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# Chinese foreign direct investment in the United States: Location choice determinants and strategic implications for the State of Indiana

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**Abstract** Identifying the unique U.S. state-level factors that more often give rise to Chinese firm-led investment is the central focus of this article. Looking at Chinese investment in the United States between 2007 and 2011, this article (1) explores the determinants underlying the locational choices of Chinese firms, (2) seeks to understand why some U.S. states receive relatively greater amounts of investment from China, (3) assesses whether prior trends are likely to continue into the future; and—perhaps most importantly—(4) seeks to identify what (if anything) the state of Indiana can do to better position itself to capture greater amounts of Chinese investment moving forward. We recommend the following actions for the state of Indiana: (1) firm targeting—Indiana is a prime FDI target for private, firm-led, greenfield investment; (2) differentiation—Indiana has distinct advantages over other locations in the Midwest; (3) promotions—trade missions and overseas office locations are investments, not costs; (4) investments in relationships—cultural sensitivity and friendship make the difference.


## 1. Chinese outward foreign direct investment: Overview

Many prior studies have examined the determinants of inward foreign direct investment (FDI) with respect to China. Comparatively less, however, has been written in regard to the Chinese economy. In many ways, the trajectory of growth in terms of China's outward FDI has appeared to be highly countercyclical and opportunistic. In the period following the global economic crisis in 2008 and as recessionary conditions took hold and asset values decreased, Chinese firms seemed to be acquiring distressed firms at bargain prices on every

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continent, particularly in the technology and natural resource sectors (Rosen & Hanemann, 2009).

In the United States, some view China's rise as a threat to U.S. global economic supremacy. In general, this article disagrees with this assessment. While it is true that China's influence abroad could certainly lead to a monumental shift in the global balance of economic power, such a shift does not mean the end of U.S. economic activity; neither must it be assessed as a zero-sum contest between the United States and China. China's rise can lead to significant new investment-fueled growth in the United States. Never before has the prospect of diminished U.S. hegemony in the world simultaneously offered the prospect of such wealth.

At the state and local levels in the United States, officials tend to view Chinese investment into the United States more positively than many in Washington. This perspective has largely been shaped by the imperative of local economic development and job creation. Greenfield investments, in particular, have the potential to spur extensive economic development and create new jobs. In tough economic times, the prospect of local economic benefits may override abstract national security arguments. The recent trend of U.S. government restriction on Chinese FDI investment, however, has prompted many Chinese state-owned enterprises (SOEs) to seek other locations, such as Europe.

An influx of FDI often has far-reaching effects on a state economy, and in recent years, Indiana has been a major beneficiary of such investment activities. For example, a new Honda manufacturing facility opened in Greensburg, IN, in late 2008 and has caused a ripple effect throughout the Hoosier economy. Estimates by the Indiana Business Research Center suggest that the initial 1,000 new jobs created by the Honda plant will likely create 2,632 additional jobs across the state. These jobs will emerge in the form of ramped up hiring at auto parts factories, at retail and warehouse settings, and in the transportation industry.

However, while China's rise could lead to gains for the United States, history suggests that these gains are not likely to be spread equally among the various states. Additionally, a reliance on past methods of attracting foreign firms may not produce the same favorable outcomes in the future. The fact is Chinese firms simply do not perceive traditional incentive packages—in isolation of all other considerations—in the same way as, say, Western or Japanese multinational corporations (MNCs). Accordingly, states could very well find it advantageous to depart from the one-size-fits-all approach to economic development wherein massive outward FDI from China becomes an integral part of the new reality. Indeed, with more than 191 deals amounting to more than $8.9 billion worth of investment spanning the five years from 2007 to mid-2011, the stakes are simply too high not to have a successful China strategy in place. Identifying the unique U.S. state-level factors often giving rise to instances of Chinese firm-led investment is the central focus of this article.

Prior to the inception of the 'Open Door Policy' in 1979, there were almost no outward Chinese FDI deals (Cheng & Ma, 2007). Throughout the 1990s, China's activities abroad increased, with SOEs establishing business units abroad (albeit mainly in the Asia-Pacific region and primarily in natural resources). However, even as China began to venture overseas, very little of its investment was directed toward the lucrative consumer markets in Europe or the United States because the primary objective was to develop its export markets. The next phase of its outward FDI strategy was codified into the 'Go Global' initiative of 1999, taking up investment positions throughout the globe. China established the State Asset Supervision and Administration Committee as a vehicle devised to coordinate and oversee the growing outflow of investment by Chinese SOEs. SOEs are given special incentives, such as attractive financing packages. Furthermore, by 2002 China lifted its previous ban on private firm-led FDI (Buckley et al., 2007). This meant outward FDI would no longer remain solely the domain of the Chinese SOE; the highly entrepreneurial private sector was now invited to carry out the objectives of Go Global.

Like their Chinese SOE counterparts, private Chinese firms have been establishing a presence overseas at a staggering rate over the past five years; however, the motivators prompting outward FDI in cases of private firms differ significantly from those of Chinese SOEs. (In China, many private sector companies do have some government ownership at either the city or county level.) Unlike the largest SOEs, private enterprise seldom reaps the enormous benefits direct support from the Chinese state affords. Overseas ventures come with greater risk for private firms relative to SOEs. In effect, private firms are being pushed to establish business units closer to the end customer since this helps position the firm to reap greater profits by seeking to capture a larger portion of the value chain. For private firms, outward FDI may be viewed as a strategy to counteract the limited potential for domestic expansion; despite increasing domestic consumption, domestic competition in China is severe due to the large number of companies making a given product.

In absolute terms, China is a minor player when it comes to outward FDI. Its total worldwide outward