Executive Summary

Worldwide economic growth has brought a tremendous increase in international transactions of all kinds. It is essential for communities in the United States (U.S.) to engage with these transactions in order to advance job creation and economic growth. The two most direct forms of engagement are inbound investments into a region from outside the U.S. by international firms, known as Foreign Direct Investment (FDI), and the sale of goods or services from firms located within a particular region to world markets, known as exports. These are critical economic development opportunities for all communities working to increase their competitiveness.

The U.S. Department of Commerce's Economic Development Administration (EDA), in collaboration with the International Trade Administration's (ITA) SelectUSA, and the Trade Promotion Coordinating Committee (TPCC), launched the International Engagement Ready Communities (IERC) initiative to attract FDI and promote exports across the U.S. The goal of the project is to produce a rigorous, validated set of tools that communities across the U.S. can use to bolster international engagement and become more competitive. This report is the first deliverable of the initiative and includes a comprehensive review of the existing literature on FDI and exports to summarize relevant research and identify trends, policies, and outcomes. The review is combined with a mixed methods analysis that consists of two components: a **quantitative analysis** that captures determinants of FDI and export performance across the U.S. using a national dataset, and a **qualitative analysis** that summarizes insights gathered from a robust literature review and interviews with practitioners and experts.

The quantitative analysis is a cross-sectional regression designed to identify the key factors that drive FDI attraction and export promotion at the regional level. The national dataset is large enough to conduct comparative analysis across different types of regions, and a comprehensive set of variables are included to reduce the likelihood of unknown confounding variables. The quantitative analysis identifies patterns of performance, while the qualitative analysis highlights individual policies and actions that may not be quantitatively measurable but are nevertheless essential factors. The qualitative analysis employs an iterative approach in which more than 100 candidate cases were screened based on six key characteristics. This grounded theory method resulted in conceptual findings related to common and effective practices in attracting FDI and expanding regional exports. These findings were confirmed by an extensive review of the literature and supplemental primary research via 40 stakeholder interviews. **Together, this combined quantitative and qualitative approach triangulates the question of FDI attraction and export promotion by capturing both measurable patterns and specific instances of policies and strategies in action.**

Our quantitative and qualitative findings indicate that **increased FDI and/or the growth of successful export capabilities is typically based on the *particular combination* of assets and liabilities** of a specific location, rather than any single attribute. Economic developers interested in FDI attraction and growth of clusters in the traded goods sector must understand their particular industrial base, as well as the type of economic activity they want to attract or grow. With this in mind, **a community must define its assets with specificity to be**

meaningful to potential investors, and to distinguish it from other areas. Differentiated value propositions may include assets such as **regional concentrations of industries, clusters, or supply chains**; **research and innovative capacity** (including major research institutions); and/or **major companies or original equipment manufacturers** (OEMs). For exporting, this involves identifying individual companies and competitive clusters where international business development can be nurtured.

Regional connections and relationships to foreign markets (residents from a particular country, student alumni, sister cities, etc.), **geographic proximity to specific foreign markets, and the number of existing foreign-owned enterprises in an area are especially important assets.** A region's existing international engagements, including the presence of foreign-owned firms, international share of migration, and the foreign-born percent of the population, were positively correlated with FDI and export performance.

Communities can also leverage (and invest in) assets of value for traditional economic development initiatives in order to attract FDI deals and foster the expansion of exports. Transportation infrastructure, including passenger airports, air cargo, ports, and railroads, is particularly critical, although differences were detected in the quantitative analysis among specific indicators for types and sizes of regions. **Geographic position** within the country (proximity to customers and transportation distances) also influences investment decisions, including those seeking export platforms.

The quantitative analysis also indicated that foreign investors may locate in (and export from) areas with a supply of underutilized **skilled labor** (as indicated by a high unemployment rate). Several economic development organization (EDO) stakeholders confirmed that factor costs and other operating costs are critical regional assets to consider as well, including **energy, labor, and land**. At the level of state and regional policies and practices, the quantitative analysis also found that regions with a **lower property tax burden and higher levels of R&D spending** (as a portion of state GDP) have higher levels of FDI attraction, and **lower industrial utility rates** are associated with improved export performance.

Effective international engagement requires a **unified and consistent message** to promote a robust regional value proposition and clearly communicate a region's distinct assets. **Jurisdictions can band together across a region**—sometimes including nearby major metro areas—to combine resources and build the scale necessary to engage in productive FDI marketing and export outreach. These international engagement practices, effectively a subset of broader economic development actions, also include narrower policies and practices relevant only for FDI or for exporters.

In the case of FDI, once a region has determined and advertised its assets to investors, closing deals requires the right mix of **support services** and **financial and non-financial incentives**. Effective support services include **fostering partnerships** (especially with universities and colleges for training programs and research capabilities), **making a long-term commitment to the delivery of business support services, and ensuring a culturally welcome environment for foreign investors**. Incentives represent an inducement that local, regional, and state governments can offer a prospective business to make it easier to justify a location choice to corporate boards or stockholders. Incentives are more important as a factor late in the site selection process, although they are rarely the only driving consideration.

Other specialized programs and policies targeting investors, whether domestic or international, can make a difference. EDO stakeholders shared that **investors value the availability of a rapid and smooth operational start-up**. Services that assist with **site readiness** and with engaging and **training workers** are highly valued because they help investors quickly begin operations; training programs also ensure an adequate and qualified labor supply for exporters.

In the case of exporters, all regions can **identify and connect companies with export potential to existing federal and state resources.** Regional EDOs can increase awareness of global market opportunities and available export assistance programs and provide grants or scholarships to offset the costs of export development. Larger and major metro area EDOs have the scale to provide targeted export promotion services and focus on filling in **service gaps**. This might include **identifying regional target sectors/clusters and countries that may require additional attention** beyond what state and federal resources can provide, or offering **education, export planning, or export acceleration programs** that are not provided by other organizations.

Successful FDI attraction and export promotion reinforce the **importance of having in-depth knowledge of, and developing relationships with, the existing base of companies in a region**, especially foreign-owned enterprises and U.S.-owned middle market companies. Existing foreign-owned facilities offer the opportunity for additional investment in expansion and are often platforms to export from the U.S., while existing U.S.-owned companies have export potential and are acquisition targets for foreign enterprises that enter the U.S. market through mergers and acquisitions (M&A). These factors underscore the importance of an **effective business, retention, and expansion (BRE) program and robust FDI aftercare services**.

Finally, communities need to **make international engagement a priority** to attract foreign investment and increase exports. A region must define specific local assets; develop and execute a regional strategy that targets the types of international investment best aligned with regional assets; allocate appropriate resources for economic development activities; and accept a long-term time horizon for payoff on these investments. **When localities understand and emphasize their unique assets, they can focus their activities and investments on a coordinated international marketing and outreach strategy.**

The commingled quantitative and qualitative analyses in this report serve to further demystify the determinants of inbound FDI and outbound exports. This report establishes the foundation for the next phase of the IERC initiative: an international engagement toolkit and guide that will enable communities—regardless of their characteristics or assets—to design and execute effective FDI attraction and export promotion strategies. The IERC initiative report and toolkit will give communities, regional leaders, and policymakers insight into how they can better leverage local assets to bolster international engagement at the regional level and become more competitive in the world market.