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

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

1. Chinese outward foreign direct investment: Overview

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

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

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

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

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

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

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

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

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

FDI stocks only totaled around $185 billion in 2010, far below its inward FDI stock of $876 billion. In other words, while the inward-to-outward gap seems to be shrinking, China remains very much a net importer of FDI. On a per capita basis, China's outward FDI stock equates to roughly $138 per citizen. This is very low considering China's absolute gross domestic product (GDP) size, particularly when compared to the United States, for instance, which reports per capita FDI value of around $12,633 per capita.

The remarkable thing about Chinese outward FDI stems not from its aggregate size but rather the trajectory of its recent growth, not to mention its staggering long-term potential (Rosen & Hanemann, 2011). Some studies estimate Chinese outward FDI could increase to a figure as high as $2 trillion by 2020 (Rosen & Hanemann, 2011). Over a period of just four years, China's average annual outward FDI grew from less than $2 billion in 2004 to upwards of $50 billion in 2008, which amounts to a compound annual growth rate of 130%. The annual number of investment deals has likewise grown at a staggering rate, going from an average of around 1,000 deals per year for the period between 2004 and 2006 to around 1,500 deals per year between 2007 and 2008 (Rosen & Hanemann, 2011). Thus, while Chinese outward FDI is still a minor player in the global aggregate, it is just getting started.

Table 1 details Chinese investment deals in the United States over the prior five years. In 2011, only 2.5% of all Chinese outward FDI came to the United States. Clearly, the effort is in the embryonic stage.

Currently, Chinese investment usually appears in one of these forms. The most common is a sales office of one to three people as an exploratory position to better understand the United States. The second type is distribution, warehousing, and logistics. Firms that invest this way are looking to better serve their U.S. customers. This is a significant advantage to Indiana due to its access to the U.S. market, transportation network, and warehousing infrastructure. Other forms of investment include assembly operations, manufacturing operations, mergers and acquisitions, as well as research and development centers.

Table 1. Chinese FDI deals in the United States*

Year	*Deals (#)*	*Value ($)*	*Per Deal($)*
2007	26	593	22.81
2008	35	1,066	30.47
2009	57	2,294	40.25
2010	62	4,208	67.88
2011	11	758	68.91
Total	191	8,920	46.06

* In millions of USD
Source: Available at http://www.rhgroup.net/china-investment-monitor

Indiana must recognize—much as the United States as a whole must recognize—that Chinese investment is motivated by many of the same factors as FDI derived from other sources. Accordingly, the state must be positioned to reap the benefits such investment affords. As Daniel Rosen and Thilo Hanemann (2011, p. 10) write:

> Many Americans, including many officials in Washington, believe that because China has so many state-owned enterprises, market forces and profit motives do not necessarily apply in that country. Therefore, they suspect that if a Chinese firm is coming to America, it must be for some political purpose rather than simply to make money. . . . This conclusion is wrong, and if we are to maximize US interests, such misapprehensions must be corrected.

For Indiana, maximizing its interests means identifying its strongest advantages in order to further tailor its positioning and target its promotional messaging efforts. These advantages over surrounding states include infrastructure, a solid economic base with a low tax base, access to a major portion of the U.S. population, and a friendly environment for international firms (proven by the fact that international investment has created 45,000 jobs in Indiana). It may be prudent to ask how Indiana is currently promoting itself. Indiana has failed to build on its relationship efforts with China and is currently losing ground to other states. While Indiana's overall track record is among the best in the nation, its core strength—its true competitive advantage—derives from its distribution, warehousing, and logistics capabilities. Indeed, Indiana finds itself competing on a global scale, and this makes sense because when companies select among locations for distribution, warehousing, and logistics investment, Indiana is a world-class competitor on virtually any indicator.

