



# BEST PRACTICES IN EMPLOYING ALTERNATIVE INCENTIVES FOR ATTRACTING FDI TARGETS

ADAM GARRIB, JULIA KOCHNEVA,  
CHRISTOPHER VILLEGAS-CHO, CHANG ZOU

APRIL 2016

## **Acknowledgement**

We would like to acknowledge and express our sincere gratitude to Christopher Lau, Senior Advisor at the Ontario Ministry of Economic Development, Employment and Infrastructure, for his insights and expertise that proved invaluable throughout the research process.

## Table of Contents

1. Introduction.....	4
2. Immobile Resources Chasing Mobile Assets: The Case for Financial Incentives..	5
3. Site Selection Criteria.....	7
4. The Case for Alternative Incentives .....	9
5. Overview of Alternative Incentives.....	10
5.1 Business Environment.....	10
5.1.1 Foreign Trade Zones.....	10
5.1.2 Infrastructure development areas.....	11
5.1.3 Targeted Employment Areas .....	12
5.2. Awareness.....	13
5.2.1 International offices.....	13
5.2.2 Summits.....	13
5.2.3 Reverse Trade Missions .....	13
5.2.4 Direct Sales.....	14
5.2.5 Marketing Designations .....	14
5.3 Services .....	15
5.3.1 Training .....	15
5.3.2 One-Stop Shops.....	17
5.3.3 Temporary Subsidized Office/Lab Space (aka “Soft Landings”) .....	17
5.3.4 Certified Sites .....	18
5.3.5 Infrastructure Funding.....	18
5.3.6 Subsidized Professional Services .....	19
5.3.7 Layoff Prevention Programs .....	19
6. The Three Most Effective Alternative Incentives.....	20
6.1 Targeted Worker Skills Initiatives.....	20
6.1.1 Training .....	21
6.2 Targeted Infrastructure Initiatives .....	23
6.3 One-Stop Shops.....	24
7. Jurisdictional Case Studies.....	25
7.1 The State of Georgia: Open For Business .....	25
7.1.1 Georgia Overview .....	25
7.1.2 Alternative Incentives.....	26
7.1.2.1 Quick Start ® Employee Training Program .....	26
7.1.2.2 Employ Georgia.....	27
7.1.2.3 Georgia Manufacturing Extension Partnership (GaMEP).....	27
7.1.2.4 Georgia Ready for Accelerated Development (GRAD) Sites .....	28
7.1.3 Georgia Case Study #1: Kia Motors.....	28
7.1.4 Georgia Case Study #2: Mercedes-Benz in Georgia.....	29
7.1.5 Georgia Case Study #3: Baxter in Atlanta .....	30

7.2 Massachusetts: An Advanced State of Affairs .....	31
7.2.1 Alternative Incentives.....	31
7.2.1.1 The Massachusetts Office of International Trade and Investment (MOITI) .....	32
7.2.1.2 Associated Industries of Massachusetts (AIM).....	32
7.2.1.3 Massachusetts Alliance for Economic Development (MassEcon) ...	32
7.2.1.4 Gateway City Initiatives .....	33
7.2.1.5 Massachusetts Technology Collaborative (MassTech).....	33
7.2.2 Massachusetts Case Study #1: Baxter Global Biologics Innovation and R&D Center.....	33
7.2.3 Massachusetts Case Study #2: Menck Windows.....	34
7.3 Québec: Active and Aggressive .....	35
7.3.1 Key Alternative Incentives:.....	36
7.3.1.1 Québec International Recruitment Missions.....	36
7.3.1.2 Spousal Relocation.....	36
7.3.1.3 Site Visit Program.....	36
7.3.1.4 Hackathons .....	37
7.3.1.5 Investissement Québec After-Care Program .....	37
7.3.2 Québec Case Study: Morgan Stanley .....	37
7.4 North Carolina: The All Rounded Player.....	38
7.4.1 Key Alternative Incentives:.....	39
7.4.1.1 Foreign Trade Zones and Active Sub-Zone .....	39
7.4.1.2 NCworks Incumbent Workers Grant .....	39
7.4.1.3 Targeted Employment Areas (TEA) .....	40
7.4.1.4 The North Carolina Certified Sites Program .....	40
7.4.1.5 Rail Industrial Access Program.....	40
7.4.1.6 Industrial Road Access Program .....	40
7.4.2 North Carolina Case Study: Metlife Inc.....	41
8. Conclusion .....	41
Appendix A.....	43
Appendix B.....	44
Appendix C.....	45

## 1. Introduction

Over the past few decades, foreign direct investment (FDI) has become an important factor driving economic growth. According to the definition, FDI represents many forms of investment activities: “FDI is typically considered as the construction of a new facility, but it may also include installation of machinery and equipment; acquisition of a domestic firm by a foreign firm; a joint venture or other strategic alliance; or even the licensing of intellectual property”<sup>1</sup>.

Inflows of FDI help diffuse innovative knowledge and technologies throughout the economy. This process creates increased productivity, improved quality of goods and services, and overall greater competitiveness. FDI can also be a very strong source of creating and retaining meaningful employment for large segments of society. A greater pool of invested capital, along with higher job creation also leads to greater revenues for government through various means such as direct taxes paid by foreign investors and also through indirect means such as income taxes and sales taxes driven by increased consumer spending<sup>2</sup>.

However, rising to the challenge of consistently attracting FDI is no easy task. There is a heightened competition for FDI amongst governments and this is due in part to the immobile nature of communities and the increasingly mobile nature of capital. This has created an impetus to use financial as well as alternative incentives in order to induce firms to locate in one region as opposed to another. Generally speaking, foreign firms can be attracted by a particular business environment as well as the services and grants provided by the host government.

In the context of this report, Alternative Incentives are a means of providing business assistance separate from purely financial incentives<sup>3</sup>. Such incentives can include infrastructure, workforce training, or efficient permitting. But in general, an alternative incentive benefits the community at large, rather than a single company.

For example, workforce training will continue to benefit the community even if the company leaves the region. The same goes for infrastructure investments. But in-kind services, such as subsidized temporary office space, networking opportunities, expedited permitting, or immigration, can also be considered alternative incentives because they can improve the overall competitiveness of the region.

This report is comprised of an analysis of what alternative incentives have been particularly effective including four case studies on Georgia, Massachusetts, Québec and North Carolina drawing on both secondary research as well as responses from interviewees amongst professionals in private firms, academia and economic

---

<sup>1</sup> Breznitz, Shiri, et al. 2013. Best Practices in Foreign Direct Investment and Exporting Based on Regional Industry Clusters Report. *Georgia Tech Research Corporation*, p. 4.

<sup>2</sup> Inward Greenfield Foreign Direct Investment (FDI) Performance Index: <http://www.conferenceboard.ca/hcp/provincial/economy/inward-fdi.aspx>.

<sup>3</sup> More than Money: Alternative Incentives that Benefit Companies and Communities, International Economic Development Council, 2014.

development agencies. The findings of this report indicate that targeted workers skills initiatives, targeted infrastructure initiatives, and one-stop shops have been significantly effective in attracting FDI.

To be sure, the report has no intent to recommend any specific policy instrument for a particular region. It is the advice of the authors that a government wishing to implement any initiative must first take into considerations the unique characteristics of the region, including economic, social, and political factors. From there, a bespoke portfolio of Alternative Incentive can be created, taking into consideration how these initiatives will interact with the region's existing suite of policies and programs.

## 2. Immobile Resources Chasing Mobile Assets: The Case for Financial Incentives

The competition for investments has become all the fiercer in today's context, with greater accessibility to information, communication, and mobility empowering firms in negotiations to unprecedented levels. With significant tax revenues on the line, all levels of government have a vested interest in attracting companies to their respective jurisdictions. While communities, infrastructure, and shuttered factories are immobile, capital is increasingly mobile across the world, transforming what might otherwise be national negotiations into a series of bidding wars for particular investments or 'locational tournaments'<sup>4</sup>.

Yet financial incentives still rule. Our findings from interviews indicate that lower land costs, in some cases free land, has a positive influence on businesses decisions in selecting the sites. Free land, in particular, has been named by one interviewee, representing a large manufacturing firm, as one of the most effective incentives. The interviewee stated that free land, combined with another two factors, helps to "mitigate the up-front capital investment immediately". Another interviewee noted that financial incentives have been the primary concern for investing in a jurisdiction.

There is a rational explanation for this. Subsidies bring down the cost of starting up a business directly. For subnational governments, offering subsidies equals to trading direct revenue for an improved outcome of local employment and development.

But subsidies can be costly and the optics of subsidizing profitable corporations is becoming less and less palatable to the general public, no matter how imperative they may be for local officials to compete for FDI. In an increasingly globalized market where assets are much more mobile, subnational jurisdictions are pressured

---

<sup>4</sup> Thomas, Kenneth. *Investment Incentives and the Global Competition for Capital*. Palgrave Macmillan UK. 2011



to offer subsidies due to fierce competition, which could lead to an expensive subsidy package. According to an investigation by the New York Times, each year, subnational governments in the United States spend over \$80 billion, or roughly 7 percent of their total budgets, on tax breaks and subsidies to attract investments<sup>5</sup>.

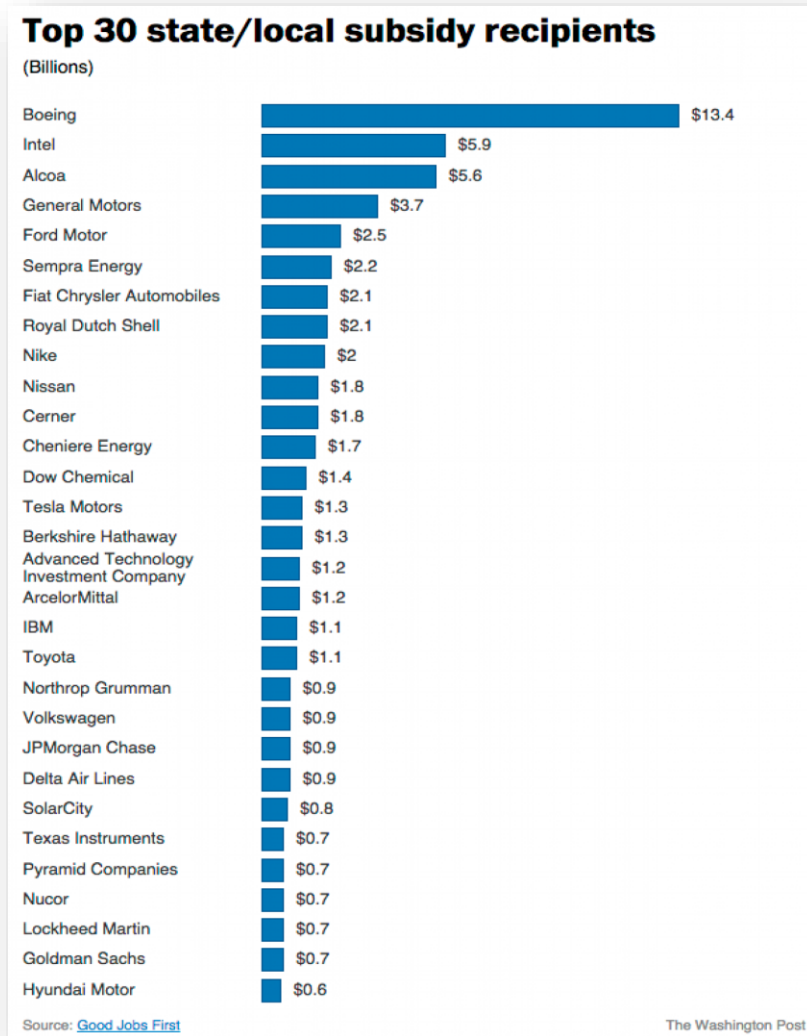


Figure 1: List of largest subsidy recipients

<sup>5</sup> How to End State Subsidies, New York Times, <http://www.nytimes.com/2014/05/10/opinion/how-to-end-state-subsidies.html>.

Alternative incentives may likely never completely replace financial incentives in the near future, especially in a decentralized economy such as the US. However, alternative incentives are increasingly forming a major piece of the incentives offered by cost-sensitive locations.

