the local development. In particular, foreign investments can
encourage the transfer of technology and know-how to the local economy. With that they
do not only provide new jobs, but usually also create jobs at a higher level of the
production chain for the local community. Moreover, the arrival of foreign investors also
often provides an opportunity for the host economy to promote its products in international
markets through new channels and at foreign markets, where new owners have better
connections and distribution networks⁴. Finally, foreign investors are a valuable source of
new capital that any community welcomes, especially under the current financial crisis.

Before the start of the global financial crisis in 2007, the world has witnessed
almost uninterrupted growth of global FDI stock for decades.⁵ This growth was reflected in
both the increase in the size and number of individual transactions, as well as in the
growing diversification of enterprises across economies. Recent financial crisis has brought
new fears and old protectionism claims across the world, but academics agree that these
will not last for long as the economic recovery becomes apparent. According to OECD
statistics, the large multinational companies are still dominant players in FDI transactions⁶,

⁴ Foreign Direct Investment: Globalizing Chicago’s Economic Development Plans,
⁵ UNCTAD Global Investments Trend Monitor 2013,
⁶ OECD Benchmark Definition of Foreign Direct Investment, FOURTH EDITION 2008, web:
but over the last decade we have also witnessed a significant rise of small and medium-size enterprises, which are increasingly diversifying geographically. As the globalization conatus and investing across national borders becomes easier, we should expect to see more and more medium and even small enterprises make significant advances abroad.

Interestingly, over the last decade we have seen investors from “developed” world make significant investments abroad. While this trend could be originally traced to the new rich who wanted to protect their gains in more protective legal systems of western nations, nowadays investors from less developed countries are making investments abroad, for the same reason their western predecessors did- to acquire new markets and increase their profits.

b. Assessing the current state of global FDI

While the globalization is often talked about, people still tend to neglect the size of capital flows across national borders that have contributed to “flattening the world”. The global flow of FDI in 2012 reached $1.5 trillion, according to UNCTAD report 2012\(^7\). However, FDI flows still remain 23% below the peak they reached in 2007, before the global financial crisis\(^5\). According to the same report, UNCTAD predicts slower FDI growth in 2012, with flows leveling off at about $1.6 trillion. Longer-term projections show a moderate but steady rise, with global FDI reaching $1.8 trillion in 2013 and $1.9 trillion in 2014, barring any macroeconomic shocks.\(^8\)

By assessing the available data for global FDI stock provided by UNCTAD, we can

see that inflows of foreign direct investments increased across all major economic
groupings in 2011. Flows to developed countries increased by 21 per cent, to $748 billion.
On the other hand, according to the same UNCTAD report, in developing countries FDI
increased by 11 per cent, reaching a record $684 billion. The stock of foreign direct
investments in “transition economies” increased by 25%, to the record high of $92 billion.
Developing and transitioning economies respectively accounted for 45% and 6% of global
FDI in year 2011.\(^9\)

As we can see from the above-mentioned data, movements in the FDI stock have
not been immune to the global shifts that have been taking place, especially in the last
decade. The changing global balance of power, best exemplified in reemergence of China,
India and Russia and rise of new large economies such as Brazil and South Africa, has to
be accounted for in any successful new FDI strategy\(^10\). During the last century, most flows
of investment capital moved among developed nations and the United States has long been
such an alluring destination for FDI. But this trend is currently being challenged and with
deep decline in 2012, United States barely managed to remain the largest global recipient
of foreign direct investments in 2013.\(^11\) However, given the current trends and market
expectations United States is likely to be surpassed by China in the near future\(^12\).

On the other hand, we are also likely to witness the paradigm shift in the position of
largest investors abroad. Increasing amounts of FDI are beginning to flow abroad from

\(^12\) Forbes: China Leads In Foreign Direct Investment, http://www.forbes.com/sites/jackperkowski/2012/11/05/china-leads-in-foreign-direct-investment/
nations such as China and India. China has vastly ramped up its outward FDI in recent years, and in 2010, it even made the top 10 list of global investors.\textsuperscript{13} While still relatively small—China invested only around $5 billion in the United States in 2010 and 2011—the aggregate amount of FDI flowing out of China nonetheless represents an average annual growth rate of 130% since 2007\textsuperscript{14}.

The era of significant growth in outward foreign direct investment from “developing world” to developed economies has begun even before the economic crisis, as we can see from the available UNCTAD data discussed above. The current financial crisis will only accelerate this trend, as developed nations will open their markets even more under the pressure of flat or negative growth. On the other hand, still rapidly growing developing economies will seek to diversify their growth, acquire new resources and new technologies. This will lead them to invest abroad on the levels that would have been unimaginable only decades ago. A good parallel is made by the Asian society in the Chinese direct investment abroad report in which they claim that just as Chinese exports have grown at unexpected rate from $250 billion in 2000 to nearly $2 trillion in 2011, China’s FDI will skyrocket in the years ahead\textsuperscript{10}. According to the estimates made in the same report, we could expect China’s cumulative outward FDI to grow to between $1 trillion and $2 trillion by 2020. This explosion of Chinese and other developing nation’s FDI will have significant consequences for all economies around the world, and especially for the United States that could significantly benefit from this new trend.


Looking forward, Los Angeles, as the natural and historical welcome point for people and goods from Asia, should prepare itself for this new shift in global investments. Given its global brand, ethnic diversity and excellent geographic position, Los Angeles could attract a significant portion of the investments from developing world. This would not only bring a large number of foreign investments to Los Angeles, but would also make it the business hub of the new investment era. Los Angeles has a long history of relations with China and most sizable Chinese American population in the nation, as well currently

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largest number of deals from China in California\textsuperscript{16}. The future flows are likely to be crucial for development of the city in the 21\textsuperscript{st} century as they could drive new employment, increase tax amounts collected, generate exports, and bring above explained effect of spillovers in terms of know-how and business relationship to the city.

Nevertheless, the competition around the globe and within the United States is unlikely to be passive. Over the last decade, we have witnessed a growth in number of local FDI promotion agencies and many cities in North America, such as Toronto and Chicago, have made advances in developing mechanism for attracting FDI. Therefore, Los Angeles needs to react quickly and develop a strategy for capturing the new wave of foreign direct investments before it is too late.

c. Current state of FDI in Los Angeles

Los Angeles is the second largest city in the United States and is the most populous metropolis on American West Coast, with diversified and developed economy. As the “last stop” of the American West, Los Angeles has historically been welcoming people, ideas and investments from all over the world. It is widely accepted that the FDIs strengthen the city economy by bringing new technology, capital, skills, and international connections and by creating new jobs\textsuperscript{17}. However, there is no official data on levels of FDI in the city of Los Angeles or in the Los Angeles County. Without historic trends or current level of FDI stock it is hard to assess the current state or make concrete conclusions or suggestions\textsuperscript{17}.

Given that over the decades, Los Angeles has grown and in reality merged with dozens of smaller cities that were surrounding it, mayor of Los Angeles is often seen as an

\textsuperscript{16} Asia Society: Chinese Investments in California, 2012, 
http://asiasociety.org/files/pdf/Asia_Society_China_CA_Investment_Report_FINAL.pdf

\textsuperscript{17} LAEDC Foreign Direct Investment  
informal leader of the entire Los Angeles metropolitan area. For potential foreign investors, the difference between Los Angeles proper and let’s say Pasadena is unlikely to be unclear. Moreover, a possible competition between the local communities in the metropolitan area would just likely result in the race to the bottom among local communities. Therefore, in agreement with our client, for the purposes of this report, we are looking at the entire Los Angeles County, which is home to 88 incorporated cities and 9,818,605 people\footnote{For more information on Los Angeles County please see: www.lacounty.info}.

From the available literature, we can conclude that Los Angeles’s sheer size has led policymakers, business officials, and others to attribute to Los Angeles a significant share of California’s FDI, but the facts necessary to make precise calculations are not available by any statistical agencies nor are they available to the city administration.

Yet, there is much data to indicate that policymakers and businessmen are right. The Los Angeles County Economic Development Corporation (LAEDC) foreign direct investments database compiled in 2009 includes 4,521 foreign-owned and -affiliated business establishments in total\footnote{LAEDC Foreign Direct Investment http://www.laedc.org/reports/FDI-2009.pdf}. The city’s 4,521 foreign-owned and -affiliated establishments represent slightly less than a third (32.4\%) of the state’s 13,969 foreign-owned establishments as last measured in 2002. Almost half (or 48.5\%) of the city’s foreign-owned or affiliated establishments have a parent company based in Europe, 1,948 establishments (43.1\%) have an Asian parent company, 335 establishments (7.4\%) in Canada or Mexico, while other regions of the world are not represented in a significant percentage (Please see graph below, source LAEDC Report 2009).
According to the LAEDC’s data base, measure by the number of foreign owned businesses, Japan is the leading nation in FDI in Los Angeles, with 1,413 total establishments or 31.3% of foreign-owned companies, followed by the United Kingdom with 794, France with 360 and Germany with 334. China (combined with Hong Kong) would come to the distant tenth place with 127 total establishments. Given the recent trends and the growth of Chinese investments we believe that over the last five years China has moved up the rankings, but not enough to jeopardize the position of Japan and leading Western European nations. We base this assumption on trends we see in Chinese investments in United States, as according to the Rhodium Group Quarterly Update, 2012 was a record year for Chinese direct investment in the United States, with completed deals worth $6.5 billion, a 17% increase from the previous record of $5.5 billion in 2010. As explained in considerations, we expect the large wave of Chinese investments to United States that could in the next decade make China the largest investor in Los Angeles.