Some Chinese firms have taken notice of these Indiana advantages, too. During a roundtable meeting in Lafayette during February 2011, the Consul General of the People's Republic of China, Guoqiang Yang, summarized the benefits of deals with Indiana by stating, "[There is a] high-skilled labor force here. And, a sense of engineering, [a] sense of technology, and a sense of manufacturing." Moreover, in the wake of Chinese firm Wanxiang Group's joint venture with Indiana-based automotive battery company EnerDel, the Indianapolis Star reported on Indiana's global reputation in manufacturing, particularly automotive manufacturing (Evanoff, 2010):

> Top-tier Indiana automotive suppliers—including Cummins, Delphi, EnerDel, Remy—are also bedrock pieces of China's automotive industry. . . . The deal underscores China's strategy of buying know-how it has not had time to develop at home. It turned to Cummins for diesels on heavy trucks and, in a deal disclosed Thursday, lithium-ion batteries from Indianapolis innovator EnerDel. For Indiana, this means a flurry of activity could arise with Chinese companies looking for electric-car technology in the state.

An increasingly important part of the incentives for Chinese companies to invest in the United States is immigration. Immigration and/or the availability of permanent residency is a driving factor in the decision of Chinese firms to invest. All companies looking at Indiana ask about visa status and similar topics. The EB-5 immigration policy provides Chinese individuals the option to buy their way into the United States and gain permanent residency. The option to immigrate with children and educate them here increases the attractiveness of investing in Indiana for the Chinese.

Because Indiana can occasionally be lumped together with the larger Midwest, the state must make sure to convey the details of Indiana's relative advantages over potential alternatives, particularly those in the Midwest. Indiana may not be able to compete with California or Texas for projects, particularly those involving the acquisition of technology and natural resources, but it can compete with anyone in terms of warehousing, distributing, and logistics. This is a segment within which Indiana competes globally. Promotional activities and messaging should be used extensively to distinguish Indiana from alternatives in the Midwest.

Put another way, firms must distinguish between the benefits of investing in a strategically viable general location (e.g., Chicago) relative to the benefits of forming a lasting partnership with a state. Guanxi, a salient part of traditional Chinese business culture, is the means through which partnerships are formed; without guanxi, there is no hope to attract Chinese FDI. In recent years, Dennis Kelley of Pacific World Trade started an aggressive plan to set up Indiana sister cities in China, mostly in Zhejiang Province. His position and strategy is to get Indiana cities to engage directly, do their own recruiting of Chinese companies, learn about how to do business with China, etc. Today, there are 18 Indiana cities that either have sisters or are taking steps to get sisters in Zhejiang. The reaction by Indiana mayors has been very favorable, and it is expected that many more sister cities will be created in the coming years through the efforts of Pacific World Trade. FDI attraction will be enhanced and occur more quickly with the sister city developments.

Guanxi cannot be achieved competitively and competently from Indianapolis. There must be 'boots on the ground' in China and staff at the state level in Indiana with a private sector track record of success. Although the guanxi networking effects may give Chicago (and thus Illinois) certain relative advantages in terms of Chinese investment, the drawing power of guanxi is necessary but not sufficient in realizing investment outcomes; it is only one part of the puzzle.

2. Results analysis

Although other factors are undoubtedly at play when it comes to a firm's decision to look beyond its national borders, the forthcoming analysis assumes that in order for states within the United States to attract FDI—that is, to be an attractive target for Chinese firms seeking to move into the United States—they must possess certain unique, location-specific advantages. These advantages include affordable and/or exceptionally high-quality labor, advanced infrastructure and transportation capabilities, and favorable economic and political characteristics (Dunning, 1998).

Moreover, in terms of the decision-making process, the analysis assumes outward FDI decisions are fundamentally a microeconomic—as opposed to a macroeconomic—phenomenon. That is, the analysis in the subsequent sections assumes that strategic decision making occurs at the firm level of analysis and that the critical goal of each decision will be to maximize firm-level benefits (Dunning, 1998). This study assumes much of the recent outward FDI growth on the part of Chinese firms derives from the changing commercial realities faced by these firms. Likewise, this study assumes a firm will make outward FDI decisions, particularly as they relate to location choice, entirely on the basis of the firm's economic self-interest (Rosen & Hanemann, 2011).

We can begin to evaluate the results of the study with a careful eye toward the theoretical literature. How do these results compare with those of prior studies? Are there any strange or unusual findings? What do the model findings tell us about Chinese outward FDI tendencies in the United States? Perhaps most importantly, how can the results realized from the model help us formulate new strategies aimed at better positioning Indiana to reap the positive benefits of future Chinese firm investment? These questions were central to our analysis.