### 3. Site Selection Criteria

Section 2 explored the critical role that subsidies play in the attraction of potential FDI targets. However, subsidies form only a part of the investment attraction toolkit.

Determining the most suitable and efficient sites often depends on the key success measures present in sites' characteristics. They signal to firms the location advantages where overall performance and productivity can be easily accelerated. Hence, when screening industrial sites, the following desired attributes are commonly considered:

- **costs of doing business:** for example, labour, land, utilities
- **quick access to specialized labour and suppliers**
- **university-industry collaborations**
- **professional networks and industry associations**
- **quality of infrastructure:** access to seaports, airports, railways, highways
- **local laws and regulations including licensing and permission**
- **private-public partnerships**
- **climate and ecology**

There are fifteen major factors influencing companies' location decisions<sup>6</sup>. These metrics, shown in *Figure 2*, can be grouped into four categories: (1) market demand; (2) input cost; (3) taxes and public services; (4) agglomeration, with assigned result of effectiveness.

It is because of this holistic view of investment incentives that the topic of alternative incentives becomes important. Financial incentives mostly impact the input cost category. On the other hand, alternative incentives round out the attractiveness of a jurisdiction to a particular FDI target, by impacting such categories as infrastructure, agglomeration, and existing business activity.

The results of this current study involving primary research via phone interviews with private firms and economic development organizations (EDOs), also showed positive relation in categories that relate not only to input costs, but also to a broad ranges of the categories below. In fact, alternative incentives that impact cluster development were selected among the most effective by two interviewees.

---

<sup>6</sup> Open For Business: Strategies for Improving Ontario's Business Attractiveness. 2015. [http://www.competeprosper.ca/uploads/2015\\_WP21\\_OpenForBusiness\\_Final%282%29.pdf](http://www.competeprosper.ca/uploads/2015_WP21_OpenForBusiness_Final%282%29.pdf), p. 18.



Group	Type	Metric	Effect
Market & Demand	Existing activity	Growth of the number of establishments	Positive
	Population	Population per km <sup>2</sup>	Mixed
	Income	State income per capita	Positive
	Adjacent income	Adjacent states income per capita (distance adjusted)	Positive
Input cost	Wages	Average yearly wages	Mostly negative
	Unit labour cost	Average labour compensation divided by average productivity	Negative
	Unemployment	Unemployment rate	Mixed
	Unionization	Percentage of unionized workers	Mixed
	Energy prices	Average cost per kWh	Mixed
Taxes & Public services	Total taxes	Total taxes as a proportion of GDP	Negative
	Corporate tax	Average corporate tax rate	Mixed
	Infrastructure	Highways per km <sup>2</sup> ; average distance to international airport	Positive
	Promotion	Expenditure to attract FDI (scaled)	Positive
Agglomeration	Localization	Percentage of firms in same industry	Positive
	Localization	Percentage of firms of same nationality in same industry	Positive

Figure 2: 15 Factors Influencing Business Location Decision

Industry clusters and agglomeration strengthen the location's characteristics in the process of site selection and attracting FDI. As Michael Porter defined, "clusters are geographic concentrations of interconnected companies and institutions in a particular field"<sup>7</sup>. In order to comply with cluster definition, the region should meet the criteria of geographical proximity, concentration of industry related actors, and presence of interrelated activities such as collaborative research and commercial interactions.

Firms operating in a cluster environment benefit from reduced average costs in distribution and marketing functions, due to geographic proximity. The availability of complementary products and services offered by co-located firms increase sales and scale of production. Competition driven by internal cluster forces also lead to quality improvement benefiting consumers.

However, multinational corporations, known as *anchor* firms in a cluster framework, locate to the region not only to absorb cost advantages but also to ramp up production more efficiently by having quick access to specialized labour and suppliers network. Due to availability of resources and capacity, "established firms (anchors) may provide expertise and knowledge about specific applications, product markets, and technical development trajectories that move generic scientific innovations in a particular direction, which over time, may distinguish the

<sup>7</sup> Porter, M. 1998. Clusters and the New Economics of Competition. *Harvard Business Review*. 78.

specialization of the industrial cluster”<sup>8</sup>.

The notable examples of FDI involving *anchor* companies locating into clusters are evident in the case of Japanese *Auto Alley*, which includes Lenovo in North Carolina, Haier in South Carolina, Sany and Huawei in Georgia<sup>9</sup>. As the number of firms grows, labour mobility along with knowledge sharing and technology transfer increases. Therefore, investment in training and funding for R&D would be necessary to boost industrial sites’ attractiveness for FDI.

Site selection is a complex process, involving interactions between multiple criteria in a world of imperfect information. Complementing financial incentives with alternative incentives can be an effective way for a jurisdiction to provide a more comprehensive proposition for a firm to relocate – and STAY – in a region.

#### 4. The Case for Alternative Incentives

Interviews and research all point towards alternative incentives playing a significant role in a company’s relocation calculus. Academic insights argue both financial and alternative incentives are key to attracting international interest. Interviews supporting this insight that alternative incentives are much more than just last minute add-ons, but represent a targeted and conscious approach by forward looking EDOs. Interviewees for this report unanimously agreed that alternative incentives factored heavily in negotiations, but differed on the degree of importance.

Financial incentives were key across the board to begin the conversation, but were rarely enough to close the deal. Private firms all agreed that common tools, including tax breaks, grants, and loans were enough to pique interest in relocation, but would not, in of itself, be enough of an incentive to make relocation worthwhile. A comprehensive business case, with a particular importance placed on business environment and market potential, factor in heavily into decisions, making the roles of EDOs particular significant in highlighting and developing appropriate programs that meet these criteria. EDO respondents consistently agreed alternative incentives acted as a complement and central component to pitches, varying slightly with the views expressed by private firms. Most firms tended to place more to equal importance on financial and alternative incentives respectively, while EDOs tended to believe alternatives were definitively a decisive factor. All things being equal, both represent highly flexible tools that allow for jurisdictions to compete for foreign investments.

The broader social case for alternative incentives provides even greater support for developing two pronged approaches to FDI attraction. While sizeable cash grants

---

<sup>8</sup> Feldman, M. 2003. The Location Dynamics of the US Biotech Industry: Knowledge Externalities and the Anchor Hypothesis. *Industry and Innovation*, 10 (3): 312.

<sup>9</sup> Walcott Susan. 2014. Capitalist China Comes to the Southern United States: Localizing Foreign Direct Investment in the Caroli and Georgia. *Southeastern Geographer*, 54 (3): 299.

and loans could provide firms with the capital to spend on worker training, land acquisitions, and R&D, purely financial incentives leave much discretion to individual firms on how funds are spent. Alternative incentives ensure funds are allocated accordingly into specific programs that have the potential to have broader community-based spillovers that can occur regardless if foreign firms stay or go, ensuring that government funds are spent in a more effective manner. Similarly, process optimization in terms of immigration, visas, and regulations assist in facilitating transactions and lowering relocation friction of specific company needs while simultaneously improving the competitiveness and business environment of the jurisdiction as a whole.

Overall, alternative incentives are key to developing comprehensive FDI attraction strategies as they appropriately target the four broader criteria for site selection, filling in the gaps not addressed by a purely financial approach. The current business approach places a premium on speed and flexibility, making alternative incentives essential to allowing firms to operate as freely as possible. Lowering the barriers of entry and limiting start-up costs of relocation from the get-go allows jurisdictions to best position themselves to fully gain the benefits of a competitive and attractive FDI environment.

## 5. Overview of Alternative Incentives

Alternative incentives can be categorized into three categories:

1. **Business Environment:** these alternative incentives are not company specific, but rather they broadly help to attract potential FDI targets. Examples include free trade zones or targeted employment areas.
2. **Awareness:** these alternative incentives help raise the awareness of the jurisdiction with potential FDI targets. While not technically an “incentive”, they do represent a source of free information.
3. **Services:** these are the services that a firm would otherwise have to pay for during the setup or ongoing operation of their investment. Jurisdictions can offer these services at a subsidized rate and therefore the contribution can be thought of as an “in-kind” subsidy. Examples include infrastructure development, workforce training, networking with the local ecosystem, or subsidized office space.

### 5.1 Business Environment

There is a diverse set of instruments that can be employed to promote the business environment. A few examples can be found below.

#### 5.1.1 Foreign Trade Zones

While many policy makers are familiar with the use of Free Trade Zones in the context of emerging economies such as China (e.g. the region where Shenzhen is located) and Mexico (e.g. Maquiladoras near the U.S. border), few people know that

the U.S. has had Free Trade Zones since 1934<sup>10</sup>. Broadly speaking, these regions are areas in which goods are handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities (e.g. duty elimination/deferral/reduction, reduced paperwork, tax savings). This is a major advantage for a potential FDI target that imports many of its key components, as the input materials and components would be treated preferentially.

### ***Salt Lake City Foreign Trade Zone, Utah***

Salt Lake City's Foreign Trade Zone<sup>11</sup> is 55 acres, adjacent to the Union Pacific Intermodal Terminal and in close proximity to the city's international airport and major interstate highways. Companies that locate within this particular FTZ can:

- Defer customs duty and federal excise taxes until the goods leave the Salt Lake FTZ for US markets;
- Avoid costly supply chain delays, consolidate customs reporting and reduce fees with direct delivery and weekly entry. They may be granted permission to move the goods from the port of arrival to the Salt Lake FTZ, or just save broker fees by using the weekly entry procedure;
- Have no time constraints on storage.

### ***South Carolina Foreign Trade Zones***

South Carolina FTZs<sup>12</sup> are among the most well-managed foreign trade zones in the US. There are 3 FTZs with 32 sites in South Carolina.

Businesses that operate within the specially designated trade zones do not have to pay duty and certain fees on products they import until those products are moved, possibly months later, out of the zone and into the U.S. market. If the products, car parts for example, are moved directly from the Port of Charleston to an FTZ and then transported directly from the zone for export, no duty can be owed. The zone off I-26 (an interstate highway) primarily is a warehouse/distribution center and was among the nation's busiest for that category, ranking No. 2 for exports and No. 6 for merchandise received. The Upstate zone was ranked No. 8 in the nation for merchandise received and No. 10 for exports.

#### ***5.1.2 Infrastructure development areas***

Infrastructure development areas are specific regions established with incentives for new investment, so as to improve existing infrastructure and/or building new establishments. In locating to a jurisdiction, real estate costs are usually significant expenditures for companies. Therefore, relocating to targeted infrastructure

---

<sup>10</sup> Foreign Trade Zones, <http://www.cbp.gov/border-security/ports-entry/cargo-security/cargo-control/foreign-trade-zones/about>.

<sup>11</sup> Foreign Trade Zone, <http://business.utah.gov/international/about-international/foreign-trade-zone/>.

<sup>12</sup> Foreign Trade Zones, <http://www.scspa.com/cargo/logistics/foreign-trade-zones-ftzs/>.

development areas is a favorable condition for FDI.

### ***State Industrial Access Program, Tennessee***

This program<sup>13</sup> funds the construction of roadways to support industrial areas. In these cases, the Tennessee Department of Transportation contracts with local governments for projects and the government match the funds and pays up to 50% of the total costs.

### ***5.1.3 Targeted Employment Areas***

Targeted Employment Areas (TEA's) are state-specific zones. Each state can create alternative incentives for potential FDI targets by formulating and designating its own areas. Furthermore, policymakers can link several policy instruments to attract investment to help revitalize the area. Criteria for creating TEA's could include high unemployment.

Potential FDI targets often come in the form of immigrant investors. However, the qualification criteria for visas are oftentimes very high. For example, The EB5 Visa is available to immigrants seeking to enter the United States in order to invest in a new commercial enterprise that will benefit the US economy and create at least 10 full-time jobs and invest at least \$1 million. There are 2 ways to invest under EB 5 category:

- creating a new commercial enterprise or
- investing in a troubled business

Both of these are valuable FDI activities for a jurisdiction. Certain states have alternative incentives to attract this kind of potential FDI target, including focusing in the target on a designated Targeted Employment Area (TEA), in which the minimum investment requirement can be reduced to \$500,000.