According to available data from Los Angles Economic Development Corporation, foreign-owned businesses are spread across several sectors. The most prominent is the retail trade (981 total establishments, or 21.7% of the all foreign-owned and affiliated establishments) followed by wholesale trade (930 total establishments or 20.6%), manufacturing (with 608 total establishments or 13.4% of the total) and banking and insurance companies (481 establishments or 10.6% of the total)\textsuperscript{21}.

\textbf{Foreign-owned Establishments by Industry in Los Angeles County in 2007 (LAEDC Report)}

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Industry} & \textbf{Total Establishments} & \textbf{\% of Total} \\
\hline
Merchant Wholesalers, Durable Goods & 704 & 15.6\% \\
Food & & \\
& Beverage Stores & 449 & 9.9\% \\
& Credit Intermediation & Related Activities & 315 & 7.0\% \\
& Professional, Scientific & Technical Services & 250 & 5.5\% \\
& Merchant Wholesalers, Nondurable Goods & 226 & 5.0\% \\
& Administrative & Support Services & 184 & 4.1\% \\
& Computer & Electronic Product Manufacturing & 162 & 3.6\% \\
& Support Activities for Transportation & 157 & 3.5\% \\
& Food Services & Drinking Places & 155 & 3.4\% \\
& Insurance Carriers & Related Activities & 109 & 2.4\% \\
& Health & Personal Care Stores & 103 & 2.3\% \\
& Electronics & Appliance Stores & 92 & 2.0\% \\
& Clothing & Clothing Accessories Stores & 86 & 1.9\% \\
& Motion Picture & Sound Recording Industries & 84 & 1.9\% \\
& Air Transportation & 78 & 1.7\% \\
& Building Material & Garden Equipment & Supplies Dealers & 71 & 1.6\% \\
& Food Manufacturing & 63 & 1.4\% \\
& Fabricated Metal Product Manufacturing & 60 & 1.3\% \\
& Accommodation & 56 & 1.2\% \\
& Chemical Manufacturing & 55 & 1.2\% \\
& Securities, Commodity Contracts, Other & 55 & 1.2\% \\
& Financial Investments & Related Activities & 55 & 1.2\% \\
& Real Estate & 54 & 1.2\% \\
& Motor Vehicle & Parts Dealers & 53 & 1.2\% \\
& Gasoline Stations & 50 & 1.1\% \\
& Personal & Laundry Services & 49 & 1.1\% \\
& Publishing Industries (except Internet) & 45 & 1.0\% \\
& Other Industries & 756 & 16.7\% \\
\hline
\textbf{Total} & 4,521 & 100.0\% \\
\hline
\end{tabular}
\end{table}

\textsuperscript{21} LAEDC Foreign Direct Investment \url{http://www.laedc.org/reports/FDI-2009.pdf}
In terms of geographic dispersion around the area, the City of Los Angeles has the largest number of foreign-owned and -affiliated businesses, with 1,591 total establishments, followed by Torrance (310 total establishments), Long Beach (212 total establishments), Santa Monica (134 total establishments), Pasadena (127 total establishments), and City of Industry (118 total establishments). In our conversations with representatives of LA County cities and with previous and potential investors, we did not find any evidence to believe that certain city stood out to all investors by some great efforts, but the decision to invest rather came from geography, proximity to transport or acquired targets location.

Los Angeles County has one of the largest and most diverse and dynamic economies in the world, estimated at $544 billion, with nearly 10 million people and nearly 4 million employees as contributors. These statistic points out that in the terms of economic and demographic power, the region surpasses many developed European nations and is likely to be too big and too diverse for investors to understand, without guidance.

Furthermore, the port of Los Angeles has been one of the largest hubs of international trade since World War II. According to the LAEDC, in 2001, the Los Angeles Customs District handled $387 billion in two-way trade. In addition, Los Angeles is home to the nation’s busiest origin and destination airport – the Los Angeles International Airport (LAX), while ports of Los Angeles and Long Beach are America’s busiest ports, handling 14 million TEUs in 2011. If we add the transport and trade that takes places at other smaller but busy ports and airports in the country, we could conclude that this is one of the most vibrant places for trade and flows, not only in the United States, but globally.

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However, in our analysis, this hectic image of Los Angeles as a busy place where too much happens came out as a concern for foreign investors. As it is widely know, the city of Los Angeles is recognized as an entertainment capital of the world, as well as center of fashion and design. Moreover, foreigners are aware that there is almost any imaginable industry present in the county of Los Angeles, at large or smaller scale. However, when asked for specific industry that they have in mind when talking about Los Angeles, all our interviewed investors paused right after Hollywood and entertainment. This raises a concern that we try to address and explain later in our report.

Moving away from specific industries, we stress the importance of other things that constitute LA’s image around the globe. Los Angeles County is a home to world-class research universities, such as California Institute of Technology (Caltech), University of California- Los Angeles, and University of Southern California.

In our research, we have found that the Los Angeles offers a variety of financial and technical assistance programs to encourage investors. Yet, these activities do seem coordinated, and the only place that seems to provide an overview of the incentives is LAEDC.

The LAEDC created the ChooseLACounty.com website to serve existing businesses’ needs and those considering relocating to Los Angeles. Moreover, ChooseLACounty.com provides important information businesses need to know such as the major industry clusters of the region, including Fortune 500 companies headquartered in Los Angeles, the cost of doing business, special incentives and resources for businesses, major modes of transportation, foreign direct investment in the region, and quality of life characteristics.

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However, all of these investments are almost equally appealing to both domestic and foreign investors. Moreover, while basic data is available online, more tailored specific advice relevant to individual investors, that is usually the key, is not readily available. To successfully attract investors from distant parts of the world, Los Angeles will have to apply extra set of promotional activities that will influence the 21st century investors to cross the oceans and boarders to invest in Los Angeles.

d. The new wave of foreign direct investments

Early on in our discussions with the staff in the office of Mayor of Los Angeles, we agreed on the importance of the new wave of the foreign direct investments from the developed world for our project. More specifically, we discussed the overwhelming notion coming from our own professional experience and from academic literature that Chinese investors will become the driving force behind the global flow of FDI stock in upcoming decades. Given our personal backgrounds and the special interest of our client in investments that will come from Asian countries and especially from China, we decided to devote most of our research to Chinese investors.

By looking at the UNCTAD historic data of FDI flows, we could go as far as saying that China was absent from the FDI market until early 1990ies, mostly due from the FDI ranks, mostly due to its aversion to engagement with the market-oriented Western countries. However, today after decades of reform and economic boom, China is reaching the threshold, where its expansion will require going abroad and investing to acquire not

only energy and raw materials, but also know-how and distribution channel to enable its further growth.

If we take a closer look at the recent outward Chinese foreign direct investments we should be able to conclude that China is reaching this threshold. In first decade of the 21st century, Chinese firms have made over 500 investments worth $16.4 billion just in United States\(^{23}\). With the expansion of Chinese economic giants across Asia, but now even across the world, we can only expect this number to grow and push China to invest even more abroad, as has been the pattern for other nations that followed this path before.

While much of our research and conclusion focus on Chinese investments, we nevertheless believe that most of our research and analysis applies to attracting foreign direct investments across the board. We also believe that insight and recommendations that we provide in this report will help tailor efforts for attracting variety of foreign investors to Los Angeles.
METHODOLOGY AND RESULTS

a. Methodology

In order to address how the City of Los Angeles could increase foreign direct investment most effectively, we need to understand both the demand side (particularly Chinese investors) and the supply side (other US municipalities). On the demand side, we need to figure out the factors affecting Chinese investors’ location choices in US. On the supply side, we plan to identify the challenges facing other US municipalities and their consequent solutions. Particular attention should be given to cities with best practices and cities that are comparable to Los Angeles on the basis of size and multiculturalism.

Our overall methodology is a combination of quantitative and qualitative approaches. On the demand side, we use literature review, case study analysis and in-depth interviews to identify and evaluate potential determinants behind Chinese location decisions. On the supply side, we use case study analysis and in-depth interviews to uncover the gap between the best practices and the status quo.

b. The Demand Side - Literature Review

The traditional theory of FDI (Dunning, 1977, 1993, 2002, 2009) suggests that Chinese outward investors have four primary motivations: 1) seeking foreign market; 2) seeking efficiency; 3) seeking natural resources; 4) seeking strategic assets. The general theory has been built largely on cross-country analysis. While in certain aspects it can be readily applied to Chinese investment in United States (Buckley et al., 2007), some may not be applicable and there are inevitable gaps due to its lack of focus on US data and lack of control on industry-level differences.
We first examine the applicability of the traditional theory. Market-seeking investors are motivated by better access to large and rapidly growing markets. This is relevant since the US market is generally considered large with its population size and per capital income. Efficiency-seeking investors are drawn to lower-cost locations for operations, in particular in search for low-cost labor. Given the comparatively higher labor cost levels in the US than in China, this type of investors is unlikely to choose US and thus efficiency-seeking motivation is not explicitly considered here. Resource-seeking investors aim to secure the supply of raw materials and energy sources in short supply at home. This may involve US where there are energy reserves such as oil, but it may only be applicable to natural resource industries. Strategic-asset-seeking investors are those who pursue after strategic assets including R&D capacity and output, design facilities and brand names. United States have rich strategic assets which can usually be accessed by takeover of the firms or subdivisions of them (Dunning, 2001).