2.1. Role of networking effects

To help determine the factors that give rise to Chinese firm choices about outward FDI to the United States, we relied on a binary logistic regression model utilizing panel data. The data concerning investment outcomes over the 2007—2011 period was obtained from the Rhodium Group. Each investment outcome on the website is associated with a given U.S. state and designated as either a government or a private deal. The panel data includes all 50 U.S. states over a period of five years (2007—2011); hence, there are 250 unique observations in the panel dataset. In the period since the onset of the financial crisis (c. 2008), there have been a total of 191 observed Chinese firm investments into the United States. These deals total more than $8.9 billion in Chinese investment into the United States, which translates to an average of $46 million per investment outcome. Our analysis helps us determine what key variables have influenced Chinese investment into the United States during this time period by including determining factors, such as Chinese diaspora, market size, the extent of prior investment in the state, manufacturing agglomeration, transportation capability, workforce quality, wage and tax rates, and coastal geography. We find that the strongest overall predictors were networking effects, such as prior Chinese investment in the state and the relative size of Chinese diaspora. Specific study predictors, such as state tax, wage, and commercial lease rates, were insignificant. This does not mean these latter predictors are unimportant. In fact, Chinese firms are aware of investment incentive packages and now compare them between firms within Indiana as well as against incentive proposals from other states.

We find the variables corresponding to network effects (i.e., cultural proximity and the extent of prior Chinese investment) were among the strongest predictors of investment outcomes. In cultural proximity, the value denoted in each observation corresponds to its population of ethnic Chinese as a percentage of total state population. When assessed in terms of all investment outcomes, we find that for states in which the Chinese population exceeds 1.45% of the total population, the state's odds of realizing an investment were 122% greater, all else being equal.

Although a state like Indiana is unlikely to drastically increase the relative size of its ethnic Chinese population, cultural proximity and prior investment activity are both indicators of the extent to which guanxi traditions drive investment outcomes. While it could be argued that these are *ethnic relationships*, it could be that the *ethnic* part of the equation is less important than the presence of a *relationship*. In other words, Chinese business people increasingly count foreigners (and Hoosiers) as part of their guanxi network, albeit perhaps not to as great an extent (in absolute terms) as they do other Chinese people. As Chinese business etiquette expert Scott Seligman (1999, pp. 188—189) puts it:

> In today's China such [guanxi] relationships are well within the grasp of foreigners who wish to cultivate them. Often all it takes is an overture—a conversation, a meal, or a favor. . . . As components of this network, they [foreigners] are expected to play by Chinese rules, which are not always to their liking. In particular, there may be a host of expectations on the part of those who befriend them that may not necessarily be clear at the outset of the relationship. . . . The Chinese tend to extrapolate from their own system and assume the rest of the world works along a similar set of principles, and this often means they view foreign friends as windows to the benefits of a world outside China.

Similarly, the strength of the extent of prior investment when it comes to luring investment capital from China indicates that building up momentum could be critical. States will likely find it advantageous to have a prior track record of realizing more than one prior instance of Chinese investment as this increased the odds of a positive outcome by 67%. These findings again suggest relationships are critical to investment outcomes and that reciprocity coupled with increased frequency of contact help states build momentum for future investment activity. The observed tendencies here could likewise derive from the culturally engrained preference to seek one's guanxi network of colleagues and confidants for 'intelligence' with respect to new investment locations. In the case of Western MNCs, the tendency is to trust independent consultants or advisors for this purpose. However, Chinese firms more often rely on a guanxi network for business-related information, often listening to such advice at their own peril. Nakamura and Olsson (2008) found among the primary motivators for entrepreneurs looking abroad was the perception of an unrealized opportunity overseas, or opportunism. In some cases, however, such perceived opportunities are not verified or prove to be completely unwarranted, meaning the ultimate decision to pursue the perceived opportunity could be based more on trust of one's colleagues and general 'gut feelings' than on sound judgment derived from careful business planning. The results of this study tend to support the latter interpretation of the decision-making process in Chinese firms as the networking effects variables remained statistically significant across five of the six variations of the model.

2.2. Indiana's competitiveness

However, networking effects, in and of themselves, are not the sole explanation for the observed tendency. First, there is a less *cultural* and more *economic* explanation for the model's findings with respect to the significance of prior FDI, another variable: firms may simply perceive repeat investment in a given state location as a way of maximizing potential future profits.