### ***Oregon's Targeted Employment Area***

Oregon's Targeted Employment Area program links with its worker skills program. Business Oregon is the designated authority within the state of Oregon to certify geographic areas or political subdivisions that qualify as high unemployment areas, which, along with rural areas, are recognized as Targeted Employment Areas (TEA) in the EB-5 program.

Currently, there are 9 regional centers that are approved to manage EB-5 applications<sup>14</sup>.

---

<sup>13</sup> State Industrial Access Program, <https://www.tn.gov/tdot/topic/state-industrial-access-program>.

<sup>14</sup> EB-5, <http://www.oregon4biz.com/Global-Connections/EB-5/>.

## 5.2. Awareness

The following is a non-exhaustive list of instruments that regions use to raise the awareness of their jurisdiction with potential FDI targets.

### 5.2.1 International offices

International offices promote investment environment abroad. Having a continuing presence in a foreign market can be more expensive than any ad hoc promotions. However, many jurisdictions choose to do so because of the value that investors place on the face-to-face encounters. South Carolina, for instance, opened its first international office in 2005 and was the only sub-national jurisdiction to receive this recognition<sup>15</sup>.

### 5.2.2 Summits

Hosting sector-specific summits can be an effective way to attract potential investors, as well as showcase the broader ecosystem in the region. While not technically an “incentive”, it is a way to provide free information to aid in the site selection process.

#### ***Washington State Annual Biomedical Device Summits***

This event invites leaders of medical device community to explore the state of the industry, review trends and innovations, and discuss the opportunities and challenges facing Washington State<sup>16</sup>.

### 5.2.3 Reverse Trade Missions

Reverse trade missions bring foreign companies to the home country to observe foreign subsidiaries as well as indigenous products and services. Reverse trade missions can connect the potential FDI targets, government, industry, and foreign companies.

#### ***Nebraska Reverse Trade Missions***

The Nebraska Department of Economic Development has been a leading actor in planning reverse trade missions<sup>17</sup>. In 2008 the staff travelled to several countries to raise awareness about the reverse trade missions and shared information about local infrastructure, cost of living and the quality of life. In one particular mission, 114 foreign firms have participated. Nebraska uses match-making mechanisms to attract businesses, while paying for all of their expenses, except for airfare.

---

<sup>15</sup> Foreign Investment in South Carolina - Highlighting China. 2015. [http://scommerce.com/sites/default/files/document\\_directory/foreign\\_investment\\_in\\_south\\_carolina\\_highlighting\\_china\\_february\\_2015\\_0.pdf](http://scommerce.com/sites/default/files/document_directory/foreign_investment_in_south_carolina_highlighting_china_february_2015_0.pdf).

<sup>16</sup> Washington State Biomedical Device Summit, <http://seattle.eventful.com/events/2016-washington-state-biomedical-device-summit-/E0-001-089020484-2>.

<sup>17</sup> Reverse Trade Mission, <http://www.neded.org/business/international-trade-and-investment/reverse-trade-mission>.



At the end of each event, one-on-one business meetings were set up with local business persons representing opportunities for exporting, reverse investment, joint ventures, and licensing

### **5.2.4 Direct Sales**

Direct sales involve high ranking government officials promoting and selling products directly to foreign businesses.

As an example, the Lieutenant Governor of Wisconsin, Rebecca Kleefisch, called an Illinois-based tech firm, pitching them on the benefits of relocating to her state. The timing was opportunistic as she was taking advantage of upcoming legislative changes taking place in Illinois<sup>18</sup>.

New Brunswick, Canada, has another enlightening example. Former Premier Frank McKenna has been known for his salesmanship. By cold calling corporate executives, his efforts have brought in companies such as Purolator Courier Ltd., Federal Express Canada Ltd. and CP Express & Transport into New Brunswick<sup>19</sup>.

### **5.2.5 Marketing Designations**

Jurisdictions like to boast that they are “The Most...” “The Lowest Cost...” “The Best...” in some particular attribute. Having a 3<sup>rd</sup> party bestow the honour upon the jurisdiction can be one way to increase the credibility of the claim.

#### ***Wisconsin is a Water Hub***

In 2009, Milwaukee was designated a UN Global Compact City<sup>20</sup>, recognized internationally for its freshwater expertise. “Water Hub” brought together companies and engineers for research and education, and some of the large international companies (e.g. Nestle, Fiat) have located in the region

#### ***South Carolina is the preferred U.S. location for Chinese businesses***

In 2007, the Chinese government signed a MOU with South Carolina designating the state as the “preferred U.S. location for Chinese businesses”<sup>21</sup>. The South Carolina Department of Commerce established a state office in Shanghai, China in 2005. The office was recognized at the 2007 “Chinese Enterprises Going Global” National Contribution Award Appraisal event for its assistance in helping Chinese companies invest abroad. South Carolina was the only state and the only regional organization

---

<sup>18</sup> Office of the Lt. Governor, <http://ltgov.wi.gov/lt-gov-office/about-lt-governor>.

<sup>19</sup> Frank Joseph McKenna, <http://www.thecanadianencyclopedia.ca/en/article/frank-joseph-mckenna/>.

<sup>20</sup> Global Compact Cities Programme, Milwaukee, <http://citiesprogramme.com/cities/americas/usa/milwaukee>.

<sup>21</sup> Foreign Investment in South Carolina - Highlighting China, [http://sccommerce.com/sites/default/files/document\\_directory/foreign\\_investment\\_in\\_south\\_carolina\\_highlighting\\_china\\_february\\_2015\\_0.pdf](http://sccommerce.com/sites/default/files/document_directory/foreign_investment_in_south_carolina_highlighting_china_february_2015_0.pdf).

to win the award. This strategy has been effective in garnering interest from Chinese investments.

### ***Utah is Pro-Business***

Utah has been active in promoting its image as a pro-business jurisdiction. Receiving awards certainly bolsters the credibility of this claim.

Forbes Magazine ranked Utah the “Best State for Business” in the U.S. The Pollina Corporate Top 10 Pro-Business States for 2012 ranked Utah #1, The Pew Center, an America think tank, praised Utah for its “sound government” and emphasis on “long-term results.”

## **5.3 Services**

The following section describes potential services that a firm would otherwise have to pay for during the setup or ongoing operation of their investment. Jurisdictions can offer these services at a subsidized rate and therefore the contribution can be thought of as an “in-kind” subsidy.

### ***5.3.1 Training***

As explored in Section 3, the quality of the workforce is one of the most important FDI decision criteria. Training the workforce is one way to get there. Section 6 outlines some of the reasons why training programs can be some of the most effective alternative incentive programs. For example, potential FDI targets could be offered worker skills programs providing training and retraining to local workforce; therefore creating a win-win situation for increasing employment and attracting investment.

### ***South Carolina’s “Apprenticeship Carolina”***

This program helps workforce continue to grow by both providing skills training for workers and by guiding companies through the registered apprenticeship process. Results to date include 14,503 apprentices served, 773 apprenticeship programs, and 6,471 total active apprentices<sup>22</sup>.

This program provides on the job training along with job-related educational instruction in order to give employees a full understanding of their job. These apprenticeships are standardized so that employers can help build a structured, consistent training program that ensures reliable workforce performance. This results in reduced worker turnover, and increased productivity.

---

<sup>22</sup> Apprenticeship Carolina SC Technical College System. <http://www.apprenticeshipcarolina.com/>.

### ***ReadySC***

ReadySC is a division of the South Carolina Technical College System<sup>23</sup>. It works closely with companies to provide the recruiting and training assistance they need to get up and running. This includes recruitment solutions, curriculum development and training, access to instructors, training site, and project management assistance.

ReadySC provides hands on simulations of employee working environment, computer based training, virtual recreations of work processes, hand-held video delivery options, one-on-one training and mentoring, and classroom training.

To qualify, projected jobs must be permanent, pay represents competitive wage for the area, benefit package must include health insurance, number of jobs created must be sufficient to allow readySC to provide training in a cost effective manner.

### ***Louisiana's FastStart Program***

*This program was developed by Louisiana Economic Development.* It has been named the top workforce training program in the United States, providing free customized employee recruitment, screening, training development, and training delivery for new or expanding businesses - no application required.

Eligible projects include advanced/traditional manufacturing, digital media, headquarters/business operations, R&D, and warehouse and distribution. The program must create a net of 15 new permanent or 50 permanent jobs in other industries<sup>24</sup>.

### ***Tennessee's Fast Track Job Training Assistance Program***

The Tennessee Department of Economic and Community Development manages the Fast Track Job Training Assistance Program. This program provides reimbursements to assist companies with training expenses and the development of customized training plans. Reimbursements can cover: classroom instruction, certain travel expenses, system support applications, and instructor for on-the-job training<sup>25</sup>.

### ***Tennessee's Department of Labor and Workforce Development (TDOL)***

In Tennessee, the Department of Labor and Workforce Development assists with the recruiting process of companies with no charge. The vast majority of applicant recruitment and screening are managed through the 62 Tennessee Career Centers located throughout the state<sup>26</sup>.

---

<sup>23</sup> Ready SC, <http://www.readysc.org/>.

<sup>24</sup> Opportunity Louisiana, Faststart. <http://www.opportunitylouisiana.com/faststart>.

<sup>25</sup> Incentives and Grants, Tennessee Economic Development, <http://www.tnecd.com/advantages/incentives-grants/>.

<sup>26</sup> Workforce, Department of Labor and Workforce Development. <https://www.tn.gov/workforce/>.

They also have a computer-based job applicant database that filters through a pool of over 70,000 potential employees based on the job criteria set forth by the hiring company.

### **5.3.2 One-Stop Shops**

One-stop shops refers to the physical and/or virtual spaces where multiple services for businesses are offered in a streamlined manner to make the process of relating easier for target firms.

Potential FDI targets benefit from a “one-throat-to-choke” approach, which is an especially valuable alternative incentive when it comes to regulations and permitting.

#### ***Business Resource Centers (BRCs), Utah***

Established by the Governor’s Office of Economic Development at Utah, these resource centres are one-stop resource centers providing coordination of business support, education, tracking of clients, access to sources of funding, training, technical expertise, talent, and networking for new and existing businesses<sup>27</sup>.

They also help to connect federal, state, county, city, academic, private and any other business service providers.

Business Resource Centers are required to secure matching funds for this effort from other sources. Matching funds are typically in the form of cash or in-kind (facilities, services, personnel, etc.).

#### **Oregon Business Xpress**

Oregon Business Xpress is a “One Stop Shop for Business” project led by the Office of the Secretary of State<sup>28</sup>. This office enables collaborations with Oregon agencies including Secretary of State, Employment Department, Business Oregon, Department of Consumer and Business Services, Bureau of Labor and Industries, Department of Revenue, Department of Administrative Services, Department of Agriculture, and Department of Transportation.

It also provides information regarding: registrations, permits & licenses, employments, taxes, financing, and relocation & expansion.

### **5.3.3 Temporary Subsidized Office/Lab Space (aka “Soft Landings”)**

Offering temporary and subsidized office space can help a potential FDI target to achieve a more seamless transition to a new location. It also de-risks the relocation

---

<sup>27</sup> Business Resource Centers, Utah Governor's Office of Economic Development, <http://business.utah.gov/start/brc/>.

<sup>28</sup> Oregon Business Express, <http://www.oregon.gov/business/Pages/about.aspx>.

of a potential FDI target as they can relocate faster and scale up as needed.

#### **TechTown's International Soft Landing Program in Detroit**

The program helps smooth the way for international companies doing business in Michigan. Wayne State University, University of Detroit Mercy, University of Windsor and Tecnológico de Monterrey in Mexico are all collaborating on the program.

They will provide research laboratories, engineering resources and interns for international businesses that focus on technology, the automotive industry, life sciences and alternative energy. The program will also offer office space, telecommunications equipment, staff (such as a full-time receptionist) and even housing<sup>29</sup>.