Buckley et al (2007) are among the first to formally model the forces driving Chinese outward direct investment. The study tests not only Dunning’s general theory, but also proposes “a special theory” to explain the behavior of Chinese outward investors. According to empirical results (Buckley et al, 2007; Kolstad and Arne, 2010; Zhang and Daly, 2011), factors including market size, cultural proximity, openness to FDI, export and import unanimously exhibit statistically significant effect on Chinese multinational’s outward investment. Results also show that inflation, natural resource endowment and exchange rate do not bear significance.

There are also a number of studies (Culem, 1988; Gulmaraes et al, 2000; Hill & Munday, 1995; Yang et al, 2000; Kandogan, 2012) that have sought to identify factors
driving FDI location choice in developed countries. Many have focused on the US, although some such as Guimaraes et al. (2000) and Ferrer (1998) were on Europe. While most are at the national level (Devereux, 1998; Wheeler & Mody, 1992), some explored regional choices (Carlton, 1983; Head et al., 1999). A number of factors emerge through this set of literature. Most studies find strong relationship between the following factors and FDI in US: market size, transportation infrastructure, labor resources, wage, and agglomeration. Results show that regulation and living conditions (as captured by crime rate and weather conditions) are insignificant factors. There are no conclusive results on the effect of unionization rate.

So far, there is no empirical research that focuses on municipal-level location determinants of Chinese investors in United States. Indeed, on the one hand, the literature on Chinese outward FDI focuses on cross-country analysis rather than narrowing down to Chinese investment in the United States; on the other hand, empirical research on FDI in US does not distinguish Chinese investors from investors from other countries, and often examines country-level or, at best, state-level locational determinants, rather than zeroing in on municipal-level determinants. Municipal-level location determinants that are most applicable to the City of Los Angeles are not directly available.

In addition to the lack of municipal-level research, another major challenge is that the choice of FDI proxies (dependent variables) affects the statistical significance of certain location determinants (independent variables). Four types of proxies have been used to represent FDI. First is FDI stock as captured by the gross property plant and equipment in all US affiliates of foreign companies (Hines et al., 1996; Kandogan, 2011). Second is the employment generated by foreign direct investment in US (Hines et al., 1996; Kandogan,
Third is the monetary value of FDI deals (Buckley et al., 2007; Zhang et al., 2011). Four is the number of FDI deals (Coughlin et al., 1989)

While each of the four FDI proxies can represent certain aspects of FDI, each also has inherent biases towards certain industry, entry mode and investment size. In Kandogan’s multiple regression (2011), the extent of regulations exhibits statistically significant impact on FDI stock, but its effect on FDI employment is insignificant. Likewise, per capital income has significant impact on FDI employment, but not on FDI stock (Kandogan, 2011). High-fixed-cost industry has higher FDI stock; capital intensive FDI tends to generate lower employment but brings higher monetary value of deals. Greenfield establishments tend to generate more additional employment than merger & acquisitions (M&A). The practical implications of FDI proxy on the City of Los Angeles will be further discussed in later chapter.

c. The Demand Side – Evaluation of Potential Determinants

To provide clarity within the complexities, we design three steps that combine empirical research results, case study analysis and in-depth interviews to screen driving forces behind Chinese investment in US municipalities:

- **Step I: Significance Test.** We pool together the determinants identified in major research papers (Buckley et al., 2006; Coughlin et al., 1989; Kandogan et al., 2012; Zhang et al., 2011) and categorize those determinants into three types based on its level of overall statistical significance: 1) significant determinants; 2) insignificant determinants; 3) inconclusive determinants;

- **Step II: Usefulness Test.** We narrow down to significant and inconclusive determinants, and further segment them into three categories: 1) actionable
determinants, which are conventionally believed to lie in municipalities’ capacity to effect the quantity and/or quality of determinants; 2) indicative determinants, which fall outside of municipal control but are indicative of the municipal potential in FDI attraction; 3) other factors that are neither actionable or indicative and thus should not be further considered;

- **Step III: Applicability Test.** Finally through case study analysis and in-depth interviews, we further evaluate whether the actionable and indicative determinants can be applied to Chinese investment in US.

**STEP I: Significance Test**

Given the variety of determinants tested in empirical research and the variety of results reported, the first step is to gain a holistic view of the overall significance of each determinant by pooling together all the determinants identified in major research reports (Buckley et al., 2006; Coughlin et al., 1989; Kandogan et al., 2012; and Zhang et al., 2011), and by dividing them into three groups according to the level of their overall significance (See Table 1). The purpose of this step is to screen out determinants that do not demonstrate significance in any of the empirical research and thus effectively narrow down our focus to important factors.

**Group I: Significant determinants**

This group of determinants has exhibited statistical significance and no conflicting results are reported from the aforesaid research reports. By subject, these determinants compose of both macro- and micro-level factors. Indeed, both internal and external factors could affect investment decision.
On a macro level, significant determinants encompass economic, political and cultural factors, including: agglomeration, trade (exports and imports), openness to FDI, patent asset, cultural proximity, tax rates, promotional expenditures, political risk rating and China’s policy liberalization.

On a micro level, significant determinants entail revenue and cost items. Market size as captured by population size and state per capital income influences investors’ revenues and also exhibits significant effect on location choices. Likewise, cost items including transportation infrastructure, number of land sites, labor quality, wage rates and unemployment rate are significant driving forces.

**Group II: Insignificant determinants**

Rigorous regression analysis has also shed light on determinants that actually are not significant in location choices. On a macro level, factors such as natural resource endowment, regulations, inflation rate, exchange rate, and living conditions (as captured by crime rate and weather conditions) are considered insignificant.

On a micro level, the cost of energy does not have significant impact on location choices, probably depending upon the entry mode and specific industry. Income growth is the other insignificant indicator of FDI location as identified by the literature.

Since Group 2 determinants have not demonstrated significance in any of the rigorous research, they will not be further considered in following steps.

**Group III: Inconclusive determinants**

Literature has conflicting results on whether certain determinant is significant factor. Such inconclusiveness mainly results from the usage of different FDI proxies. Regulation exhibits a significant correlation with FDI stock, but not with FDI employment.
Unionization is also debated issue. While unionization rate has significant impact on FDI stock and employment, it bears no significance on the number of deals. To be conservative, inconclusive determinants will be tested to make sure that we are not missing something.

<table>
<thead>
<tr>
<th>Category by subject</th>
<th>Variable</th>
<th>Type of FDI proxy *</th>
<th>Statistical significance (Y=Yes, N=No, I=Inconclusive)</th>
<th>Overall significance (Y=Yes, N=No, I=Inconclusive)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro Economy</td>
<td>Agglomeration economies</td>
<td>1+2+4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Exports (China's exports to host country)</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Imports (China's imports from host country)</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Openness to FDI</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Patent asset</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Cultural Politics</td>
<td>Cultural proximity</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Politics</td>
<td>Tax rates</td>
<td>1+2+3+4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Promotional expenditures</td>
<td>2+4</td>
<td>Y</td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>Political risk rating</td>
<td>3</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Resource Politics</td>
<td>Natural resource endowment</td>
<td>3</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Regulations (as captured by environment protection)</td>
<td>1</td>
<td>N</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Host country inflation rate</td>
<td>3</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Exchange rate</td>
<td>3</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Living conditions</td>
<td>Crime rate</td>
<td>1+2</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Weather conditions</td>
<td>1+2</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Revenue Market size</td>
<td>Population size</td>
<td>1+2</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>State per capital income</td>
<td>1+2+4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Income growth</td>
<td>1+2</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Cost Fixed cost</td>
<td>Transportation infrastructure</td>
<td>4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Number of land sites</td>
<td>4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Variable cost Fixed cost</td>
<td>Labor quality</td>
<td>1+2</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Wage rates</td>
<td>4</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>Variable cost Fixed cost</td>
<td>Unemployment rate</td>
<td>1+2</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td></td>
<td>Cost of energy</td>
<td>4</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>Unionization rate</td>
<td>1+2</td>
<td>N</td>
<td>I</td>
</tr>
</tbody>
</table>

Source: Buckley et al., 2006; Coughlin et al., 1989; Kandogan et al., 2012; Zhang et al., 2011
STEP II. Usefulness Test

Having screening out the insignificant determinants, we focus on both significant and inconclusive determinants. Bear in mind that not every determinant is within municipal control, for example, there is little municipalities could do to change population size. The purpose of Step II is to further narrow down our focus to factors that the City of Los Angeles could do. In this step, we look at significant and inconclusive determinants specifically from the standpoint of usefulness, and segment them into three types (See Table 2).

**Type I: Actionable determinants**

Admittedly, the line between actionable or non-actionable is not 100% clear; nevertheless there is a generous consensus in terms of what the municipalities could do, especially in the short term. In this light, actionable determinants include tax rates, promotional expenditures, regulations, transportation infrastructure and number of land sites. These determinants are what we focus on in our case study analysis and in-depth interviews.

**Type II. Indicative determinants**

It is interesting that over 60% of significant and inconclusive determinants tested in literature are more indicative than actionable. The findings are in line with the purpose of major studies, which is to identify FDI indicators. Indicative determinants include exports, imports, openness to FDI, patent registrations, political risk rating, market size (as captured by population size and state per capital income), labor quality, wage rates, unemployment rate and unionization rate. These determinants can tell us how much potential the municipalities have in increasing local FDI. For example, a city with good trade
relationships with China, openness to FDI, large market size, well-educated labor and appropriate wage rate is supposed to be attractive location. We intend to use this group of determinants to find out what potential the City of Los Angeles has.