Cultural proximity also plays a role. There are certain geographic and demographic considerations to assess with respect to the role of cultural proximity in giving rise to instances of investment. Looking across all observations, the highest-scoring states on the cultural proximity measure were more often those with a larger population size, which usually also meant a larger total GDP size. Chinese populations in the United States were more highly concentrated in the larger population-center states situated along the east and west coasts, particularly in California. These states also often happened to be those with the greatest amount of investment activity over the period examined in the article. Chinese, in general, do not know where Indiana is located or do not know anything about Indiana. It is the classic 'east coast/west coast syndrome' in which the Chinese fly from Los Angeles to New York—the flyover. Indiana must promote itself through an extensive education process with Chinese executives.

The significance of the transportation infrastructure variable is consistent with prior studies (He, 2002; Ng & Tuan, 2003). The transportation capability variable remained strong across all cases except when narrowing the focus to solely greenfield investment, which was contrary to expectations. More research may be needed to fully explain the potential significance of the *inverse* relationship between manufacturing clustering (agglomeration) and locational transportation capabilities when it comes to greenfield investments.

Indiana scored well over the period (2007 to mid-2011) in terms of its transportation capability; the same cannot be said for several of its regional competitors, such as Kentucky and Tennessee. Both of these states failed to achieve a high degree of success with Chinese investors, with Tennessee realizing only one deal over the entire five-year period, and Kentucky realizing no investment outcomes for the entire period. From this, we can speculate transportation capabilities—in isolation of all other considerations—seldom give rise to positive investment outcomes. However, when combined with the presence of networking effects, such as cultural proximity or prior investment activity, a state's transportation capabilities seem to create conditions highly favorable to private firm investments. The fact that Indiana has benefitted from a larger number of prior foreign investments, particularly in the greenfield category, may explain its performance relative to other transportation-endowed states, such as Kentucky and Tennessee.

When obtaining technology to compensate for their competitive disadvantages, Chinese firms have been known to acquire existing firms rather than establishing new firms, thus obtaining a full package of advantages with which they can upgrade domestic manufacturing and product development efforts (Deng, 2004). States above the 78th percentile on this measure had around 127% greater odds of receiving an SOE-led greenfield project and nearly 94% greater odds of receiving a private-led greenfield project.

We find that Indiana has a strong track record when it comes to attracting greenfield investment, a track record extending to Chinese firms as well. In 2010, the company Nanshan America, a subsidiary of Shandong Nanshan Aluminum, opted to invest $100 million in Lafayette, Indiana. It was estimated that the plant would create upwards of 200 jobs, with local managers overseeing the day-to-day operations. In describing the choice of Indiana, Du Lijun, president of Nanshan America, stated that the transportation and manufacturing capabilities within Indiana as well as the tax breaks and land provided as part of the deal were central to the eventual choice of location (Baping, 2011). Lijun received a graduate degree from Purdue Lafayette. This experience was pivotal in his business success, which also contributed to the location choice.

In terms of specialization, Indiana is perceived as a strong host for value-added production activities among Chinese firms. Ni Pin is the president of Wanxiang America Corporation, the second largest privately owned company in China with U.S. holdings, including 28 factories and 5,000 workers. Pin said the investment activities of Wanxiang America Corporation in Indiana and elsewhere have mainly sought to add value. Its investments have thus been used to enhance both operational efficiency and market proximity and, in turn, overall margin potential, which is consistent with the findings of this article and is indicative of the intentions of Chinese firms in the U.S. market more generally.

3. Summation and recommendations

One of the major themes within the analysis is that Chinese firms tend to choose a location based on the extent to which local support structures exist. In other words, Chinese firms choose locations where personal relationships and industry-specific supports are in place and can be leveraged to the firms' benefit. When entering a new market, the inexperienced Chinese firm is often insecure about the extent to which the firm's capabilities alone will allow it to achieve a favorable outcome. Consequently, the firm relies heavily on local support. Chinese firms are perhaps less likely than Western MNCs to make the mistake of presuming they know a local market sufficiently well enough to directly manage a facility overseas. Instead, Chinese firms seek out local management and labor resources to help ease the transition and reduce the riskiness of the investment (Khanna & Palepu, 2006).