#### **5.3.4 Certified Sites**

Instruments such as expedited permitting and fast-track programs are becoming a necessary part of the economic developer's toolkits. Communities are now taking that one step further through certified sites, which may have fulfilled many of the development requirements, ranging from soil testing to the installation of necessary infrastructure and utilities.

Offering Certified Sites to a potential FDI target is a way to streamline the relocation process and reduce the uncertainty around getting a particular site ready for operation.

#### ***The SURE Sites database, Utah***

SURE stands for Select Utah Real Estate. Provided by EDCUtah (Economic Development Corporation of Utah), the SURE Sites database is a GIS (Geographic Information System) for site selection decisions<sup>30</sup>.

#### ***Oregon Prospector***

Business Oregon created a Geographic Information System (GIS) that captures data from different sites, buildings, businesses, and communities. By incorporating information on demographic data, consumer expenses, labour force, and infrastructure on the same map, it provides direct and straightforward assistance for site selection<sup>31</sup>.

#### **5.3.5 Infrastructure Funding**

These programs aim to provide financial assistance for infrastructure improvements to ensure firms have the required infrastructure they need to

---

<sup>29</sup> Tech Town, <http://techtowndetroit.org>.

<sup>30</sup> Sure Sites, <http://utahsuresites.com>.

<sup>31</sup> Business Oregon, <http://www.oregonprospector.com/>.

operate competitively.

### ***South Carolina's Economic Development Set-Aside Program***

This program assists companies in locating or expanding in South Carolina through road or site improvements and other costs related to business location or expansion. Overseen by the Coordinating Council for Economic Development, it is the Council's primary business development tool for assisting local governments with road, water/sewer infrastructure, or site improvements related to business location or expansion<sup>32</sup>.

### ***Florida's Rural Infrastructure Fund (RIF)***

This fund facilitates the planning, preparing, and financing of traditional economic development or nature-based tourism infrastructure projects that encourage job creation and capital investment in rural communities. The Department of Economic Opportunity (DEO) may award up to 40 percent of total costs for "catalyst site projects", and no more than 30 percent of total costs for projects in rural counties that are not located on designated catalyst sites<sup>33</sup>.

### ***5.3.6 Subsidized Professional Services***

As the name implies, professional services, such as legal, financial, or real estate, can be offered to a potential FDI target at a subsidized or reduced rate.

### ***Northeast Ohio Global Rapid Response Team***

Through Northeast Ohio Trade and Economy (NEOTEC), foreign companies can utilize the services of the Northeast Ohio Global Rapid Response Team—a group of professional volunteers in the areas of international banking and finance, international law, immigration, workforce, education, logistics and relocation support. The team is available to help foreign companies with their expansion into Northeast Ohio. Additionally, the Global Trade Group offers export counseling resources to help foreign companies increase sales through exports. For in-depth assistance, the Global Trade Group provides "executive in residence" and one-on-one training services to accelerate entry into new international markets<sup>34</sup>.

### ***5.3.7 Layoff Prevention Programs***

Retaining jobs in subsidiaries during economic downturns can be a difficult task for an economic developer. Certain jurisdictions have implemented layoff prevention

---

<sup>32</sup> Discretionary Incentives, South Carolina Department of Commerce, <http://sccommerce.com/sc-advantage/growth-incentives/discretionary-incentives>.

<sup>33</sup> Rural Infrastructure Fund, Florida Department of Economic Opportunity, HYPERLINK "http://www.floridajobs.org/business-growth-and-partnerships/rural-and-economic-development-initiative/rural-areas-of-opportunity/rural-infrastructure-fund" <http://www.floridajobs.org/business-growth-and-partnerships/rural-and-economic-development-initiative/rural-areas-of-opportunity/rural-infrastructure-fund>.

<sup>34</sup> Offering Many Distinct Advantages and Opportunities for your Company, Neotech, [http://www.neotec.org/assets/attachments/file/InternationalBrochure\\_web.pdf](http://www.neotec.org/assets/attachments/file/InternationalBrochure_web.pdf).



programs that allow government to share in the risk of preventing short-term layoffs.

***Ohio's Short-Time Compensation layoff prevention program***

Ohio received a \$3.7M grant from the labour department to implement and promote its Short-Time Compensation (STC) layoff prevention program. This program allows employers to reduce work hours for a group of employees as an alternative to layoffs during tough economic times. STC workers affected by reduced hours have their lowered wages supplemented by a percentage of the weekly unemployment compensation. This can be a win-win program in that employees keep their jobs and employers maintain their skilled workforce, and avoid having to hire and train new workers once economic conditions get better<sup>35</sup>.

## **6. The Three Most Effective Alternative Incentives**

To evaluate the efficacy and determine which alternative incentives could be the most effective, the team conducted eight interviews including a mix of multinational firms and economic development organizations (EDOs). The interviewees were asked to select the three most effective alternative incentives on the scale of 1 to 3, where one is the most important.

The results were consistent with academic scholarship on the subject, concluding that alternative incentives that addressed three areas were the most effective. Specifically, those three areas are:

- 1) worker skills
- 2) infrastructure, and
- 3) navigating the landscape

The following section describes the findings of the team's analysis on these three incentives.

### **6.1 Targeted Worker Skills Initiatives**

Using incentives that target workers skills was consistently ranked as an effective alternative incentive. For several interviewees, it was named as the most effective alternative incentive that a jurisdiction could offer to entice a firm to locate into a specific location.

The reason for this is that skilled workers are one of the most important factors that drive productivity and quality in a location. Many studies conclude that work-

---

<sup>35</sup> Ohio Awarded 37 Million Short-time Compensations Program, American City and County, <http://americancityandcounty.com/economic-development/ohio-awarded-37-million-short-time-compensation-program>.

related training is associated with significantly higher productivity<sup>36</sup>. Chapter 3 also demonstrated that labour productivity is one of the key criteria when firms select a location for their firm.

Broadly speaking, there are three ways that a location can grow its access to skilled workers. The first is by training its existing workforce, the second is by targeted immigration of skilled workers, and the third is by opening up outsourcing and offshoring options. This section will focus on the first two options.

### 6.1.1 Training

As we have seen in Section 7, several governments have been providing training grants for employees in the form of reimbursements. But certain states, such as Georgia, go even further by helping to set up training facilities at the plant's location (e.g. see Kia Motors example in Section 7.1.3).

While *depth* of skills is important, training programs that increase the *breadth* of skills is also an important element for potential employers. One of the interviewees emphasized the importance of having a *flexible* workforce and in particular, one that is capable of moving from one part of a production to another. As industrial automation continues to play an increasingly large role in manufacturing, and in particular in developed countries which compete for investments with emerging market economies like Mexico, Eastern Europe, and China, having a workforce that can operate and maintain these advanced machinery can improve the operational uptime of the production and allow higher labour cost jurisdiction to compete with labour intensive jurisdictions.

Furthermore, while having an educated workforce ready from the get-go continues to be highly attractive for firms with specialized workforce needs, *ongoing programs* even after the operation is fully functional to retrain and re-purpose skilled workers company can sustain a particular site's competitive advantage and provide the flexible workforce to continue to compete for global mandates.

### 6.1.2 Targeted Immigration

Several interviewees noted indicated that flexible immigration policies are an effective alternative incentives for potential FDI targets, because they assist firms in fulfilling worker needs, especially in the short-run, and especially for positions requiring experience, including supervisory roles.

For example, expedited worker permit programs for targeted skillsets were highlighted as a potentially attractive alternative incentive, as they enable

---

<sup>36</sup> Dearden, Lorraine, et al. 2006. The Impact of Training on Productivity and Wages: Evidence from British Panel Data, Oxford Bulletin of Economics and Statistics, 68 (4), <http://onlinelibrary.wiley.com/doi/10.1111/j.1468-0084.2006.00170.x/abstract;jsessionid=7B2E4907515CF8D742930C22D4205B42.f04t03?userIsAuthenticated=false&deniedAccessCustomisedMessage=>.

companies to reduce the risk in operational hiccups at the critical initial setup stage. On the other hand, jurisdictions with lengthy and drawn out visa processes add paper burden and uncertainty, adding a risk that the company will not “hit the ground running”.

A comprehensive suite of training and immigration alternative incentives that address the labour market needs of a particular company could potentially be an effective way to mitigate the wage differential when a high cost jurisdiction competes with a lower cost one, especially a lower cost one offering direct subsidies. The cost of these particular programs is largely administrative depending on whether the program is conducted by a third-party, or done in house. It is the opinion of the authors that labour mobility between firms could potentially generate positive spillover effects of the training to the rest of the community. The available evidence on this subject regarding spillover, however, is subject to wide margins of uncertainty<sup>37</sup>.

Certain jurisdictions, such as Québec, will go even a step further, and will help introduce companies to between 150 and 200 qualified foreign workers, to meet their skill needs, negotiating preferential rates with private foreign recruitment agencies on the behalf of companies, and customized consulting options for international recruitment<sup>38</sup>.

From a risk perspective, both worker training and immigration initiatives come with their own challenges. In terms of *worker training*, quality training requires sufficient thought and oversight in curriculum development to bring about appropriate results, however much of this can be mitigated through appropriate partnerships with educational institutions on the ground. EDOs facilitating such partnerships highlight both the quality and potential of workforces in their regions.

The underlying risk for *expedited immigration programs* lies in the reduction of employment opportunities within a certain jurisdiction, should foreign firms become overly dependent on bringing their talent from abroad. While understandably a concern, the spillovers from having international work cultures operate domestically combined with cultural linkages make a strong case for facilitating top tiered international talent expedited visas. Restricting such programs to senior positions prevents broader abuse and ensures sufficient positions are available for local workers.

---

<sup>37</sup> Blundell, Richard, et al. 1999. Human Capital Investment: The Returns from Education and Training to the Individual, the Firm and the Economy, *Fiscal Studies*, 20 (1): 18, <http://onlinelibrary.wiley.com/doi/10.1111/j.1475-5890.1999.tb00001.x/pdf>.

<sup>38</sup> Québec International helps your company recruit talent from all over the world, Québec International, <http://www.quebecinternational.ca/business-services/attracting-qualified-foreign-workers/the-service/>.

## 6.2 Targeted Infrastructure Initiatives

Incentive that improve infrastructure for the targeted firm was mentioned by several interviewees as an effective alternative incentive. Whether allowing access to highways, seaports or airports, or simply providing certainty around the widening of a highway, jurisdictions are providing incentives to their targeted companies in the form of infrastructure.

Studies have shown that infrastructure is one of the major factors influencing business location decisions (see section 3) and in fact, one of the manufacturing firms that was interviewed indicated that having access to the local cluster (which requires efficient local infrastructure to access it) would be the most effective alternative incentive.

There are several reasons why infrastructure is important in site location decisions. First, infrastructure can link proximate clusters as well as grow existing clusters, enabling companies to optimize costs by providing efficient logistics. Secondly, it provides access to specialized labour due to geographical proximity. Thirdly, adequate infrastructure can reduce the target's transportation and logistics costs, and increase the flexibility and responsiveness to the target's customers.

On the other hand, delays in infrastructure projects, or uncertainty around availability can have a negative impact on the perceived riskiness of a jurisdiction.

As highlighted in Chapter 5, several jurisdictions, such as Tennessee, are offering fast-track infrastructure projects to specific targets in order to address the importance of infrastructure in site location decisions. Other jurisdictions offer infrastructure grants. For example, in Massachusetts, the state agency MassDevelopment offered tax-exempt bond to a manufacturing company to renovate a vacant site. For more information on the MassDevelopment infrastructure initiative, please refer to case 2 of the Massachusetts Jurisdictional Study.

Many states offer infrastructure grants. As an example, when New York attracted AMD in 2003 (the rival to Intel), it offered several hundred million dollars in infrastructure improvements to win the investment valued at \$3.2B.

Infrastructure is expensive. However, what governments could find attractive about infrastructure initiatives is that while they are initially geared towards the specific needs of a target firm, if the firm exits the jurisdiction, the infrastructure remains, and continues to generate value for the community in the future.

Several examples of projects being abandoned have been provided in Chapter 7. One of them was the case of Georgia and how Mercedes changed plans of building a \$750 million assembly line for the production of Sprinters, despite offered incentives

worth as much as \$320 million.