**Type III. Others**

We find only one “useless” determinant – China’s policy liberalization. There is little the City of Los Angeles could do to affect China’s policy liberalization. Also, the extent of China’s policy liberalization does not necessarily indicate more Chinese FDI in LA, although it may indicate more Chinese outward investment around the world. This determinant should not be further considered in next step.

<table>
<thead>
<tr>
<th>Category by subject</th>
<th>Variable</th>
<th>Actionable</th>
<th>Indicative</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>Macro</td>
<td>Agglomeration economies</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economy</td>
<td>Exports (China’s exports to host country)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economy</td>
<td>Imports (China’s imports from host country)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economy</td>
<td>Openness to FDI (ratio of FDI to GDP)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economy</td>
<td>Annual patent registrations</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cultural</td>
<td>Cultural proximity (captured by percentage of ethnic Chinese in total population)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Politics</td>
<td>Tax rates</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Politics</td>
<td>Promotional expenditures</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Politics</td>
<td>Political risk rating</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Politics</td>
<td>China’s policy liberalization</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Politics</td>
<td>Regulations (as captured by environment protection)</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenue</td>
<td>Population size</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>State per capital income</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost</td>
<td>Transportation infrastructure</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed cost</td>
<td>Number of land sites</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable cost</td>
<td>Labor quality</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable cost</td>
<td>Wage rates</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable cost</td>
<td>Unemployment rate</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed cost</td>
<td>Unionization rate</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Buckley et al., 2006; Coughlin et al., 1989; Kandogan et al., 2012; Zhang et al., 2011
STEP III. Applicability Test

While Step I and II focus on extrapolating data from country- and state-level research and a mix of country sources, Step III aims to verify the applicability of the actionable and indicative determinants through case study analysis and interviews with Chinese investors. Indeed some of the determinants may not be applicable to Chinese investors or municipalities. As such the goal of this step is to uncover which determinant has affected or would affect their location choice and to what extent. The findings will be further discussed in later chapter.

d. The Demand Side – Case Study Analysis and In-depth Interviews

Building on the sixteen case studies of Chinese investment in US conducted by US Chamber of Commerce, we analyze the case study results in addition to our interviews with both academicians and senior management from Chinese multinationals. The companies that we study span across a wide range of sectors from garment retailing to equipment manufacturing and in different US locations. Both greenfield and acquisition types are examined. Through analyzing case studies and interviews, we identify the most frequently mentioned factors include:

- **Market size**: refers to overall US market. It is generally perceived to be a significant driving force.

  “The United States has long been the largest general aviation market in the world, representing approximately 50% of global general aircraft sales. CAIGA’s leadership sought to secure a foothold in the United States to gain market access.” – China Aviation Industry General Aircraft Company (CAIGA).
- **Agglomeration**: refers to industry clusters which indicate the availability of potential customers, suppliers, talents and partners.

  “Ultimately, the company selected Texas because the state is a leader in the oil and gas industry and many of TPCO’s customers and markets are based near Corpus Christi.” --TPCO

- **Technology know-how**: it is perceived to be a primary motive by Chinese investors who intend to upgrade their value chain.

  “CAIGA’s leadership sought…to tap into the human resources and technical know-how that make the United States a competitive location for general aviation.” –China Aviation Industry General Aircraft Company (CAIGA).

- **Professional talents**: R&D and management talents are highly sought after by Chinese investors.

  “GCL-Poly’s plan to open a second R&D facility in Silicon Valley reflects the deep pool of technology talent available there. Even though Silicon Valley is more expensive than Washington state, the advantage of having such a deep pool of talent makes it feasible for GCLPoly to add a new center there, while maintaining the existing center in Washington state.” –GCL-Poly

  “Ultimately, Nanshan selected Lafayette because of…availability of high-quality engineering and technical resources at Purdue University and nearby community college”—Nanshan

- **Transportation infrastructure**: a primary driving force behind Chinese outward investment in US.

  “More important...was Peachtree City’s convenient access to transportation facilities: the Hartsfield-Jackson International Airport, the Port of Savannah, and three major interstates. This access to diverse air, sea, and land transportation made distribution of SANY’s products both cost efficient and convenient, fulfilling the company’s investment motive to reduce the time needed to bring products to market.” –Sany

- **Business friendliness**: refers to both information transparency and public support. Investors have also expressed concerns about political resistance, as evidenced in several Chinese acquisition failures of US companies.
“TPCO was attracted to investing in the United States because of federal and state government policies that encouraged overseas investment in the U.S. market. For example, the U.S. Department of Commerce’s SelectUSA initiative, which serves as an information clearinghouse on federal rules, regulations, and resources for overseas investors, provided TPCO with a clearer picture of the U.S. business landscape.” – TPCO

“We tried to acquire a US oil company, but failed. The main reason that we failed is because of political resistance from US – the so-called “China Threat”. We didn’t have the capacity to lobby and educate the opposition to mitigate its political concerns.”—by senior management from a major state-owned enterprise (SOE) with global presence

- **Cultural proximity**: a significant factor driving location decision.
  “Merging two corporate cultures is a challenge no matter where the respective companies are from...Since the acquisition, management of both companies has worked closely to...be sensitive and flexible to cultural differences between the companies. To help bridge cultural gaps, CAIGA has sent four of its China-based employees to Minnesota to work full time. Likewise, Cirrus personnel travel frequently to China to meet with CAIGA leadership.”—CAIGA

  “Our company...has failed bluntly in post-acquisition integration with the acquirees, which are mostly shut down now...Mainly because of cultural incompatibility – our company’s culture is not compatible with acquiree’s corporate culture. The communication between Chinese acquirer and American acquiree is challenging.”—CEO from a public-listed, multinational consumer electronic Chinese company

- **Financial incentives**, such as tax credit, matter to Chinese investors, but are not among primary drivers.

  “Tax cut and other financial incentives: They are secondary considerations for us. They are probably not much. In high profitability industry, it probably doesn’t matter whether there is tax cut or other financial incentives; but they would be primary consideration if in low profitability industry.”—by senior management from a major state-owned enterprise (SOE) with global presence

- **Regulations**: its importance varies depending on the nature of the industry. For heavily regulated industry, investors would choose locations that have more power to affect the regulations, such as Washington DC.

  “China Telecom is...headquartered in Northern Virginia, near Washington, D.C. This decision was driven by policy, business, and regulatory considerations.”—China Telecom
- **Wage rate, unemployment and unionization**: not mentioned as often as the aforesaid factors. One possible reason is that they are used by researchers as proxies for labor quality and quantity, which can be indicated by other factors, such as agglomeration and professional talents.

e. The Supply Side – Successful city examples

Historically, the task of monitoring and attracting foreign direct investments has been delegated to national or state authorities, across the globe. Even today, when every community is competing for almost any investment with other similar cities within national borders, rarely do we see the special strategy or department devoted to attracting FDI on local or regional level.

Nevertheless, economic development is ranked high on the lists of priorities for cities around the globe. New investments, one of the key vehicles of economic development, are therefore on the agenda of almost any mayor or local leader. Until recently, most of the local and subnational leadership did not pay much attention to the difference between domestic and foreign investors. Therefore, across United States we saw a number of agencies or government owned “corporations” that were focusing on economic development and new investment generation. In our research, we talked to representatives of numerous economic development departments of such kind, such as Mr. Mark Chandler, director of Office for International Trade and Commerce for the city of San Francisco, Jesus Chapa, investment specialist at the department of economic development for city of Forth Worth and Eugene Y. Shen, Senior Coordinator at International Business and Protocol Services of city of Dallas.

In our interviews, different demands and concerns of foreign and domestic investors would rapidly come up. Most of our interviews were aware that they and their staff were
often unable to provide relevant data and advice to foreign investors and that they lacked specialists at their office that could. In addition, they were all aware of the trend for having a special local department or even an agency that would be devoted to attracting and helping foreign investors. However, none of them were able to comment on possibility of opening such agency in their city in the near future.

Next in our research, we came across a number of global cities that have implemented FDI strategies with significant impact. Probably the most known and mentioned example of city that did well in attracting and keeping foreign investors is Singapore. However, as we looked deeper into cities that could be more comparable to Los Angeles and have already taken steps to deal with attracting foreign direct investments on local level, we narrowed our research to Chicago and Toronto. In particular, Chicago has only recently, in 2012, taken steps to develop a special body for attracting foreign direct investments to its metropolitan area. Toronto, however, has long-lasting investment promotion agency that provides foreign companies with a range of services. Some cities that started implementing FDI attraction strategies recently have also been successful such as Bogota, Colombia, and Frankfurt, Germany. In the United States, Chicago seems to be a pioneer in developing a specific strategy for attracting FDI, but these efforts are under way only since 2012 and it is still difficult to assess its outcome.

