Minnesota as a Global Destination for Businesses: The Importance of Foreign Direct Investment

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What is Foreign Direct Investment (FDI)?

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Definition of FDI

Foreign direct investment (FDI) occurs when a company based in one country (the home country) invests in physical productive assets in another country (the host country), and this investment gives it a controlling interest in the operation.
FDI Forms

- **Greenfield**
  - New Operation
  - Expanded Operation
  - Net expansion of employment and investment

- **Merger or Acquisition**
  - Transfer of majority ownership for foreign firm
  - Company acquires market knowledge, proprietary technology, access to networks

- **Alternative Financing**
  - EB-5 (Immigrant Investor Program)
  - Sovereign Wealth Funds

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**FDI Capital Inflows 1982-2008**

- 10% Greenfield
- 90% M&A

**Sources of Positive Changes in Employment Under Foreign Ownership Average per 1997-2007**

- 21% Greenfield
- 45% M&A
- 34% Expansion

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**How does Minnesota measure?**

- 100,000 jobs at foreign owned enterprises (FOEs)
- # of locations
- FOEs are headquartered in 50 countries
- Increased our FDI employment, but our national rank slipped
FDI in Minnesota

- German company to bring 100 mg manufacturing jobs to St. Cloud
- China to buy U.S. Plane Maker
- FDI Covers Minnesota
  - Sample from a select group of countries
  - Spread from Warroad and Roseau to Austin and from Moorhead to Winona
Why Do We Need to Act?

- Minnesota’s Lagging Indicators
  - 1/3 of the national average for FDI invested per capita
  - 1/3 of the regional average for jobs created per million residents
  - 1/3 of the regional average for amount of FDI as a portion of GDP

Why Should We Care and What are We Doing About FDI?

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FDI matters for national and regional economic development because of some outsized economic contributions:

- One in five U.S. manufacturing jobs
- Four times as many workers in advanced industries
- 19 percent of corporate R&D expenditures
- 20 percent of all U.S. goods exports
- 22 percent higher average wages
- 12 percent of U.S. productivity growth

Sources: BEA, NAFTEC, and Partnership Indiana for International Economic Development
The Minneapolis Saint Paul metro’s sources of FDI are dominated by a few large and established firms. Those firms are still among the most innovative in the world, but Minneapolis Saint Paul is challenged to translate that message to smaller and younger firms.

- Global Economic Growth Patterns
  - Increased investment in developing countries
  - Expansion of middle class outside of U.S.
- 2012 – FDI to Developing Nations > FDI to Developed Nations
- FDI to Developing Countries = 3x FDI to U.S.

- Challenges
  - State is largely unknown
  - 4 U.S. States are Globally Known
  - Our Companies are Known
  - Different Business Languages
- Competitive Advantages
  - Workforce
  - Diversity and Strength of Industries
  - More Global than Perceived
  - Location

Shifting Global Economy
Three New Trade Offices
Invest in Minnesota Funding
Foreign Direct Investment Director

TOP SHARED FDI AND EXPORT MARKETS FOR MSP/MINNESOTA

WHERE DO FDI & EXPORT MARKETS DIFFER?

TOP SHARED FDI AND EXPORT MARKETS FOR MSP/MINNESOTA

The Minneapolis Saint Paul metro has a legacy relationship with Canada, driven by the Toronto and Calgary metros.
Despite a significant cultural connection, Minneapolis Saint Paul trails behind the rest of the US in attracting FDI from Nordic countries.

MSP - Jobs in FDI, by Top 10 Foreign Parent Countries

Nordic Location Quotient (LQ) of MSP FDI, 2011
Compared to US Average of 1.0

Irland 0.9
Norway 0.9
Sweden 0.9
Denmark 1.1

GREATER MSP Office

Speak the Language!
Honor the Culture
Base in Research
Promote the Success
What Can We Do Together?

- Low Hanging Fruit
- Engagement with Existing FOEs
- Acquired Companies
- Companies Importing/Distributors
- Alert MTO
- Host Delegations
- Identifying Competitive Advantage
- Attend Events/Presence
- Talk about FDI in Your Communities
- Engage with Potential FOEs
- MTO Support

Tools for Your Community

- Business Retention and Expansion
- Salesforce Database
- Regular Meetings with Stakeholders
Events/Opportunities

- In-bound Delegations
  - Germany
  - Japan
  - Denmark
  - India
  - Israel

- Education
  - MTO
  - USCS
  - Chambers

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Thank You!

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