In many ways, we can interpret instances of Chinese firm investment in the United States as a voyage into what legendary Chinese military strategist Sun Tzu referred to as a "ground of intersecting highways." This was among the nine possible strategic situations Sun Tzu claimed generals would confront during their military careers. Sun Tzu claimed such a ground "forms the key to [at least] three contiguous states, so that he who occupies it first has most of the empire at his command." He also offered military leaders confronted with such a situation some unequivocal advice: "Join hands with your allies" (Giles, 1910).

For Chinese firms, the United States may be perceived as extremely unfamiliar terrain with numerous, often multidimensional complexities, such as odd regulatory nuances and industry-level competitive dynamics; all of this lends itself to alliance building and networking.

Location choice is likely viewed as necessary for the imperative of building alliances. Indeed, firms often benefit from seeking viable support structures when conditions are unfavorable or uncertain. Private firms, unlike their government counterparts, tend to have much at stake when it comes to the outcome derived from an investment. With this in mind, the picture becomes clearer: before investing in the United States and thus putting the firm on a 'ground of intersecting highways,' the private firm will tend to form alliances. This may mean joint venture partnerships; it may also mean gathering advanced intelligence on a site location from those with whom the firm's management has guanxi. However, the observed tendency seems to be that alliance building is an almost essential first step in a private firm's decision to invest in any locational setting in the United States.

In those instances when the situation is even less certain and even less familiar (which is typically the case when an investment is of the greenfield variety), private firms tend to hedge the risk by seeking out locations where industry-specific supports (i.e., industry clusters) are in place. This is a means of reducing the risk of the venture. Nanshan Aluminum appears to have done exactly this by locating near Alcoa Extrusions. Thus, there is a sort of implicit alliance building, an alliance with the industry composition of the location itself. Indeed, a location with extensive preexisting supports and supplier relationships undoubtedly helps reduce the strategic risks inherent in a greenfield project. Private Chinese firms are not unlike countless other MNCs in this regard. Until recently, a Chinese firm manager would simply call a former classmate or business contact and obtain an assessment of conditions on the ground in lieu of unbiased research and consultants. The information on which the investment decision was ultimately based first involved an intricate networking process that may at times appear inconsistent with the standards of Western MNCs. More often now, large Chinese firms will hire independent consultants to evaluate state locations in addition to evaluations retrieved from guanxi connections.

Thus, breaking into a new market or expanding beyond a given market's geography presents both new challenges and new opportunities for private Chinese firms. Success or failure in such situations depends on the firm's management of the inherent risks and potential rewards these activities involve. In Chinese society, these risks are managed largely through the assistance of an individual's guanxi network. Moreover, the guanxi network serves as the primary way to mitigate information failures and ensure the firm has aligned itself with trustworthy partners who are 'on the ground' prior to deploying resources in a new (and potentially unfamiliar) locale. For Chinese firms placing themselves on the strategically complex ground of intersecting highways wherein both strategic benefits and competitive challenges may await, it seems the tendency is to heed Sun Tzu's advice: consolidate alliances and build relationships. When the presence of trusted colleagues 'on the ground' may not be enough, firms look for location-specific characteristics with which to align as industry clustering may help limit the potential risks of a new venture investment.

In summation, our analysis leads to a highly rational firm-centric interpretation of the observed tendencies of Chinese firm investment in the United States. However, it is nonetheless an explanation firmly entrenched in the nuances of Chinese culture and traditions. One of the biggest issues for small- and medium-sized Chinese firms is they lack clear, well-defined, rational business plans because their owners do not know how to form them. Dennis Kelley and Pacific World Trade have helped many Chinese firms outline their business plans because of owners' inability to create meaningful and workable plans. With this in mind, we have several recommendations for the state of Indiana.

3.1. Firm targeting: Indiana is a prime FDI target for private firm-led greenfield investment

In recent years, Indiana has benefitted from projects involving Chinese firms. Due to its strong agglomeration (i.e., clustering) advantage in manufacturing, particularly in the automotive industry, as well as its track record in realizing investments deriving from Chinese firms, Indiana is uniquely positioned to begin building momentum by playing up its core strengths, albeit with a careful eye toward the most receptive firm audience: Chinese private investors, particularly those with greenfield aspirations. Indiana's centralized location and strong transportation capabilities also bode well in efforts aimed at recruiting private Chinese firms. Additionally, the state's distribution, warehousing, and logistics cluster will likely continue to spur interest from Chinese firms for much of the foreseeable future.