According to Financial Times, there is a positive relationship between establishing FDI promotion bodies and FDI growth. Cities such as Toronto or Frankfurt have experienced a significant growth after establishing their FDI promotion bodies, while


Chicago’s rate of foreign investments remained flat over the years before 2011, as we can see from the graph from Financial Times below. It will be interesting to observe if Chicago would be able to grow its FDI after establishing new mechanisms in 2012.

f. The Supply Side – Case study Chicago

Background Information

The city of Chicago and Chicago metropolitan area are in terms of economic development and population one of the most comparable areas to the city of Los Angeles and its metro area. In addition, Chicago is one of the rare large American cities that have been actively engaging in attracting foreign direct investments. According to the Chicago’s Council on Foreign Affairs Report 2012 Report Foreign Direct Investment: Globalizing Chicago’s Economic Development Plans, Chicago metropolitan area is home to over 400 major corporate headquarters. It is widely known for diversity of its commercial,
manufacturing, and agricultural businesses. However, globalization led many traditional industries outside of Chicago region.\textsuperscript{27}

The 2010 PricewaterhouseCoopers “Cities of Opportunity” study placed Chicago seventeenth on the list of twenty-one centers around the world on physical growth due to the low level of FDI\textsuperscript{28}.

According to the Chicago Council on the Global Affairs, over the past decade, Chicago area’s performance on indicators such as GDP growth, productivity, population growth, and employment has begun to lag behind other major U.S. and global cities\textsuperscript{26}.

The city of Chicago remains one of the main American cities for foreign investors, but is also becoming a pioneer in the work that its local authorities are doing to attract new investments. We believe that lessons many observation and conclusions made in Chicago could be applicable for pawing the way for similar efforts in Los Angeles.

According to the same report by Chicago Council on the Global Affairs, foreign companies represent significant contributors to the Chicago area economy, with a cumulative FDI stock of over $40 billion\textsuperscript{26}. However, competition for FDI among global cities has increased and to remain one of the cities with highest number of foreign investments globally, Chicago will inevitably have to adjust to the new world order. While the Chicago area has a number of strengths that make it an attractive for foreign companies, such as strong professional and business services, good infrastructure, high quality of life, well-developed human capital, and concentration of innovation and investors, there are nevertheless significant downsides to investing in Chicago area. The most pending and

concerning one is Chicago region’s complex government bureaucracy and lack of coordination and insufficient efforts to promote the region to investors abroad. Nevertheless, the United States as a whole, but also the state of Illinois and city of Chicago are facing a lot of fiscal uncertainties that are threatening to any serious large investor in this area. While the current deadlock in Congress and concerns over US fiscal deficit might be out of hands of local city and county leadership, creating better FDI climate in their constituencies is not. Chicago leadership realizes that and is currently undertaking steps to attract foreign investors on a large scale.

Current activities

Early last year, World Business Chicago, a public-private partnership focused on economic development, chaired by Chicago’s mayor Rahm Emanuel, released *A Plan for Economic Growth and Jobs* in which several strategies were outlined to create better business conditions for both domestic and international companies:

- Become a leading advanced manufacturing hub
- Increase attractiveness for business services and headquarters
- Become more competitive as a leading transport and logistics hub
- Foster innovation in mature and emerging sectors and support entrepreneurship
- Create an environment that allows businesses to flourish

Increasing the number and amount of FDI in the Chicago area was highlighted a key tool to accomplishing some of these goals. With that in mind, Chicago’s leadership accepted the plan of the Chicago Council on Foreign Affairs to study group on FDI to go on with.

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implementing a comprehensive FDI strategy for the Chicago. This plan explicitly asks for elected officials and government agencies, each with their own constituency to coordinate efforts and resources toward a common goal\textsuperscript{30}.

Furthermore, the accepted report asks that Chicago build the organizational capacity to coordinate FDI activities and help develop and implement a focused strategy. The study group recommended that the World Business Chicago be transformed to “one-stop shop” for foreign investment.\textsuperscript{31}

Chicago leadership has clearly recognized the importance that the FDI will have for the development of the city in the future. Good first were taken, but it remains to be seen if and how successful will this initiative be for accomplishing above listed goals.

Lessons Learned

The success of Chicago’s FDI strategy will be hard to assess for a few year. As was the case with numerous cities and states that have undertaken such efforts, the success of the FDI strategy is likely to depend on how they identify and develop clusters that can be attracted to Chicago and whose investments would benefit the city the most. Chicago has much work to do to realize the full potential, but its leaders have done well in seeing sooner the global trends of growth in key emerging markets and their desire to invest in other countries—primarily in the United States. If it is able to become the FDI attraction leader

\textsuperscript{30} Foreign Direct Investment: Globalizing Chicago’s Economic Development Plans, 2012

\textsuperscript{31} Foreign Direct Investment: Globalizing Chicago’s Economic Development Plans, 2012
among large US cities, it will certainly experience large benefits of its early policy approach.

The current plan that was adopted in 2012, reveals that a lot of research and thinking by well-known and successful business and policy leaders went in developing Chicago’s new FDI strategy. In their open-Ed for Chicago Tribune on August 11th, 2012, Michael H. Moskow, former head of the Chicago Federal Reserve Bank and William A. Osborn, former CEO and chairman of Northern Trust Corporation, who co-chaired the study group of 18 prominent local business and civic leaders on foreign direct investments in Chicago explained what they believe lead to success in attracting FDI:

What accounts for their success? ... each established a lead investment promotion agency to serve as a one-stop shop for foreign businesses, helping to connect executives with government officials and business resources. In addition, the agencies engage in rigorous research and analysis to identify the industries and international markets their city is best positioned to serve.\(^{32}\)

Interesting, the study group confirmed our finding that with US borders there are no real role model cities that have done well in attracting FDI. The authors saw that as the opportunity, as we did:

Most major U.S. cities haven't engaged in well-coordinated outreach to foreign companies and international markets. As a result, Chicago has the potential to become a North American hub for foreign investment. There's no time to waste.\(^{33}\)

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These conclusion are in line with what we found in our academic research and interviews, supporting our inclination that one coordinating, well-informed body that foreign investors can turn to, seems to be the key to any successful FDI strategy.

g. The Supply Side – Case study Toronto

Background Information

In our research, the city of Toronto came up several times as North American city that has made furthest advances on attracting foreign direct investments. Moreover, with the population of 2.6 million people in proper city and metropolitan area population of 5,583,064 people, Toronto is one of the best North American comparables to Los Angeles. Other similarities between the two cities include large immigrant population, diverse ethnical backgrounds of residents, level of economic development and relatively high living standards.

Unlike most other North American cities, Toronto has developed “Invest Toronto” - city’s corporation, in charged of presenting global business opportunities found in Toronto to the world. Invest Toronto was established by a decision of Toronto’s city council in 2008, with a clear objective to “enhance Toronto’s global economic competitiveness by attracting new business investments”34. Designed as “one stop shop” tailored for needs of foreign investors, Invest Toronto provides inbound investment services and works with both private and not-for-profit sector partners, government agencies and other organizations on attracting new investment. While there is a clear need for coordination

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among different stakeholders, Invest Toronto serves as the first stop and host agency to most new investors.

Current activities

In its daily activities, Invest Toronto seeks to convince the international investors that Toronto is the ideal destination for their companies. In the view of Renato Discenza, Invest Toronto’s President and CEO, the key goal of his organization is to persuade investors that Toronto is a stable business environment, with geographic advantages and cost effectiveness. Specifically, current services available to foreign investors to Toronto include:

- Offering a complimentary business concierge service;
- Answering all questions concerning Toronto’s investment opportunities;
- Connecting clients to qualified professional service individuals;
- Facilitating interactions with all three levels of government and with sector experts;
- Providing guidance on site location and selection;
- Providing industry and economic benchmarking analysis.35

Invest Toronto leadership, impersonated in its CEO and President Mr. Discenza, has also recently noticed the potential wave of new foreign investors that might come from India and China. Accordingly, in 2011, they refined their focus to concentrate on generating leads in Indian and Chinese markets. In both China and India, they prepared

seminars with Toronto-based corporations having international reach and ambition, enabling them to engage additional clients in relevant markets.34

Lessons Learned

Looking at the example of Toronto, we can make several relevant conclusions for Los Angeles. First, it is clear that strong political support that the agency has had for its efforts has been a significant part of Invest Toronto’s success. Every newly elected mayor of Toronto becomes a chairman of the board of Invest Toronto. Second, foreign investors like to have a one-stop shop in their initial research for investment location. Naturally, one organization cannot hold all relevant competencies need for enabling foreign investments, but it can serve as a strong information point and respected coordinating body. Third, practitioners that work on attracting foreign investments to large North American cities, such as Toronto, agree with academics that the bulk of new foreign direct investments will come from Asia and developing nations, especially from India and China. Connecting with these new investors and persuading them earlier than competition does that your city will better treat investors is likely to provide first mover advantage. As we have seen from the literature review, almost half of foreign direct investment stock to United States comes from companies that have already invested here before. Hence, cities that become destinations for new Chinese investors early on will bear the fruits of those moves in decades to come.
CONCLUSIONS

a. Overview

Over the last decades, United States has been a top destination for foreign direct investment. In the rapidly changing world, maintaining this status will require tremendous effort from different levels of government, including city governments.

California as the most populous state in the union, and Los Angeles as the largest Californian city and metropolitan area, is at the forefront of the Asian investment boom in the United States.

Currently, the Los Angeles metropolitan area attracts more Chinese deals that any other state, given its market size, geographic position, ethnic diversity, and advanced industries. California will be increasingly attractive as Chinese investors become more sophisticated, but competition from other states is intensifying at least as quickly. To maintain its position, Los Angeles will have to recruit a wide group of stakeholders to work together on long-term FDI strategy and its implementation.

