Foreign business attraction is in the news this week, with North Carolina Department of Commerce Secretary Sharon Decker returning from a recruitment trip to Japan aimed at bringing an automaker or other manufacturer to build a new plant in North Carolina. As part of this effort, the state has already assembled and readied three potential manufacturing sites, all at least 1,200 acres in size, to market to potential firms.

In an ever-increasing globalized world, foreign direct investment (FDI) plays an important role in economic development efforts for local and state governments. Previous blog posts have covered the basics of FDI and marketing efforts to international firms. This post will look at data exploring the current state of foreign investment and foreign owned enterprises (FOEs) in North Carolina and patterns of FDI investment through clustering. Understanding the impact of foreign direct investment and how it takes shape from region to region can help better prepare local governments to take advantage of FDI opportunities.

North Carolina ranked third in the country in job creation through FDI in 2012 according to the IBM Institute for Business Value. In addition to the benefit of jobs, it has been noted by the Brookings Institute that foreign owned enterprises offer other benefits such as increased research and development funds, increased productivity spillovers, and, on average, offer higher wages to employees.

**FDI by Region**

The Brookings Institute released a report in June called FDI in US Metro Areas: The Geography of Jobs in Foreign-Owned Establishments. The report measures the impact of FDI across the 100 largest metro areas in the county using data from 1991-2011. Three metro areas in North Carolina were included as part of the study: Charlotte, Raleigh-Cary, and Greensboro-High Point. Each region has distinct characteristics with respect to the type of foreign investment found there and the report breaks out profiles of each area with metro-specific information:

- **Greensboro-High Point**: With 9.0% of its workforce employed by FOEs, Greensboro ranks second nationally in its share of employment by foreign firms. FDI in this area is concentrated in pharmaceuticals, motor vehicles, groceries, semiconductors, and basic chemicals, and is primarily of European origin.
- **Charlotte**: Groceries, restaurants, motor vehicle parts, general purpose machinery, and machinery wholesalers make up the primary industries in Charlotte’s 49,000 jobs in FOEs.
- **Raleigh-Cary**: Despite a lower share of FOE employment than Charlotte and Greensboro-High Point, the 5.9% of foreign employment in the Raleigh-Cary metro area is still above the national average of 5%. Primary industries for foreign employment in the area are groceries, pharmaceuticals, electronics stores, commercial banks, and electronics equipment.

**Clusters**
The Brookings report also notes the tendency of FDI to be attracted to industry clusters in specific regions. The idea of industry clusters and agglomeration is nothing new. Firms look for infrastructure, established networks, and a skilled workforce in their industry when deciding where to locate. But Brookings found that foreign firms are overrepresented in clusters and that clusters drive foreign investment where they located, likely because the existing industry signals to foreign firms that a particular location is an advantageous place to locate. In this regard, local governments can draw foreign investment more naturally (and with fewer incentives) when they use the existing economic assets to their advantage.

In the case of North Carolina, the most prominent industry for foreign investment is manufacturing, which accounted for 46% of the state’s employment in FOEs as of 2011. Although manufacturing employment in the state has decreased from years past, it still makes up a sizable share of employment and is an attractive cluster for foreign investors. Time will tell if the efforts of Secretary Decker result in further foreign investment in North Carolina’s manufacturing sector.

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