### 6.3 One-Stop Shops

As mentioned in Chapter 5, one-stop shops are alternative incentives that provide a centralized location and concierge-type services to a targeted firm, such as information, regulatory clarity, or direct access to permitting departments. Several interviewees listed having one-stop shops under the soft-landing category as an example of an effective alternative incentive.

There are several reasons why they are attractive. First, one-stop shops de-risk the target firm's initial setup and/or relocation efforts. There is often an excess of paper burden to establish a new operation even without the dedicated support, so having direct lines to critical path elements (e.g. acquiring regulatory clarity and understanding permitting requirements) would be an attractive incentive for any target firm.

Furthermore, by centralizing contact to one site and one agency, it streamlines the process by ensuring all relevant information is channeled through one source. Several interviewees indicated previous experiences in jurisdictions that were sidetracked by a lack of coordination among government agencies.

The one-stop shop could help the target firm navigate the bureaucracy in order to acquire clarity on regulations. Where appropriate, more streamlined regulations could be proposed via a one-stop shop.

The concept of One-Stop Shop was invented in the 1980s to deal with administrative barriers and build a more navigable environment for potential investors<sup>39</sup>. In the World Bank report on the effectiveness of One-Stop Shops, researchers studied the world's three well-known One-Stop Shops: the Economic Development Board (EDB) of Singapore, the Malaysian Industrial Development Authority (MIDA) and the Industrial Development Authority (IDA) of Ireland. The study found that these three agencies provide almost all the approvals and clearances through direct interaction with a small number of staff from separate authorities. It has been concluded that the key to guarantee an effective one-stop shop is not an all-inclusive mandate, but direct recognition and *support from the highest political authorities*<sup>40</sup>. Respectively, one of our interviewees from the industry corroborated the story saying they prefer dealing directly with the government than with private sector alliances.

On the topic of using one-stop-shops to accommodate regulatory demands from potential FDI targets, while interviewees ranked overly burdensome regulation as a

---

<sup>39</sup> Sader, Frank. Undated, Do One-Stop Shops Work? *The World Bank Group*, <https://www.wbginvestmentclimate.org/uploads/Do+One+Stop+Shops+Work.pdf>.

<sup>40</sup> *Ibid.*

decisive factor to relocation decisions, scholarship on this subject, however, contradicts this particular finding. Generally, empirical papers have failed to find any effect on industrial location of weaker or stricter environmental regulations<sup>41</sup>. Nor is there any substantial evidence to support that a race-to-the-bottom exists between jurisdictions trying to deregulate in order to support FDI<sup>42</sup>. However, regulations often have unintended consequences and redundant paper burden, and on these topics, a one-stop shop could play a key role to a target.

From a cost-benefit perspective, as this represents a combination of organizational structure and compelling web presences, the cost of implementing such an initiative is relatively low compared with infrastructure.

On the other hand, one-stop shop can be abused by the companies as a way to get lax regulations compared with competitors. There is also a risk of hiring unqualified people. It is important to have a point of contact with knowledge of specialized programs, who is able to communicate directly with decision makers and has the existing informal network within the government.

## 7. Jurisdictional Case Studies

### 7.1 The State of Georgia: Open For Business

#### 7.1.1 Georgia Overview

For the last three consecutive years, Site Selection Magazine ranked the state of Georgia #1 in the category of business climate rankings. Academic literature and case studies corroborate that target businesses are attracted to Georgia due to its abundance of specialized talent, its advanced infrastructure and its relatively lower costs of doing business.

Georgia is a diversified, but manufacturing-focused, jurisdiction with manufacturing companies representing more than 52% of the new jobs created since 2010<sup>43</sup>. They are particularly strong in industries such as Aerospace and Defense, Automotive, Information Technology, Agribusiness and Food Processing, Energy and Environment, and Life Sciences.

Part of Georgia's value proposition is in its competitive wage rates. For example, in auto-related production jobs, Georgia has the *lowest* average pay per hour among Southern states at \$13.43/hour. Arkansas (\$13.69/hour) and Tennessee (\$13.82/hour) are a close second and third, while the US national average is

---

<sup>41</sup> For example, refer to Xing, Kolstad (2002). Do Lax Environmental Regulations Attract Foreign Investment? *Environmental and Resource Economics*.

<sup>42</sup> Drezner, Daniel. 2006. The Race to the Bottom Hypothesis: *An Empirical and Theoretical Review*. [Danieldrezner.com/policy/RTBreview.doc](http://Danieldrezner.com/policy/RTBreview.doc).

<sup>43</sup> Georgia Power. September 2015. Georgia Overview Report.



\$14.74/hour<sup>44</sup>.

Infrastructure is another part of Georgia's competitive position. Georgia has an International Airport in Atlanta, two seaports in Savannah and New Brunswick, a railroad, as well as an extensive interstate highway system<sup>45</sup>. As a recent proof-point, Mercedes-Benz's decision to relocate its U.S. headquarters from New Jersey to Georgia was in part due to the fact that the Atlanta airport has the most daily flights to company's home country, Germany<sup>46</sup>.

But when it comes to financial incentives, Georgia's state government, in collaboration with regional economic development organizations, generously offers a significant number of financial incentives to lure both national and foreign target companies to the region. These include lower tax rates, generous tax credits, tax exemptions, combined with grants and loans via specialized programs.

Historically, Georgia has been no stranger to providing large subsidies to win deals. In 2012 and 2013, they provided large subsidies to Baxter (\$211M), Engineered Floors (\$106M), and Caterpillar (\$78M)<sup>47</sup>. That said, the data shows that no large subsidies have been provided in the past two years, which may indicate either a lack of successful deal closings or a change in policy direction.

### **7.1.2 Alternative Incentives**

As discussed above, the data shows that Georgia has been providing fewer and fewer large subsidies since 2013. However, their use of alternative incentives continues. Below are a few of their notable programs.

#### **7.1.2.1 Quick Start<sup>®</sup> Employee Training Program**

Georgia can offer target companies access to their Quick Start Employee Training Program, which delivers technical and professional training assistance. Over the past 14 years, Quick Start has been ranked the Number 1 workforce training program in the U.S. in all published surveys of site selection professionals<sup>48</sup>. Part of the Technical College System of Georgia, it provides free assistance to foreign businesses to find, assess, select and train the right people by partnering with local colleges and private sector.

---

<sup>44</sup> EMSI, 3rd Q, 2013, Union Membership and Data Earnings Book, 2012, cited in Georgia Power. 2014. Automotive Manufacturing, p. 13.

<sup>45</sup> Infrastructure Georgia, <http://www.georgia.org/competitive-advantages/infrastructure/>.

<sup>46</sup> Georgia Globe Design News, <https://wdanielanderson.wordpress.com/2015/01/06/newest-atl-headquarters-mercedes-benz-usa/>.

<sup>47</sup> Good Jobs First Megadeals Tracker <http://www.goodjobsfirst.org/megadeals>.

<sup>48</sup> Georgia Quick Start, <http://www.georgia.org/competitive-advantages/training-hiring/quick-start/>.

For example, in 2014, Quick Start and Athens Technical College partnered with Hitachi to do customized training for precision measurement and manufacturing processes. Furthermore, they created an internship program for students as well as created training to prepare a core team of Hitachi employees to travel to Japan to study the new technology being implemented at a facility overseas. It is very likely that the program played an important role in the decision for the company to do a \$80 million expansion that will more than double the size of the facility and create 250 new jobs<sup>49</sup>.

Quick Start offers training in diverse industries such as Biotech/Healthcare, Warehousing/Distribution, Automotive, Advanced Manufacturing, Food/Agribusiness, Services. The study areas often include assembling intricate aircraft components, growing bacteria to produce vaccines, manufacturing a wide array of plastic and metal products, processing foods from cookies to sports drinks<sup>50</sup>.

### 7.1.2.2 Employ Georgia

Georgia's Department of Labour can work with target firms to play an active role in assisting businesses with recruitment services by posting jobs, collecting and screening applications on their behalf<sup>51</sup>. The Department of Labor provides a recruiting public database, *Employ Georgia*<sup>52</sup>, for both employees and target businesses, and offers personalized assistance through Employer Request for Contact Form<sup>53</sup> for employers only.

As a target firm is recruiting, they can be offered regional career centers, which offer temporary office space for employers to conduct interviews with access to necessary equipment such as computers and fax machines<sup>54</sup>.

### 7.1.2.3 Georgia Manufacturing Extension Partnership (GaMEP)

Target FDI firms will shortlist a location based on the quality and cost of local services offered. High quality services impacts a branch plant's bottom line. Enter The Georgia Manufacturing Extension Partnership (GaMEP), which actually belongs to Georgia Tech University. The organization offers services geared specifically for manufacturers, including quality management training, ISO standards coaching, and energy management assessments<sup>55</sup>.

---

<sup>49</sup> Hitachi Wins Georgia Manufacturing Award, <http://onlineathens.com/business/2014-04-19/hitachi-wins-georgia-manufacturing-award>.

<sup>50</sup> Quick Start, <http://www.georgiaquickstart.org/index.php?cid=home>.

<sup>51</sup> Services Offered by the GDOL, <https://dol.georgia.gov/services-offered-gdol>.

<sup>52</sup> Employ Georgia, <http://employgeorgia.com>.

<sup>53</sup> Employer Email Form, <https://dol.georgia.gov/employer-email-us-form>.

<sup>54</sup> Georgia Department of Labor, Workforce Solutions for Businesses, <http://putnamdevelopmentauthority.com/wp-content/uploads/2015/02/GDOL-workforce-solutions-for-businesses-2014.pdf>.

<sup>55</sup> GAMEP Services, <http://gamep.org/services/>.

In addition, with nine regional offices across the state, GaMEP can connect target FDI firms with state resources such as universities, startups, and government procurement support.

As an example, Yamaha Company, a manufacturer of vehicles (e.g. golf carts, ATV's) in Newnan, Georgia, worked with GaMEP staff to implement a streamlined OHSAS 18001-safety management system, in which they leveraged the expertise of Georgia Tech/GaMEP staff to streamline the procedure, ensuring only one set of documentation and one reporting structure for the yearly internal compliance audits<sup>56</sup>. Through its interaction with GaMEP, Yamaha has increased production capacity, and improved labour utilization, resulting in 292 seconds of time savings per cycle, a 61 percent risk reduction, and a total cost savings of \$87,000 per year.

### **7.1.2.4 Georgia Ready for Accelerated Development (GRAD) Sites**

The Georgia Ready for Accelerated Development (GRAD) sites program prepares available areas for accelerated industrial development through advance due diligence. To qualify for GRAD status, the sites must have been submitted by a local community or economic development organization to the Allies and reviewed by a third party. Categories of due diligence and review include minimum acreage (50), ownership security, zoning designation, road and rail accessibility, utility services, and wetlands and stream delineation<sup>57</sup>.

### **7.1.3 Georgia Case Study #1: Kia Motors**

In 2006, Kia was looking to build a new auto plant and Georgia's West Point (population 3,400) was intent on securing the deal<sup>58</sup>.

Georgia is considered the "Epicenter" of the Southeastern Automotive Corridor, and many firms locate to the region due to the established cluster/networks, such as access to suppliers, and availability of specialized labour. There are 9 assembly plants in the Southeastern Automotive cluster: BMW, Elio Motors, General Motors, Honda, Hyundai, Mercedes-Benz, Nissan, Toyota Volkswagen, and Kia. The latter is located in the West Point, Georgia.

The West Point's Kia initiative was led by the collaborative efforts of multiple actors including the development authorities of West Point and LaGrange, representatives of both Troup and Harris counties, the LaGrange-Troup County Chamber of

---

<sup>56</sup> Recreational Vehicle Manufacturer Implements OHSAS 18001 and Integrates into Existing Management Systems, <http://gamep.org/5952/recreational-vehicle-manufacturer-implements-ohsas-18001-and-integrates-into-existing-management-systems/>.

<sup>57</sup> Available Industrial Sites – GRAD Sites, <http://www.georgia.org/business-resources/available-industrial-grad-sites/>.