Given the importance that the FDI will have on the future social and economic development, the states for the city of Los Angeles are very high. If we extracts the Los Angeles metropolitan area for the state of California and make estimates based on the Rhodium Group Report on Future of Chinese FDI in California, we could estimate that if current investor interests sustains, the metropolitan area will attract $8 billion in new Chinese investments by 2020. However, if the FDI attraction strategies are elevated to the full level that could lead to inflows of Chinese investments of $20 billion by the 2020.
We believe that creating this winning strategy will require coordination and teamwork. The Office of the major of the city of Los Angeles has the natural leadership position to trigger the foundation of this team. We believe that the private sector business leaders, investment facilitators, value chain partners, nongovernmental organizations, as well as the research and academic community need to be recruited for this effort.

b. Key insights

In crafting the winning strategy for attracting foreign direct investments to Los Angeles, it is important to highlight the following findings:

1. Major driving forces behind Chinese FDI location include market size, agglomeration, transportation infrastructure, technical know-how, abundance of professional talents and business friendliness. While these factors are proven to have significant impact on Chinese FDI location choice through our rigorous examination, most of them are indicative of the potential of a municipality in attracting investment from China, but are hardly within municipal control to change. But understanding this value proposition leads directly to the right marketing strategy.

2. We do not find strong support for the significance of factors including wage rate, unemployment rate, unionization rate and regulation. One reason is that their significance levels vary across different industries and/or different FDI proxies.

3. For Chinese investors, financial incentives matter, but are not among their primary motives, since they come to US to seek market, natural resources and strategic assets and upgrade their value chain, but not efficiency. Efficiency seekers would choose to locate in African countries rather than US.
4. Investors are seeking to grow profits, defend existing market shares, and enhance operations to combat eroding profit margins back home. They will take advantage of local government support when available, but they will not cross the border unless the market opportunity is clear. Understanding this is vital to developing a “sales pitch” and later the relationship with foreign investors.

5. Large investors, especially those in higher-value segments, are likely to come to Southern California with a need to access large, sophisticated markets. Los Angeles as the largest city of the most populous American state should position itself as the principal gateway to the rest of the U.S. market. These market opportunities could primarily apply to all of the firms currently serving the United States through the export model. But there are also massive long-term investment opportunities for institutional investors and infrastructure services firms.

6. Almost all manufacturers globally are under heavy pressure to advance their process and production methods. Los Angeles has significant high-value-added manufacturing capacities that are very attractive to the rest of the world. The Los Angeles metropolitan area with its clusters of capital, higher education, hard and soft intellectual property, and production facilities could become the place for foreign firms to learn how to manage quality-intensive manufacturing processes that will distinguish them from their competition at home and abroad.

7. Another driver of foreign investments to Los Angeles could be its talented and experienced human capital. Los Angeles metropolitan area possesses a deep endowment of engineering talents available to join with foreign ventures and, moreover, a legacy of
cultural familiarity and diversity. These precursor flows of people and deals are powerful evidence of the value proposition, which Los Angeles presents to, oversea investors.

8. Current FDI promotion lacks proactive industry focus. LA has strong comprehensive industry basis, but is not perceived so by Chinese investors. In fact, some investors that we interviewed do not know what industry clusters existing in LA. With current Chinese investment in Los Angeles, the metropolitan area should have possessed significant resources, but these resources are scattered and not integrated, not to even mention being well leveraged. Los Angeles is perceived to be a big city, but there is no clear perception of LA’s industrial focus.

9. The America affiliates of foreign companies that have already invested accounted for 55 to 80 percent of FDI over the last decade in a given year. This means that once firm establish operations and more familiar with the business environments, they are more likely to invest more in subsequent investments. A well-crafted strategy would target existing foreign businesses in the LA when looking for new sources of FDI.

10. Although many commentators claim that due to modern technologies and globalization “world is getting smaller” when it comes to foreign direct investments geography matters. As has been the case historically, New York remains the main point of entry for European companies, while Asian companies keep looking first to the West Coast. The city of Los Angeles with its access to ports and LAX has a strong advantage natural advantages that it needs to stress and exploit.
We firmly believe that academic research and experience of economic development specialists around North America demonstrate that the inflow of foreign direct investments is likely to be one of the key determinants for future economic development of any region in the United States, including the Los Angeles County. While Los Angeles is a large, well-developed, economic area, we know that it still has much potential to meet. Going forward, we believe that Los Angeles leadership should follow examples of its successful North American peers, especially Toronto and Chicago. As we saw from those case studies, there seems to be a wide consensus among experts and practitioners that “one stop shop” or similar coordinating body seems to give best results in attracting FDI for the long term.

Currently, there are several, separate and uncoordinated activities that are undertaken in parts of Los Angeles County that could be interpreted as efforts to attract foreign investors. However, much of the current system seems to be the consequence of the past decades where America, and especially California was such a desirable destination for foreign investors that there was little need for developing special strategy for attracting FDI.

Therefore, we believe this is the last moment to define a comprehensive strategy for attracting FDI across Los Angles County that should be done through a new established cross-sectorial task force, chaired by mayor of Los Angeles, as we saw in example of Toronto.

While we believe that staff at the office of the mayor of Los Angeles is best positioned to recruit and form the task force, we would like to highlight some general
concepts that could come useful in doing such tasks, and have worked before for some of our case study examples. First, the task force needs to have a strong political support. Therefore, we recommend that a number of strong political figures from the County sit on the board of the new body. This list should include, but not be limited to the mayor of largest cities in the county: Los Angeles, Long Beach, Palmdale, Glendale, Lancaster, Santa Clarita, Pasadena and Torrance.

Second, we believe that task force should recruit prominent members of business community. On the one hand, it should include businessman based in Los Angeles with strong connection in countries that are expected to be biggest source of FDI in the future. Hence, Californian businessmen who have significant investments in China, India, Brazil and other booming economies would be first on the list to be recruited. On the other hand, task force should also include foreign investors that have already invested in Los Angeles County. As elaborated above, the recommendation and positive experience of these people can serve as the best marketing tool in attracting FDI. This list should include, but not be limited to already present investors from China, Japan, India, but also other large economies.

Third, this list should include representatives of leading educational and research institutions in the County, including California Institute of Technology (Caltech), University of California- Los Angeles, and University of Southern California, as this kind of insight was very helpful in formulating the strategy for Chicago.

Finally, the task force should include representative of the non-governmental sector. Including environmental organizations, for example, could help the task force develop strategies that will not only be effective but sustainable in the long run.
The mission of the task force is to be a pioneering force in FDI promotion for the City of Los Angeles. This mission statement would allow the task force to focus on FDI promotion and diverge from existing economic initiatives in LA. “Pioneering” is also a keyword here: it not only fits well with the fact that this task force would be one of the few municipal-level FDI initiatives nationwide, but it also sets the culture of the task force.

To fulfill the mission, we believe that the objectives of the new task forces should be to: 1) serve as a one-stop shop for foreign investors, helping them identify investment opportunities across the metropolitan area and directing them to local authorities when appropriate; 2) lead FDI promotion and coordinate FDI promotion efforts across the area.

To achieve the objectives, we propose the task force should develop:

- An industry focus and targeted outreach based on Los Angeles’ competitive advantages;
- A broad coalition to align stakeholders, and momentum for the initiative; and
- Organizational capacity to coordinate outreach and better serve foreign investors.

**Recommendations for Industry Focus and Targeted Outreach**

1. As we have seen in literature and in our interviews, the most successful cities in attracting FDI do not cast a wide net but rather implement a methodical approach to identify industries whose development would bring most progress to the city. As Los Angeles administration is especially interested in Chinese investment, we believe that at least in the beginning, task force should focus on already appealing industries to Chinese. In our research, we found that Chinese investment of biggest size to Los Angeles include
software and IT services, leisure and entertainment, communications equipment and services and electronic equipment and components. These industries could be priority focus for initial promotion in China. Similar approach should be taken when determining which kind of investors to approach first in India or in Brazil.

2. In our conversations with representatives of local government in Los Angeles, we also learned that the city has strong potential in developing aerospace, cosmetics and garments sectors given its strong manufacturing base, but a further investigation of the demand side is needed before moving forward. Given that these sectors appear at the higher level of the value chain they could especially be appealing to Chinese investors who are seeking to acquire such companies and their technology.

3. Chinese government has a track record of facilitating oversea investments, as evidenced in Sany’s investment in Georgia. As part of their economic development mandate, Chinese government officials are often well connected with major companies in regions. Building strategic connections with Chinese cities that house potential investors would be an effective entry point for Los Angeles.

4. Finally, in our academic research we found that the initial screening for potential locations by investors is done through two main ways: word of mouth and research. We already addressed the importance of word of mouth by recommending that both domestic and foreign investors be significantly involved in the new task force. Los Angeles also needs to do more in increasing the chances that its name comes up in any research done by potential investors. As we saw in the case of Invest Toronto, this is one of the main tasks of promotional bodies. Therefore, for the beginning we propose that Los Angeles develops an integrated online platform as online version of its one-stop investment information to
foreign investors. We believe that Invest Toronto provides good examples of services that should be offered at such website.

**Recommendations for Coalition and Organizational Capacity Building**

1. Key stakeholders should be involved in formulating and executing FDI promotion, as elaborated in introduction to the recommendations. These include, but are not limited to local officials, business leaders, foreign investors, university research centers and non-governmental organizations in the county.