3.2. Differentiate: Indiana has distinct advantages over other locations in the Midwest

When dealing directly with prospective Chinese firms, special care must be taken to develop a messaging strategy clearly conveying Indiana's unique position within the Midwest as the preeminent distribution, warehousing, and logistics power in terms of a strong industry cluster supporting firms' greenfield prospects. Once this competitive advantage has been clearly pronounced, it is important to note the state's unique fiscal position and transportation capabilities. These are advantages Indiana offers relative to other states.

3.3. Promote: Trade missions and overseas office locations are investments, not costs

In the spirit of relationship building and promoting the state's vital economic interests, there are few activities more important than overseas trade missions provided they are properly organized and conducted. Any visit by a state executive, such as the governor or lieutenant governor, helps the state signal its intention to broaden and strengthen an existing relationship. State executive-led trade missions are perhaps the most visible component of a state's FDI promotions toolkit, along with overseas trade offices, translators, and region/area experts; such activities may support the realization of positive investment outcomes. During his time in office, Governor Mitch Daniels led two distinct trade missions to China and was active in traveling abroad on behalf of the state elsewhere, particularly in Asia. He often traveled with as many as 80 individuals drawn from academia, business, and civic organizations.

Also essential to recruiting FDI is the accompaniment of these state executive-led missions by Indiana city officials (or city missions) as is attending investment seminars and exhibitions sponsored by Chinese provinces and cities.

3.4. Invest in relationships: Cultural sensitivity and friendships make the difference

Beyond the actual leadership visits, however, the importance of the frequency and extent of the activity levels that follow cannot be understated; this is where guanxi relationships are initiated and sustained. The meetings following the initiation of new relationships offer the vehicle by which the state begins to understand the needs of its key firm target segments. Such understanding does not crystallize overnight; rather, it is the result of sustained activity on multiple fronts: political, cultural, and economic (i.e., business).

In 2006, in what has been referred to as an 'unexplainable' turn of events, Honda turned down more lucrative incentives in both Ohio and Wisconsin, instead opting to build its new \$550 million automotive plant—its sixth location in North America—in the small town of Greensburg, Indiana (WTHR, 2006). Initial reports indicated Wisconsin had offered substantial tax incentives, while Ohio offered Honda even greater scalability considering it was home to two other Honda facilities. However, the decision was not solely informed by incentives. As Honda executives noted, Indiana won out largely due to the sheer enthusiasm exhibited by Greensburg residents. The community engaged in an ambitious letter-writing campaign targeting members of the Honda Board of Directors and sent a photo portraying 100 Greensburg residents gathered in formation of a giant letter H. A top executive with Honda North America, Koichi Kondo, helped explain the unprecedented decision: "It's the first time we've ever seen this kind of display from an American community." In many ways, the Honda deal may signify that the boldness with which a state (and a community) pursues a potential investment can, in some cases, offset the potential incentives offered at another location. However, enthusiasm alone is unlikely to be sufficient.

The most basic steps in the FDI process with China are these: (1) forming and sustaining relationships, (2) employing effective means to recruit companies to visit Indiana, and (3) the ability to negotiate and close the investment project. Indiana has an average performance in the first step. For the second step of recruitment (on-the-ground, in-China recruiting), Indiana is behind other states. Step number three comprises the largest obstacle as Indiana today has no one at the state level who is knowledgeable about or experienced in negotiating with the Chinese.

There should be no illusions of immediate gratification here; the hearty relationships with Chinese businesspeople that ultimately give rise to major investment outcomes typically do not spring to life overnight. Rather, such relationships must be nurtured carefully and over a long period of time. Before Indiana officials set foot on mainland China, however, they would be well advised to set aside time to carefully study the nuances of Chinese culture. Chinese culture does not equate to 'Asian' culture, nor does it resemble Japanese culture in any remarkable way. China is a very large country with a proud (and extensive) history. Taking the time to better understand someone's background helps lay the groundwork for a future friendship. This is the necessary prep work for guanxi. And it is among the lowest-risk, highest-reward investments Indiana can make as part of a more ambitious China strategy.

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