



## Foreign Direct Investment for Economic Growth: Backgrounder

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### Definition

Foreign Direct Investment (FDI) is the ownership of a controlling interest in a firm or venture in one country by a firm or venture from another.

### Modes of Entry

There are several types of FDI:

- **Greenfield Investment:** An entirely new, foreign-owned operation in a domestic market, e.g. a new product facility, distribution center, or headquarters office.
- **Joint ventures:** Two or more companies (e.g. one domestic, one foreign-owned) invest in a new domestic entity, with each participating in management.
- **Mergers:** Two companies joined, with management shared between the foreign and domestic firm.
- **Acquisitions:** Foreign purchase of domestic firm, with the boards and management run by the acquiring foreign firm.

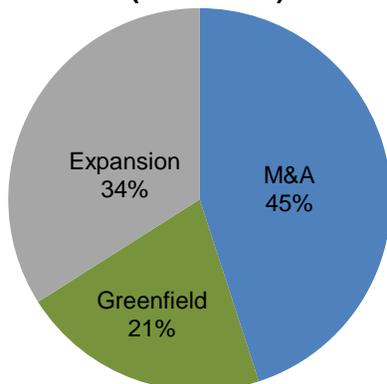
**From 1992-2008,  
Mergers and  
Acquisitions  
accounted for 87%  
of US FDI capital  
inflows**

### Importance for Regional Economic Growth

FDI benefits businesses and the economy, and is consistent with an asset-based growth strategy. With the bulk of economic growth occurring outside the US, FDI attraction presents an opportunity to capture this value to further strengthen Chicagoland's economy.

In general, foreign-owned enterprises (FOEs) are good for the region. They pay, on average, 16% more than domestic firms. They tend to invest heavily in R&D and concentrate in export-intensive manufacturing—invigorating and strengthening regional clusters. They strengthen the region's role in the global economy.

### Sources of Growth in Employment Under Foreign Ownership (1991-2011)



The specific economic benefits of FDI vary by type. Greenfield FDI can produce new ventures, create jobs, expand regional tax bases, and catalyze new regional clusters. FDI through Mergers and Acquisitions (M&A) can improve capital access for existing firms; boost cluster productivity and performance; introduce new technology, talent and capacities to regional markets; open new export markets; and strengthen a cluster's global position—all of which can in-turn grow employment and tax bases. Together, Greenfield and M&A FDI are important, complementary approaches in service of a region's clusters.

Source: Brookings Institute, Global Cities Initiative

## FDI in Chicago Region: By the Numbers

### The Big Picture: Chicago's FOEs<sup>1</sup>

- › 3<sup>rd</sup> Largest Metro Concentration of FOEs (behind NYC and LA)
- › 3,900 firms
- › 5.1% of all businesses
- › 40% growth in employment since 1991



### FDI in the Midwest

1,240,730 jobs in FOEs in 2011  
+34% since 1991



### FDI in Chicago

223,510 jobs in FOEs in 2011  
+40% since 1991

### FDI in Illinois

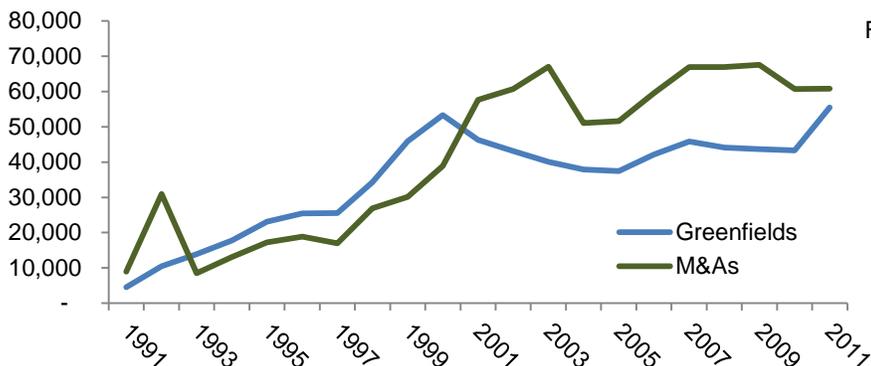
269,780 jobs in FOEs in 2011  
+33% since 1991



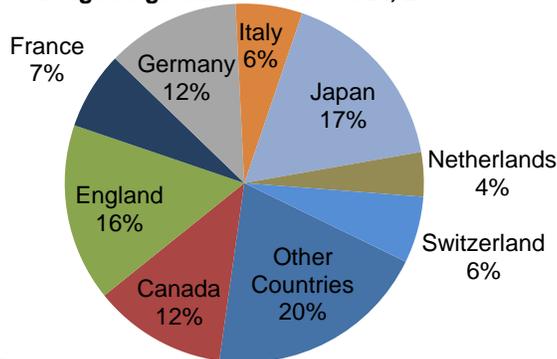
### Types and Sources

- › Consistent with national trends, M&A dominates new FOE job creation.
- › Eight countries (of 51 total investor nations) account for nearly 80% of all FDI.

M&A v. Greenfield Jobs at FOEs in Chicago



Chicago Regional Sources of FDI, 2011



### A Closer Look: Clusters and Sectors

- › FDI activity concentrated in region's core goods and services clusters.
- › Sector analysis reveals strong relative concentrations of FOEs (e.g. food and fabricated metals manufacturing) and sectors that are "underperforming" (e.g. steel product manufacturing, transportation arrangement\_.
- › Deeper sector-level performance assessment can inform global engagement and FDI strategy efforts.

Chicago FOE Employment by Sector with Leading FDI Nation, 2011