2. The effort to attract more FDI will take time and support. Therefore, it will be necessary to build support among businesses, foundations, media, and the general public for the measures and spending that will be necessary. For example, a large acquisition of American technically advanced company is likely to be received negatively unless media and public are prepared for such an event in advance. As we saw in examples of some of Chinese investors, negative publicity has paused or even stopped many FDI to US, and task force must reach out and build large coalition and organizational capacity to deal with such issues that are to be expected.

3. To get ahead of others in catching the upcoming wave of foreign investments from Asia, the City of Los Angeles should consider establishing local presence in China. The key objective of this office would be to send a strong signal that LA welcomes Chinese investments and to establish personal relationships with potential investors. In Asia cultures, personal connections and physical presence are extremely important in business decision-making and this office could help Los
Angeles address those needs of foreign investors. Looking at the example of the city of Chicago, the expenses related to establishment and maintenance of such office are justified, as they will maximize efficiency and positive return on investment.

**Recommendations for Task Force Setup**

Formation and work of the task force are perhaps most important part of institutionally attracting FDI to Los Angeles. After examining numerous North American cities, we believe that Los Angeles should follow examples of Toronto and Chicago and build the organizational capacity to coordinate FDI activities and help develop and implement industry focused strategy. In the years that are to come, Los Angeles will to be able to compete with leading global cities or its U.S. counterparts without such capacity. Specific steps and plans for developing an agency with such purpose have been widely explained in the literature available and in consultation with our client we decided to abstain from repeating those. For example, the World Bank has created an investment promotion agency handbook that offers cities a template, strategy, and priorities for how to set up their investment promotion agency that we full heartily recommend.36

We strongly believe, based on literature review and experiences of Chicago and Toronto, that initially Los Angeles should be on directing its energy and resources to developing an agency that can serve as the one-stop shop for foreign investors interested in investing in the Los Angeles County. This model has proven successful in many cases over

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the last four to five decades, from Singapore to Bogota. Therefore, we believe that it is the best way for Los Angeles to go forward in attracting more FDI to its region.

One of the first action steps of the task force should be initiating and organizing a regular conference on foreign investments in the city of Los Angeles. This would serve as an excellent opportunity to bring potential investors to the city, but also to gather input and ideas from individuals and organizations on building dynamic investment promotion. Such an event would be an excellent opportunity to demonstrate political support for more FDI, to enable contacts between local and foreign business man, but also to raise prominence of FDI and its importance among media and local community.

**Final Remarks:**

Los Angeles is a city with strong economy and world known name. Yet, on the field of attracting FDI, Los Angeles still has much work to do to be seen as a leading global destination. In our opinion, for too long has Los Angeles, and most of United States, relied on its eminent position as most desirable destination for global investors. The times have changed and city’s strategic thinking has to evolve as well. Presence or lack of FDI will significantly impact the future economic development of Los Angeles and its wider region. The success in attracting more foreign investments will certainly ask for strong leadership, vision, funding, and long-term devotion. We hope that insight and recommendations made in this report offer a good perspective on path forward.
Appendix I: Summary of In-depth Interview Response I

**Background Summary**

<table>
<thead>
<tr>
<th>Interviewee:</th>
<th>A researcher from China Center for Economic Research</th>
</tr>
</thead>
<tbody>
<tr>
<td>Date of interview:</td>
<td>Dec 26, 2012 (Wednesday)</td>
</tr>
<tr>
<td>Format of interview:</td>
<td>Phone call</td>
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<tr>
<td>Length of interview:</td>
<td>35 minutes</td>
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<tr>
<td>Recording:</td>
<td>No (but with minutes)</td>
</tr>
</tbody>
</table>

**Response Summary**

**PART I: Warming up and general questions**

My research focuses on understanding the modes and drivers of Chinese outward FDI. Among world-wide FDI destinations, United States is an important one for Chinese outward FDI.

**PART II: Size and growth rate of Chinese outward FDI (particularly in United States)**

There are two types of Chinese investors: private / public listed business and state-owned enterprise (SOE).

Nearly 70% of Chinese outward FDI is registered in offshore financial centers, including Cayman Islands, which are not the ultimate investment destination. So even though the Ministry of Commerce of China would publish data online regarding the destinations of Chinese outward FDI, the data are relatively rough.

There are two extremes in terms of choosing investment locations. On one side of the spectrum, Chinese companies in high-end manufacturing and service industries need to move up the value chain and thus need to enter the developed market, for example, US and Europe. This type of investment usually has a relatively larger investment amount. On the other end of the spectrum is the Chinese private business that faces rising cost of key inputs and thus moves to low-cost countries, such as African countries.

Three types of industries invest most in US: high-end manufacturing, service industry and resources (e.g. alternative energy). In terms of investment size, high-end manufacturing accounts for about 30% and services industry about 60%.

**PART III: Key drivers of location choice**

In entering the market, key drivers include:
- the availability of potential M&A target;
- the price of the target asset;
- political factors such as regulatory approval.

The investors would also consider factors that would influence the sustainable operations and management of the new investment, which include:
- Stable investment climate
- Good infrastructure (such as port)
- Market size
- Administration cost
- union

Financial incentives matters to cost-sensitive private business, but are not considered that important by SOEs. For SOEs, stable investment climate and market size matter a lot more

**PART IV: Suggestions to our further research**
Rhobium Group and Asia Society have done a lot of research in Chinese outward FDI in United States and you can refer to their research to find out more.
(End)

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**Appendix II: Summary of In-depth Interview Response II**

<table>
<thead>
<tr>
<th>Background Summary</th>
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</thead>
<tbody>
<tr>
<td>Interviewee:</td>
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<tr>
<td>Date of interview:</td>
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<tr>
<td>Format of interview:</td>
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<tr>
<td>Length of interview:</td>
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<tr>
<td>Recording:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Response Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PART I: Historic investment in developed market</strong></td>
</tr>
<tr>
<td>Our company has acquired several European and American companies and brands, but unfortunately has failed bluntly in post-acquisition integration with the acquirees, which are mostly shut down now. Right now in US we are only operating an R&amp;D office in Santa Clara and a joint venture with a US mobile manufacturing company.</td>
</tr>
</tbody>
</table>

| **PART II: Reasons for Failed Investment in US** |
| Mainly because of cultural incompatibility – our company’s culture is not compatible with acquiree’s corporate culture. The communication between Chinese acquirer and American acquiree is challenging. |

| **PART III: Key drivers of location choice** |
| When we consider M&A deals, we would evaluate the maturity of market, brand and distribution channels. |
| We would also want to make sure that the corporate cultures are compatible. It is probably easier to communicate if the acquiree’s management team has Chinese background. |
Right now we don’t consider Greenfield projects – it is too much and we need to take things slowly.

Tax cut and other financial incentives would be attractive to us. I don’t know how much tax cut the government could give to investors. I’ve not yet heard about financial incentives in Texas.

Unionization: Union is a concern for us, but unionization in US is much better than in Europe.

**PART IV: Perception of Los Angeles**
I’ve been to Los Angeles, but can’t recall much.

**PART V: Suggestions to Los Angeles**
Government support would be great to have, because we are actually not very familiar with the inner working of the US political system. But I think there is little the local government can do, given how strong consumer protectionism is in US.

Appendix III: Summary of In-depth Interview Response III

<table>
<thead>
<tr>
<th>Background Summary</th>
<th>Management from a major state-owned enterprise (SOE) with global presence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interviewee:</td>
<td>Management from a major state-owned enterprise (SOE) with global presence</td>
</tr>
<tr>
<td>Date of interview:</td>
<td>Jan 17, 2013 (Thursday)</td>
</tr>
<tr>
<td>Format of interview:</td>
<td>Face to face IDI</td>
</tr>
<tr>
<td>Length of interview:</td>
<td>40 minutes</td>
</tr>
<tr>
<td>Recording:</td>
<td>No (but with minutes)</td>
</tr>
</tbody>
</table>

**PART II: Failure in acquiring a US company**
We tried to acquire a US oil company, but failed. The main reason that we failed is because of political resistance from US – the so-called “China Threat”. We didn’t have the capacity to lobby and educate the opposition to mitigate its political concerns.

**PART III: Key drivers of location choice**
United States is an attractive place to enter because of the stability and transparency of its political and legal system. The market is stable and reliable with well-equipped infrastructure and facilities.

Availability of a good M&A target would be a key driver. A good M&A target would have the following characteristics:
- High return on investment
  - State-owned companies provide diversified products and services, and have higher demand on profitability than on vertical integration. For example, a state-owned oil company in China also operates in lighting manufacturing, hotel and real estate.
- Stable market
- Advanced technology
- Good for financing in the capital market
- Good for internationalization of the company

Direct investment in energy in US is not likely due to political resistance, as US is concerned about its energy security.

Industry cluster: Whether a city is an industry cluster or not is not a decisive criterion for our energy sector. We do have an office in Texas, but there is not much investment there.

Ease of living: Decision makers of our company don’t have to live in US to manage acquiree. And so it doesn’t matter whether the weather in Los Angeles is better than Boston.

Tax cut and other financial incentives: They are secondary considerations for us. They are probably not much. In high profitability industry, it probably doesn’t matter whether there is tax cut or other financial incentives; but they would be primary consideration if in low profitability industry.

Cultural familiarity: We are not worried about the cultural conflicts, because 1) our management team has international background and so we are other big SOEs; 2) we retain the original management team of the acquiree.

Unionization: Union is a concern for us. I heard in 2012 there is a union protest in California.