<sup>58</sup> How Kia Came to Georgia, <http://www.georgiatrend.com/August-2009/How-KIA-Came-To-Georgia/>.

Commerce, the Greater Columbus, GA Chamber of Commerce (GCCC); the bistate (GA-AL), Valley Partnership Joint Development Authority (VPJDA), Georgia Department of Economic Development and other local economic development organizations.

Interestingly, the State of Alabama as well as Hyundai played a role in the deal too (Hyundai being the ultimate parent company of Kia, as well as having their own facility in Georgia).<sup>59</sup> This is sometimes described as “Collaborative Regionalism”.

The City of Montgomery in Alabama, located 80 miles from West Point, had landed a large Hyundai investment in 2002, and the team provided technical assistance and guidance in supporting Kia, along with its suppliers and their families, into Georgia. The Montgomery team consisted of representatives from the State of Alabama Development Office, the Montgomery Area Chamber of Commerce (MACC), Montgomery County, Montgomery city, and the Economic Development Partnership of Alabama (EDPA).<sup>60</sup> The Valley Partnership Joint Development Authority (VPJDA) helped recruit suppliers to the region.

While it was reported that the State of Georgia offered \$259M in incentives<sup>61</sup>, one must remember that alternative incentives represented a significant portion of the deal including:

- \$5.7 M in Quick Start training fund
- \$14.5 M in the construction and staffing of a 70,000-square-foot centre, which provides customized free of charge training for Kia plant employees<sup>62</sup>
- \$65 M in transportation improvements (not including the U.S. DOT’s 20% share, which amounted to another \$16 million);
- \$25 M to upgrade water and sewer services;
- \$83 M for the acquisition and preparation of 3,300 acres near I-85 for Kia and its suppliers;

In total, the entire federal, state, and local package was valued at \$410 M, which consisted of both traditional incentives (e.g. job tax credits, property tax abatements ) as well as alternative incentives (see above).

#### **7.1.4 Georgia Case Study #2: Mercedes-Benz in Georgia**

The history of Mercedes in Atlanta has many ups and downs.

---

<sup>59</sup> Jacobs, A. J. 2012. Collaborative Regionalism and Foreign Direct Investment: The Case of the Southeast Automotive Core and the “New Domestic”. *Economic Development Quarterly*, 26 (3): 211.

<sup>60</sup> Jacobs, A. J. 2012. Collaborative Regionalism and Foreign Direct Investment: The Case of the Southeast Automotive Core and the “New Domestic”. *Economic Development Quarterly*, 26 (3): 210.

<sup>61</sup> Good Jobs First subsidy database, accessed Apr. 1 2016.

<sup>62</sup> Kia Build its Future with the State of Georgia, [http://www.georgia.org/wp-content/uploads/2013/09/Case\\_Study\\_Kia\\_11.2010.pdf](http://www.georgia.org/wp-content/uploads/2013/09/Case_Study_Kia_11.2010.pdf).

In summer of 2003 Mercedes cancelled the building of a planned \$750 million plant for the assembly of Sprinter vans in Savannah, despite the state incentives worth \$320 million. The plant had been scheduled to produce over 100,000 commercial vehicles starting in 2005. According to Mercedes, weak economic prospects and internal financial concerns at that time were the main reasons for making the decision<sup>63</sup>.

Alternative incentives, such as \$60 million in site improvements, were provided, but as with alternative incentives, these funds did not leave with the company. Instead, the site improvements made the site more attractive to potential targets and in 2015, it was reported that at least two auto companies and several large non-auto firms have shown interest in this exact site<sup>64</sup>.

In 2015, Mercedes-Benz made the announcement that it will relocate its head office from New Jersey to Atlanta. The state of Georgia offered \$23 million in incentives, although the majority of these are financial (e.g. tax credits). Nevertheless, Steve Cannon, a president of Mercedes-Benz USA, said incentives played a small role in determining the finalist cities including Atlanta, Dallas, Raleigh, N.C., and Charlotte, N.C. In addition to financial benefits, factors such as lower wages and land costs also helped to make company's final decision.<sup>65 66</sup>

### 7.1.5 Georgia Case Study #3: Baxter in Atlanta

In 2012, it was announced that Atlanta landed a new pharmaceutical manufacturing plant, including 1,500 jobs. While the reported value of incentives was north of \$200M, consisting of traditional financial incentives such as sales tax exemptions (\$29M), personal and property tax abatements (\$94M), and jobs tax credits (\$5M), many of them could be categorized as "alternative incentives".

For example, Quick Start will operate the (fifty two thousand) 52,000-square-foot-facility, which will support employee training for the American pharmaceutical company, Baxter. The company will also participate in the developing of curriculum

---

<sup>63</sup> Maurer, G. "Mercedes may revive plan for Sprinter plant in Georgia." *Automotive News* 10 May 2004: 4. *Academic OneFile*. Web. 20 Mar. 2016.

<sup>64</sup> Daimler AG reportedly eyes Pooler megasite for Sprinter van plant, <http://savannahnow.com/news/2015-01-16/daimler-ag-reportedly-eyes-pooler-megasite-sprinter-van-plant#>.

<sup>65</sup> Georgia Offered Mercedes 23 Million in Incentives to Move to Atlanta, <http://www.wsj.com/articles/georgia-offered-mercedes-23-million-in-incentives-to-move-to-atlanta-1421103205>.

<sup>66</sup> Mercedes-Benz is latest to leave NJ, moving from Montvale to Atlanta, <http://www.northjersey.com/news/business/mercedes-usa-leaving-montvale-for-atlanta-1.1186781?page=all>.

for the Technical College System of Georgia. The total value of this Quick Start program is estimated at \$10.4 million<sup>67</sup>.

Alternative incentives provided to Baxter:

- \$14 million for a training facility;
- \$13.8 million infrastructure grant;
- \$10.4 million in Quick Start job training funds;
- \$5.9 million grant for a new wastewater treatment plant;
- \$1.47 million in job training funds from Georgia Works Ready;
- \$150,000 from the Georgia Department of Labor for a recruitment center;
- \$100,000 for road improvements.

## 7.2 Massachusetts: An Advanced State of Affairs

Located in the New England region, Massachusetts serves as a commercial and cultural hub in the Northeast. It is the birthplace of the American Revolution and the Industrial Revolution in the United States. Massachusetts has several prosperous industrial clusters: clean energy, creative economy, defense technology, financial services, information technology, manufacturing, and marine sciences. Home to internationally renowned education institutions including MIT and Harvard, Massachusetts is a leader in innovation and a first-tier destination for investment from government and industry.

Interviewees mentioned that Massachusetts is a state with the perception of not likely providing direct incentives. Data corroborates this claim. The last large subsidy that was provided in the State was in 2011. The governments provided \$72 million to Vertex Pharmaceuticals, however, \$50M of it was actually an alternative incentive – specifically targeted to infrastructure improvements<sup>68</sup>.

### 7.2.1 Alternative Incentives

The region is fairly advanced in their use of alternative incentives to attract FDI. These include:

- **One-stop shop:** The Massachusetts Office of International Trade and Investment (MOITI) serves as a facilitator for international businesses looking to invest or locate in Massachusetts.
- **Subsidized professional services:** the Associated Industries of Massachusetts (AIM) is a membership group that offers HR and management counselling and services to local companies.
- **Site selection:** Massachusetts Alliance for Economic Development (MassEcon) is a private sector alliance that helps incoming investors with site selection process.

---

<sup>67</sup> United States of America/State of Georgia: Incentives for a pharmaceutical plant, <http://www.globaltradealert.org/measure/united-states-america-state-georgia-incentives-pharmaceutical-plant>.

<sup>68</sup> Good Jobs First subsidy tracker, <http://www.goodjobsfirst.org/subsidy-tracker>.



**Subsidized Networking Servicess:** private firms in Massachusetts form strong ties across the sectors. Massachusetts Technology Collaborative (MassTech) is an example of one such organization.

#### **7.2.1.1 The Massachusetts Office of International Trade and Investment (MOITI)**

The Massachusetts Office of International Trade and Investment (MOITI) is a four-person one-stop shop that offers potential FDI targets a single point of contact. In addition, MOITI fosters partnership among international businesses, non-profit organizations, and research institutions. It also leverages diplomatic contacts to develop strategic partnerships through the Consular Corp in Massachusetts, a group of diplomatic and commercial representatives from approximately 60 countries<sup>69</sup>.

#### **7.2.1.2 Associated Industries of Massachusetts (AIM)**

Potential FDI targets can benefit from Associated Industries of Massachusetts (AIM). AIM is a nonprofit, membership organization in Massachusetts. At AIM Human Resources Center, their HR team helps companies in need of HR services on a part-time basis. There are three types of HR services available at AIM<sup>70</sup>:

- On-Site HR Services are designed to provide companies big or small with interim/part-time HR support.
- There are also various kinds of specialized HR services with a reasonable fee in areas such as compensation, recruitment, reference checking, etc.
- AIM HR Center has set up a hotline offering business owners professional advice on human resource, legal, and management issues.

#### **7.2.1.3 Massachusetts Alliance for Economic Development (MassEcon)**

In many jurisdictions, it is government and government partners that attract businesses. In Massachusetts, the government's FDI attraction efforts rely largely on a private firm alliance called MassEcon in providing site selection services. In offering site selection services, MassEcon usually provides general information to foreign investors and, when feasible, directs them to its members for specific services (e.g. engineering, legal etc.).

Massachusetts Alliance for Economic Development (MassEcon) is a private sector alliance in partnership with MOITI to provide site selection services for incoming businesses<sup>71</sup>. The alliance will help a potential FDI target through site selection services such as:

1. expert assisted property search
2. applying for co-working spaces

---

<sup>69</sup> Investing in Massachusetts, Housing and Economic Development.

<http://www.mass.gov/hed/economic/eohed/moiti/investing/>.

<sup>70</sup> Human Resources Center, Aim 100 Years. <http://www.aimnet.org/human-resources-center/>.

<sup>71</sup> Location Services, Mass Econ. <http://massecon.com/services/location-services/>.

3. accessing the ReadyMass 100, a Geographic Information System with certified property listings for immediate use or development.

Members of the alliance include service providers for engineering, finance, legal, real estate, utilities and training.

#### **7.2.1.4 Gateway City Initiatives**

While Massachusetts appears to be fairly hands off when it comes to FDI, focusing more on its overall business environment rather than individual FDI deals, there are specific initiatives tied to what they refer to as “Gateway Cities”<sup>72</sup>.

Gateway cities are regions facing economic challenges. More specifically, they are those with median household income below the state average, and a rate of educational attainment of a bachelor’s degree or above that is below the state average.

Massachusetts could directly support inward FDI targets if they choose these locations through initiatives such as:

- Customized technical assistance
- Government equity investments in properties with the potential to spur development.
- Access to collaborative workspaces, which are offices in which several companies work in open floor plans to encourage casual interactions.

#### **7.2.1.5 Massachusetts Technology Collaborative (MassTech)**

Potential FDI targets looking to network within the Massachusetts could leverage Massachusetts Technology Collaborative<sup>73</sup> (MassTech), which is a public agency that facilitates innovation, entrepreneurship and growth in the technology sector.

#### **7.2.2 Massachusetts Case Study #1: Baxter Global Biologics Innovation and R&D Center**

The interesting aspect of this investment win is the role that the local private sector played in site selection services.

In 2013, in order to research potential sites for its client Baxter, Deloitte Chicago reached out to MassEcon, the private sector alliance facilitating site selection in Massachusetts. Soon afterwards, MassEcon invited MassBio, the life sciences industrial association, into the project. MassBio provided the Deloitte team with

---

<sup>72</sup> Gateway Cities, Mass Development. <http://www.massdevelopment.com/what-we-offer/key-initiatives/gateway-cities/#tdi>.

<sup>73</sup> Massachusetts Technology Collaborative. <http://masstech.org/>.

industry overview, tour, and meetings with industry representatives.

Transwestern, a real estate brokerage firm and member of MassEcon, offered site tours in Cambridge and Boston for the Deloitte and Baxter team. As the project gradually picked up momentum, MassEcon and MassBio received further support from state agencies, nonprofit organizations, and private sectors. Transwestern ended up representing the Deloitte&Baxter team in the site negotiation.

Finally, in September 2014, Baxter announces its decision to locate a Global Biologics Innovation and Research and Development Center with 400 employees in Cambridge, Massachusetts. This Center now has become a separate company named Baxalta<sup>74</sup>.

### **7.2.3 Massachusetts Case Study #2: Menck Windows**

The interesting aspect of this particular case is that it showcases an example where traditional incentives worked when alternative incentives failed.

Menck Windows is a German company specializing in producing energy-efficient windows and doors. Originally, it was planning to open its first factory in Vermont, but it ended up relocating to Chicopee, Massachusetts.

Attracted by the tradition of woodworking and the availability of wood supply, Menck USA was going to open a 75-employee factory in Vermont in 2013<sup>75</sup>. It also planned to tap into benefits offered by the EB-5 Immigrant Investor program. The EB-5 immigrant investor program is an alternative incentive offered only to certain regional centers. The program is targeted at foreign entrepreneurs.

However, the deal was called off in September, 2013<sup>76</sup> by the site manager due to a design change that made the company unfit for the EB-5 job creation standards – in particular the program required that for each \$500,000 invested, the applicant must create 10 American jobs, directly or indirectly. The company decided to relocate to Chicopee, Massachusetts.

In Massachusetts, the Mayor of Chicopee, Michael D. Bissonnette, decided to apply for the local real estate property tax exemption named STA (Special Tax Assessment) and ended up being allowed to apply an incentive worth \$250,000. (It

---

<sup>74</sup> Baxter Case Study, Massachusetts Economic Development. <http://massecon.com/wp-content/uploads/Baxter-Case-Study1.pdf>.

<sup>75</sup> Stenger Introduces Chief Executives for two EB-5 Projects, <http://jaypeakresort.com/eb5-visa/in-the-news/stenger-introduces-chief-executives-for-two-eb-5-projects>.

<sup>76</sup> Stenger Cancels Deal for Menck Windows Plant, <http://vtdigger.org/2013/09/13/stenger-cancels-deal-for-menck-windows-plant/>.

technically goes to the property owner but is then passed onto Menck)<sup>77 78</sup>.

Another state agency, MassDevelopment, also offered incentives. It issued a \$5 million tax-exempt bond on behalf of Menck USA. The bond was used to purchase manufacturing equipment and renovate roughly half a 150,000-square-foot Chicopee building that was vacant since 2008.

### 7.3 Québec: Active and Aggressive

Québec is a large and advanced jurisdiction, with a GDP representing ~19% of the GDP of Canada<sup>79</sup>. They specialize in advanced industries such as Aerospace, Finance, Transportation, Information Technology, Optics and Photonics, Biotechnology, and Hydroelectricity.

*Investissement Québec* is their primary economic development agency and financing corporation. This organization plays an influential role in the attraction and retention of FDI investments, providing information, visits, financing, strategic alliances, and ongoing custom-tailored support. They operate out of 12 offices around the world including 5 in North America (Atlanta, Chicago, LA, Montreal, New York), 3 in Europe (Munich, Paris, Stockholm), and 4 in Asia (Beijing, Mumbai, Seoul, Tokyo). While the organization has some independence from the Québec government, the government still appoints the members of its board of directors<sup>80</sup>.

Québec is fairly generous in their use of non-discretionary financial incentives. For example, Québec's *R&D tax credits* provide sizeable financial incentives to firms interested in pursuing R&D functions. That said, the province appears to be moving in a new direction as of 2015 as it has proceeded to reduce all R&D tax credit rates by 20%<sup>81</sup>.

Québec also offers an *investment tax credit* covering up to 32% of the cost of newly purchased manufacturing. This top rate is provided for investments made in certain regions, such as remote resource regions, the eastern portion of the Bas-Saint-

---

<sup>77</sup>Chicopee finalizing deal with Menck windows to open a manufacturing operation, [http://www.masslive.com/news/index.ssf/2013/10/chicopee\\_finalizing\\_deal\\_with.html](http://www.masslive.com/news/index.ssf/2013/10/chicopee_finalizing_deal_with.html).

<sup>78</sup> Menck Windows Opening New Manufacturing Facility In Chicopee, MA, <http://businessfacilities.com/2015/05/menck-windows-opening-new-manufacturing-facility-in-chicopee-ma/>.

<sup>79</sup> Gross domestic product, expenditure-based, by province and territory, Statistics Canada. <http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/econ15-eng.htm>.

<sup>80</sup>An Act Respecting Investment Québec, [http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=/I\\_16\\_0\\_1/I16\\_0\\_1\\_A.html](http://www2.publicationsduquebec.gouv.qc.ca/dynamicSearch/telecharge.php?type=2&file=/I_16_0_1/I16_0_1_A.html).

<sup>81</sup> SR&ED Tax clip: Provincial and territorial R&D tax credits - 2014, PWC. <http://www.pwc.com/ca/en/services/tax/publications/corporate-tax/sred/2014-provincial-territorial-r-d-tax-credits.html>.

Laurent administrative region, or certain prescribed intermediate zone<sup>82</sup>.

The Québec government also provides employee tax credits of up to \$20,000 per employee, depending on industry. This has been particularly effective in attracting technology and R&D firms.

### **7.3.1 Key Alternative Incentives:**

The team's research has also uncovered that Québec complements its suite of financial incentives with several alternative incentives.

#### **7.3.1.1 Québec International Recruitment Missions**

Sometimes the requisite talent for potential FDI targets cannot be found in Québec. Québec city, however, has developed an interesting alternative incentive to neutralize this. Québec International's services could help introduce companies to between 150 and 200 qualified foreign workers, to meet their skill needs, negotiating preferential rates with private foreign recruitment agencies on the behalf of companies, and customized consulting options for international recruitment<sup>83</sup>. After that, *Québec First*, another organization based in Québec and supported by the government, can support in the attracting of this talent, helping out in areas such as permits and visas. Unlike many other subnational jurisdictions, Québec's Ministry of Immigration, Diversity, and Inclusion of Québec oversees the selection of immigrants and supports their integration<sup>84</sup>.

#### **7.3.1.2 Spousal Relocation**

All international branches provide support services for the spouses of specialized foreign workers, including sessions on providing assistance for the life style change, career development workshops to facilitate employment transitions, and cultural integration<sup>85</sup>.

#### **7.3.1.3 Site Visit Program**

Québec facilitates and arranges site visits for companies interested in investing in Québec free of charge as an added service. These include targeting area in the Greater Montreal Area and rural Québec.

---

<sup>82</sup> Fiscal QC 2015, Invest Québec.

[https://www.investquebec.com/documents/qc/publications/FiscaliteQC\\_2015\\_an.pdf](https://www.investquebec.com/documents/qc/publications/FiscaliteQC_2015_an.pdf).

<sup>83</sup> Attracting Qualified Foreign Workers, Québec International.

<http://www.quebecinternational.ca/business-services/attracting-qualified-foreign-workers/the-service/>.

<sup>84</sup> Permits and Visas, Québec First. <http://www.quebecfirst.com/en/permits-and-visas/>.

<sup>85</sup> Support Services for Spouses, Montreal International, <http://www.montrealinternational.com/en/strategic-talents/workers/support-service-for-spouses/>.

#### **7.3.1.4 Hackathons**

Potential FDI targets often need to assess the skills of the local workforce. While recruiting agencies have a role to play, companies oftentimes wish to assess the skills available in the region on their own. However, the process of going through a large number individual interviews is not only an unfeasible one because the uncertainty in relocation, but also an expensive one.

Hackathons are competitions where a challenge is declared, and in a time-limited contest, programmers compete for the best solution. In at least one documented example in Québec, a company used a hackathon as a means to assess the programming capacity of a region.

#### **7.3.1.5 Investissement Québec After-Care Program**

Potential FDI targets want reassurance that Québec has an established process for client after-care, and that if they relocate to Québec, they will continue to be serviced beyond the initial investment. Once settled in, Investissement Québec can give the potential FDI target forward guidance on potential policy, regulatory, and taxation changes, facilitates local linkages and partnerships, and identifies potential expansion opportunities.

#### **7.3.2 Québec Case Study: Morgan Stanley**

Beginning in talks as early as 2004, Morgan Stanley's Technology and Engineering Centre relocated to Montreal in 2008 and has employed more than 500 individuals in the area, agreeing to invest \$200 million into the site.

As the firm's only tech center in Canada, the company's decision was based on the skills in the local market, market size, costs, local incentives, university programs, and number of graduates, with the quality of graduates being tested and compared to other jurisdictions through hackathon events at the local university.

Québec also has the advantage of claiming high employee retention rates versus competitive jurisdictions. Finally, proximity to New York, the company's main hub appeared to be an underlying factor in selecting Montreal.

Employee tax credits played a major role in the site selection. Assuming an employee tax credit of \$20,000 per employee, which is the rate as a technology project, and the eventual hiring of 500 individuals, the tax credit could be worth up \$10 million per year when the facility is fully operational. The total combined tax credits (employment and R&D) may have exceeded \$60 million over 6 years.

True to their word on after care support, Investissement Québec has maintained a particularly close relationship with the client by providing the firm with after care support via a dedicated contact, helping to facilitate networking opportunities,



meetings with government officials, and providing forward looking advice.

Morgan Stanley's Managing Director, Alan Vesprini, provides a particular compelling testimony of the staff at Investissement Québec: "[Investissement Québec] are on our speed dial and are always ready to give us advice and open up networking opportunities. The team facilitates meetings with government officials and with other local companies. As well, they keep us aware of any changes to current policies or programs that may affect us. We have a bright future here and are foreseeing growth down the road. We hope to expand our staff of developers and engineers and are currently looking at real estate options to accommodate this growth".

### 7.4 North Carolina: The All Rounded Player

North Carolina has a reputation as an economy that combines a strong knowledge economy with a low cost business environment – a sort of high quality, low cost value proposition. Just to put this into perspective, within North Carolina, while business costs are 18% below the national average, 42% of its adult population is college educated<sup>86</sup>. It is well endowed with universities (e.g. UNC Chapel Hill, Duke University), and its livability has led to a strong inflow of new residents resulting in one of the nation's highest net migration rates. Raleigh also has a high-tech cluster at its Research Triangle Park that hosts about 170 firms.

Part of the explanation of this trend is that the prosperity of the state is marked by distinct differences between urban areas (e.g. Charlotte, Raleigh, Greensboro), and many of the small towns were historically developed around the textile and furniture industries. Furthermore, its status as "Right To Work", supports firms in keeping input costs lower.

Incentives offered by the state play a key role in FDI. Tax credits and grants are used in various capacities. For example, in 2013, the state offered an incentive package to Metlife to relocate from California, valued at \$125M, although many of these incentives were actually alternative incentives<sup>87</sup>. A discussion of the Metlife deal is below.

Key industries include a mix of advanced and "legacy" sectors. For example, North Carolina is a leader in sectors such as advanced manufacturing, aerospace and defense, automotive, life sciences, clean tech, financial services, and ICT. At the same

---

<sup>86</sup> Raleigh Leads The Best Places For Business And Careers 2014, Forbes.

<http://www.forbes.com/sites/kurtbadenhausen/2014/07/23/raleigh-leads-the-best-places-for-business-and-careers-2014/#2a9420945f03>

<sup>87</sup>MetLife Moving 2,600 Jobs to North Carolina from Northeast, California,

<http://www.insurancejournal.com/news/national/2013/03/11/284164.htm>

time, textiles, furniture, and tobacco continue to play a leading role in the economy<sup>88</sup>.

### 7.4.1 Key Alternative Incentives:

#### 7.4.1.1 Foreign Trade Zones and Active Sub-Zone

While many people are familiar with the use of Free Trade Zones in the context of emerging economies such as China (e.g. the region where Shenzhen is located) and Mexico (e.g. Maquiladoras near the U.S. border), few people know that the U.S. has had Free Trade Zones since 1934<sup>89</sup>, although they are referred to as “Foreign Trade Zones”. Broadly speaking, these regions are areas in which goods that are handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities (e.g. duty elimination/deferral/reduction, reduced paperwork, tax savings). This is a major advantage for a potential FDI target that imports many of its key components, as the input materials and components would be treated preferentially.