**PART IV: Perception of Los Angeles**
I’ve been to Los Angeles once, but not sure about FDI there. I don’t know whether LA Government welcomes foreign direct investment. What are the industries in LA? I don’t know if there is any good M&A target there.

**PART V: Suggestions to Los Angeles**
Many Chinese investors are looking for good projects to invest. LA will need to identify the good projects and promote them to targeted industries and companies.
- Promotion venue: industry forums and exhibitions
- Marketing on Chinese TV would bring positive impact to LA’s brand reputation, but the audience is probably too broad

It would be helpful if LA government could invite Chinese government officials to visit LA, because 1) Chinese officials usually bring Chinese businessmen and projects along with them; 2) media coverage of LA in China

**Appendix IV: Case Study Sample -- Sany USA Inc.**

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<thead>
<tr>
<th>Background Information:</th>
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<tbody>
<tr>
<td>Location:</td>
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<tr>
<td>Type of investment:</td>
</tr>
<tr>
<td>Type of ownership:</td>
</tr>
<tr>
<td>Jobs created in the US:</td>
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<tr>
<td>Total amount invested in US:</td>
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</table>

Sany USA Inc. is a subsidiary of Sany Group, which is Chinese multinational heavy machinery manufacturing company. In 2007, Sany decided to invest $60 million in Peachtree City, GA to build a 400,000-square-foot office and manufacturing facility in Peachtree City, Georgia. SANY, the first Chinese investment in Georgia, announced last year that it will put an additional $25 million in Peachtree City to build a research and development (R&D) center adjacent to its manufacturing facility. When complete, SANY’s $85 million investment will create an estimated 500 jobs, more than 120 of which have already been created, in Georgia.

Reasons for investing in Georgia

SANY needs to improve its R&D capabilities and to expand its footprint in the U.S. market. Although the company previously exported to the United States, SANY wanted to reduce the time needed to bring its products to customers and saw opportunities to manufacture in the U.S. market.

The state government has worked hard to make Georgia a welcoming place for Chinese investment. The Georgia government operates an economic development office in Beijing, and China is currently Georgia’s second-largest trading partner. More important, however, was Peachtree City’s convenient access to transportation facilities: the Hartsfield-Jackson International Airport, the Port of Savannah, and three major interstates. This access to diverse air, sea, and land transportation made distribution of SANY’s products both cost efficient and convenient, fulfilling the company’s investment motive to reduce the time needed to bring products to market. Additionally, SANY was attracted to Peachtree City because of the region’s access to human resources and technical expertise at nearby academic institutions. “The talent from our academic institutions ensures that SANY will have a deep supply of the skilled workers needed to stay at the forefront of innovation,” said Georgia Governor Nathan Deal.
Role of the Government and Non-Governmental Organizations

The Georgia state government has invested a considerable amount of resources into expanding its commercial relationship with China, and state authorities often lead trade delegations to China to develop new business opportunities. SANY has enjoyed a tremendous relationship with the Georgia state government, in large part thanks to the role the company has played in expanding Georgia’s relationship with China, including with SANY’s home province of Hunan. The company participated in the Hunan governor’s visit to Georgia in 2011 and engaged in other bilateral activities to support U.S.-China relations. These activities have helped SANY maintain and broaden its relationships with the state and federal government.

“SANY’s location in Georgia is the result of the state’s aggressive cultivation of a business climate attractive not only to foreign investment in general, but to Chinese companies in particular. Since SANY announced its arrival in Georgia in 2007, the company has thrived, and in fact it has announced a new R&D expansion that will create another 300 jobs in the community. SANY is a great corporate citizen in Georgia and its presence here has attracted interest in the state from quite a few other Chinese companies,” said Chris Cummiskey, commissioner, Georgia Department of Economic Development.

Source: Faces of Chinese Investment in United States, U.S. Chamber of Commerce

Appendix V: Summary of Case Studies of Chinese Investment in US

<table>
<thead>
<tr>
<th>Company Name</th>
<th>Location</th>
<th>Type of Investment</th>
<th>Type of Ownership</th>
<th>Total Amount Invested in the US (in US$)</th>
<th>Number of Jobs created in US</th>
<th>Reasons for Investing in US</th>
<th>Reasons for Choosing Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>CNOOC</td>
<td>Houston, Texas</td>
<td>Joint venture</td>
<td>State-owned</td>
<td>3.5 billion</td>
<td>U/A</td>
<td>Large market, technology, talents</td>
<td>U/A</td>
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<td></td>
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<td>stabled political environment</td>
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<td>transparent legal and tax systems</td>
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<td>rich oil and shale gas resources</td>
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<td>leading energy companies in US as</td>
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<td></td>
<td></td>
<td>potential partners</td>
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</tr>
<tr>
<td>China Telecom</td>
<td>Herndon, Virginia</td>
<td>Greenfield</td>
<td>State-owned</td>
<td>U/A</td>
<td>100</td>
<td>Market size</td>
<td>excellent network infrastructure, proximity to regulatory agencies. Aggolomoy economies</td>
</tr>
<tr>
<td>Cirrus</td>
<td>Duluth, Minnesota</td>
<td>Acquisitio n</td>
<td>State-owned</td>
<td>$100 million+</td>
<td>500+</td>
<td>Market size, human resources, technical know-how</td>
<td>Choice of location is determined by Cirrus’ existing facilities</td>
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<tr>
<td>Digital Li-Ning</td>
<td>Chicago, Illinois</td>
<td>Joint venture</td>
<td>Private</td>
<td>U/A</td>
<td>15</td>
<td>Market size</td>
<td>Clusters of Internet and social media companies, talents</td>
</tr>
<tr>
<td>Easyway Internation al</td>
<td>La Vista, Nebraska</td>
<td>Brownfield</td>
<td>Private</td>
<td>3 million</td>
<td>15</td>
<td>Large market, advanced logistics distribution management</td>
<td>Central location, transportation infrastructure, partnership with American industry leaders, $500,000 grant from the US Department</td>
</tr>
<tr>
<td>Company</td>
<td>Location</td>
<td>Type</td>
<td>Ownership</td>
<td>Total Investment</td>
<td>Jobs</td>
<td>Market Size</td>
<td>Proximate Factors</td>
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</tr>
<tr>
<td>GCL-Poly</td>
<td>Richland, Washington; San Francisco, CA</td>
<td>Greenfield</td>
<td>Private</td>
<td>U/A 40</td>
<td>Clusters (availability of human capital), welcoming and supportive attitude from federal, state and local governments</td>
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<td></td>
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<tr>
<td>Haier</td>
<td>Camden, South Carolina; New York, New York</td>
<td>Greenfield</td>
<td>State-owned</td>
<td>60 million 350+</td>
<td>Cost of land, access to skilled labor, transportation infrastructure, a number of incentives offered by South Carolina to help set up operations and build capacity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lenovo</td>
<td>Raleigh, North Carolina</td>
<td>Acquisition of IBM's PC business</td>
<td>Public</td>
<td>1.6 billion 2400</td>
<td>Market size, R&amp;D resources IBM's sales network, global management team, high-quality product and services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nanshan America</td>
<td>Lafayette, Indiana</td>
<td>Greenfield</td>
<td>Private</td>
<td>$200 million + 150</td>
<td>Technical expertise, management and top-notch industrial equipments</td>
<td></td>
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</tr>
<tr>
<td>Nexteer</td>
<td>Saginaw, Michigan</td>
<td>Acquisition</td>
<td>State-owned</td>
<td>2.2 billion 3200</td>
<td>Partnership with labor unions, the local government helped Nexteer secure a 10-year, $70 million tax credit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sany America</td>
<td>Peachtree City, Georgia</td>
<td>Greenfield</td>
<td>Private</td>
<td>$60 million + 120+</td>
<td>Market size, R&amp;D resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Suntech Power</td>
<td>San Francisco, CA; Goodyear, Arizona</td>
<td>Greenfield</td>
<td>Public</td>
<td>U/A 200</td>
<td>Industry clusters, welcoming attitude of the city government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>TPCO America</td>
<td>Gregory, Texas</td>
<td>Greenfield</td>
<td>State-owned</td>
<td>1 billion 800</td>
<td>Market size, proximity to customers Industry clusters; local government invested to improve the roads outside of TPCO America's property</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wanxiang America</td>
<td>Elgin, Illinois; Rockford, Illinois</td>
<td>Acquisition and greenfield</td>
<td>Private</td>
<td>500 million 5600</td>
<td>Market size, advanced technology, engineering talents Proximity to customers, friendly investment climate that include financing support and $4 million grant from the state government</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Worldlawn Power Equipment</td>
<td>Beatrice, Nebraska</td>
<td>Acquisitio n</td>
<td>Private</td>
<td>25 million</td>
<td>25+</td>
<td>High product price</td>
<td>Proximity to customers, central location, industry clusters (abundance of professional talents and technical expertise)</td>
</tr>
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<tr>
<td>ZTE</td>
<td>Richardson, Texas</td>
<td>Publicly traded</td>
<td>Public</td>
<td>13 billion</td>
<td>300</td>
<td>Proximity to customers, partnership with American technology companies, R&amp;D resources</td>
<td></td>
</tr>
</tbody>
</table>

Source: Faces of Chinese Investment in United States, U.S. Chamber of Commerce

References:
Kandogan Yener (2012). Regional foreign direct investment potential for the states within the US. Journal of Economics and Business 64 (2012) 306-322