In North Carolina, there are 4 general purpose Foreign Trade Zones (FTZ)<sup>90</sup>. They include Charlotte and The Greater Research Triangle.

But if an individual FDI target wishes to move to an FTZ, but the target’s activity is not an eligible activity that benefits from an FTZ, then they can apply to be an *active subzone*, which is for use by individual companies.

For example, in the Southeastern North Carolina, the FTZ is intended for use in warehousing, manufacturing, assembly, packaging, re-labeling, and testing. However a subzone was designated specifically for The Rocky Mount Engine Plant, as this company’s activities fall outside of these categories, but are perceived as being worthwhile in being granted the same exemptions as the others.

#### 7.4.1.2 NCworks Incumbent Workers Grant

The grant program reimburses businesses for the cost of training employees<sup>91</sup>. Eligible costs include instructional costs for training courses, classes for certification exams, online training; skills assessments related to requested training, as well as textbooks and manuals. Employers can receive up to \$60,000 total over the course of the company’s lifetime. Awardees have included companies such as GE, ABB, Georgia-Pacific, GlaxoSmithKline, Kellogg’s, and Siemens.

---

<sup>88</sup>North Carolina: Economy, <http://www.infoplease.com/encyclopedia/us/north-carolina-economy.html>.

<sup>89</sup> About Foreign-Trade Zones and Contact Info, US Customs and Border Protection. <http://www.cbp.gov/border-security/ports-entry/cargo-security/cargo-control/foreign-trade-zones/about>.

<sup>90</sup> Foreign Trade Zones, Thrive North Carolina. <http://www.thrivenc.com/incentives/financial/other-cost-saving-programs/foreign-trade-zones>.

<sup>91</sup> NCWorks Incumbent Worker Training Grants, NC Workforce Commerce. <https://www.nccommerce.com/workforce/businesses/ncworks-incumbent-worker-training-grants>.

#### **7.4.1.3 Targeted Employment Areas (TEA)**

FDI targets often come in the form of immigrant investors. However, the qualification criteria for Visas are oftentimes very high. For example, The EB5 Visa is available to immigrants seeking to enter the United States in order to invest in a new commercial enterprise that will benefit the US economy and create at least 10 full-time jobs and invest at least \$1 million. There are 2 ways to invest under EB 5 category:

- creating a new commercial enterprise or
- investing in a troubled business

Both of these are valuable FDI activities for a jurisdiction.

North Carolina, as well as other states, have alternative incentives to attract this kind of FDI target, including focusing in the target on a designated Targeted Employment Area (TEA), in which the minimum investment requirement is \$500,000<sup>92</sup>.

#### **7.4.1.4 The North Carolina Certified Sites Program**

The North Carolina Certified Sites Program<sup>93</sup> provides detailed information about a site, including price and availability, utilities, access, environmental concerns and potential development costs. There is an established online database called Access NC. The mobile app is also available for different devices (e.g. iPhone, Blackberry, etc.) that allows the user to search locations, create client/favorites list and see the leasing/selling price of particular units/facilities/buildings.

#### **7.4.1.5 Rail Industrial Access Program**

Administered by the N.C. Department of Transportation, this funding could help ensure that potential FDI targets have the railroad tracks needed to transport freight and materials. The program uses state funds to construct or refurbish tracks required by a new or expanding industry to encourage economic development.

Funding requires a private and/or local source providing matching funds. Grant sizes are generally less than \$500,000<sup>94</sup> and have to companies such as Dupont and 3M.

#### **7.4.1.6 Industrial Road Access Program**

Administered by North Carolina's Department of Transportation. This fund could help provides funds to potential FDI targets for the construction of roads to provide

---

<sup>92</sup> North Carolina EB-5 Immigrant Investor Program, TEA.

<https://www.nccommerce.com/business/tools/eb-5-immigrant-investor-program-tea>.

<sup>93</sup> Certified Sites, North Carolina. <https://www.nccommerce.com/business/certified-sites>.

<sup>94</sup> RIAP Summary of Projects, NC by Train.

<http://www.ncbytrain.org/projects/industrial/summary.html>.

access to new or expanded industrial facilities. Approval is based upon the resulting economic benefits of the project including the number of new jobs created, the amount of capital investment, highway's use and the area's economic conditions<sup>95</sup>.

#### **7.4.2 North Carolina Case Study: Metlife Inc.**

##### **MetLife Inc.**

In 2013, insurance giant MetLife announced a relocation of around 2,600 jobs from California to Charlotte and Raleigh. The average salary of these new jobs amounts to \$82,000 per year. A strong business climate, and direct financial incentives were the primary drivers of the relocation decision.

However, alternative incentives played a role in attracting MetLife to North Carolina. Roughly \$5 million was provided for worker training, through North Carolina community colleges<sup>96</sup>.

Executive vice president Eric Steigerwalt explained that “the strong business climate, access to universities and colleges and the desirable cost of living in North Carolina were significant factors in choosing to establish these new campuses”<sup>97</sup>.

While the role of business climate and alternative incentives can be emphasized, they are only a small complement of total massive state and local grants that are estimated at over \$95 million<sup>98</sup>.

## **8. Conclusion**

As we have seen, the landscape for attracting FDI is marked by fierce competition amongst a plethora of strong jurisdictions due to the immobile nature of capital and the mobile nature of where these firms choose to locate. An analysis of the site selection methodology that private firms engage in helps us better understand what factors attract them to a particular jurisdiction. These factors can be broken down into four broad categories: market demand, input costs, taxes & public services, and agglomeration.

The report concludes that financial incentives are oftentimes necessary but not sufficient. While financial incentives help to reduce costs for firms, alternative incentive matter significantly and are in fact very important because they help to round out the attractiveness of a jurisdiction.

---

<sup>95</sup> Industrial Road Access Program, Thrive North Carolina.

<http://www.thrivenc.com/incentives/financial/other-cost-saving-programs/industrial-road-access-program>.

<sup>96</sup> Good Jobs First megadeal database, accessed April 4, 2016

<sup>97</sup> MetLife Moving 2,600 Jobs to North Carolina from Northeast, California, Insurance Journal. <http://www.insurancejournal.com/news/national/2013/03/11/284164.htm>.

<sup>98</sup> Good Jobs First megadeal database, accessed April 4, 2016.

Of the alternative incentives analyzed, three areas stood out as the most effective:

- 1) targeted workers skills initiatives;
- 2) targeted infrastructure improvements; and
- 3) one-stop shops.

These factors positively impact the business environment, awareness, and services of a jurisdiction a firm operates in.

Among the case studies investigated, Georgia was found to derive its competitiveness from large amounts of specialized talent, advanced infrastructure, and a low cost of doing business in addition to financial incentives. Massachusetts has been highly successful in attracting FDI despite not offering large financial incentive packages. Instead, it relies upon one-stop shops, free services, streamlined site selection processes and access to valuable networks. Québec's generous non-discretionary tax regime has been complemented with international recruitment, spousal relocation, and site visit programs as well as organizing hackathons and strong aftercare programs. North Carolina is an all rounded player, having strengths in advanced sectors such as ICT, financial services, aerospace and defense, and life sciences. Their certified sites program is complemented by training and infrastructure to create a truly well-rounded value proposition to attract potential FDI targets.

## Appendix A

**Figure 1: Interview Results - the 3 Most Effective Alternative Incentives**

		P1	P2	P3	P4	P5	P6	P7	P8
<b>Workers Skills</b>	In-house training	1	1						
	Reimbursed training		1						
	Attracting via immigration/visa						1		
	Attracting students							3	
<b>Business Environment</b>	Guaranteeing	1							
	Free Services								
	Waiving development fees				2				
	Infrastructure (including academic)	2							
	Cluster Development	2		1					
<b>Networks</b>	Foreign Trade Zones								
	Connecting firms/partners								2
<b>Export</b>	Free/subsidized services (e.g. market research)						2		
<b>Awareness Building</b>	Reverse Trade Mission								
	Marketing								
	Direct Sales (e.g. cold calls)								
	Marketing Designations								
<b>Soft-landing</b>	One-stop shop	3			3			1	
	Federal/local partnership			3				2	1
	Streamlining regulations			2	1				
	Office space								
<b>Crisis</b>	Certified site								
	Subsidize laid-off worker								
<b>Organizational set up</b>	Aftercare support								
	Export/import combined								
	Federal/local partnership			3					
	Staff training, including cultural training								
	Recruiting								

Other (financial incentives) mentioned:

**Person 2:** reasonable costs - 2; R&D tax incentives - 3

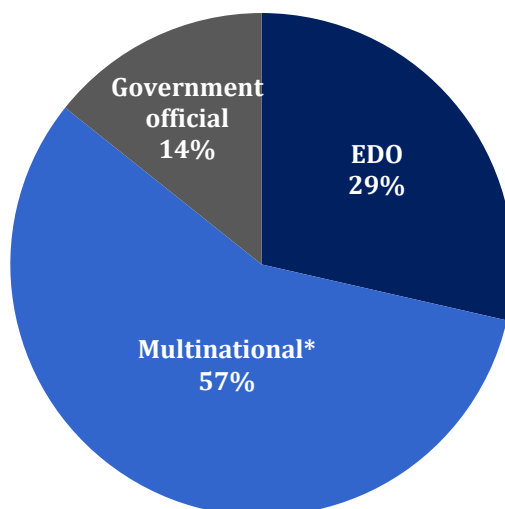
**Person 5:** Free land - 1; Cash Grants - 2; Training Grants 3

**Person 6:** Assistance to Access to the US markets – 3



## Appendix B

Breakdown of interviewees (n=8)



\* **multinational** were all companies with thousands of employees globally, including significant operations in the US and Canada. Interviewees were with individuals working in executive positions in government relations and policy, operations and quality improvement, chief knowledge officer, and company director.

## Appendix C

The main goal of the interview was to gather information for the final report to determine the following:

- (i) Which foreign jurisdictions offer alternative incentives?
- (ii) Which alternative incentives are the most effective in attraction of FDI?
- (iii) Which incentives are more effective, financial or alternative?
- (iv) Have we summarized all the major alternative incentives on *the Alternative Incentives* checklist (Appendix A)?

\*Note, some questions have not been asked when the information was already available, mentioned by the interviewee or not relevant. Additional questions have been asked when supplementary information was needed for clarification purposes and/or completeness of the answer.

### List of Interview Questions

#### ***Questions for Economic Development Organizations (EDOs) and Government Officials:***

1. Can you tell us about yourself and your role in relation to FDI practices? How long have you been working with the Economic Development Organization?
2. What is your strategy in recruiting multinational firms to your region?
3. Besides financial incentives, which alternative incentives do you use to attract multinationals?
4. From the list of alternative incentives, please pick the most 3 effective ones. Why did you pick these 3? Is there any specific sector that favors these 3?
5. Which jurisdiction do you find most competitive in recruiting multinational firms?
6. Which incentives are more effective, financial (e.g. subsidies) or alternatives (e.g. cluster development)?
7. What is your view on recruiting policies of Georgia, North Carolina, Quebec, and Massachusetts?
8. Are there any important issues/relevant information that we have not covered?
9. Is there anyone else we need to speak to in this organization or other organization?

#### ***Questions for corporations:***

1. Can you tell us about yourself and your role in relation to FDI practices?
2. Which incentives other than financial have been offered to you?
3. Which out of the ones you mentioned did you find particularly effective/attractive? Why? Please pick the most 3 effective.
4. When you decided to locate in (*name of the country/state/region*), which other states or countries seemed also attractive to your firm? Why?

5. How do you view the attractiveness of the following jurisdictions: Georgia, North Carolina, Quebec, and Massachusetts?
6. Are there any important issues/relevant information in regards to alternative incentives that we have not covered?
7. Are there others with whom we should be talking to in this firm? Other firms?