

# **The Role of Overseas Investment Trade Offices on FDI inflows in the U.S.**

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## **Abstract**

In this study, I investigate the role of state overseas investment offices on attracting Foreign Direct Investment (FDI) across different states. Opening an overseas investment office is one of the most popular strategies for many states to target foreign investment due to the economic benefits that it generates. My preliminary results for the period between 2007-2016 indicate that having an overseas office increases the employment of the U.S. affiliates of foreign multinational enterprises for the state and contributes to its economic development. These findings encourage me to dig deeper into this issue and further investigate the economic impacts of foreign investment and trade offices by verifying the facts and asymmetric benefits arising from foreign investment across different states.

## **A Brief Introduction and Background**

Do state overseas trade and investment offices contribute to the economic development of a state through job creation by attracting Foreign Direct Investment (FDI)? My main goal in this study is to answer this question by investigating the effectiveness of overseas offices on targeting FDI by using data for location of overseas investment offices and the foreign employment in each state. There are many studies in the literature focusing on the importance of foreign direct investments on the countries' or regions' economic development (Branstetter, 2000; Branstetter and Feenstra, 2002; Charlton and Davis, 2007; Harding and Javorcik, 2011, 2013; Javorcik, 2016; Lim, 2018; Loewendahl, 2001). These papers mainly provide a broad description of strategies and cross-country analysis to identify the impact of investment promotion to attract FDI. To my knowledge however, the role of state overseas investment offices on the economic development of a state by attracting FDI has not been empirically tested in the literature. <sup>1</sup> In addition using my data set, I aim to verify the facts and asymmetric benefits arising from foreign investment across different states.

The growth in Foreign Direct Investment (FDI) is one of the main engines of an economic development together with the expansion of multinational firms. It is known that external sources play a crucial role on the economic growth of developing countries and emerging markets since they are largely financed by foreign investments. Inward

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<sup>1</sup>Cassey (2014) works on the location of U.S. states overseas investment office operated in 2002. This paper focuses on the probability of having an office based on the the impact of exports.

FDIs are also strongly related with the growth of developed economies as well. More than half of the top 20 FDI recipients are developed economies in 2017 and they received 55% of the total FDI of these 20 economies (UNCTAD, 2018).

As the largest FDI recipient in the world, the United States attracted \$275 billion inward FDI, which corresponds to 25% of total inflows of the top 20 host economies in 2017 (UNCTAD, 2018). Receiving high volume of foreign investment benefits the U.S. economy through job creation and R&D activities. U.S. affiliates of majority foreign-owned firms employed more than 7 million workers in 2016.<sup>2</sup> However, FDI is not equally distributed between states. Some states get higher share of FDI whereas the others are less attractive for foreign investors. Each state follows different strategies to attract FDI through designing business development campaigns, giving business incentives and building a network (Stringer, 2015). In this study I am specifically interested in the effectiveness of state overseas investment offices that make direct connections with foreign investors on targeting FDI.

Although the United States attracts capital due to higher returns, lower taxes, higher consumer wealth, open markets and labor productivity, each state has a different investment climate. Analyzing unique regulatory and tax framework for all 50 states remains as a challenge for international investors. This impacts their choice of location and sector for the investment. Given its high potential for creating jobs for Americans, attracting the international investments is a priority for most of the states (Stringer, 2015). Therefore, it is not wrong to say that not only countries but also regions within the same country compete to attract investment. Among other policies, overseas investment and trade offices play an important role in promoting the investment. They reduce the information asymmetry and the information cost for foreign investors. Hence, they impact the distribution of inward FDI among states.

Establishing overseas state representations began becoming popular in 1980-1990s (Blase, 2003). As of May 2015, 40 states maintained or contracted overseas international trade offices. The number of states maintaining overseas office was 39 in 2013.<sup>3</sup> Massachusetts, Maine, New Hampshire, South Dakota, Vermont and Wyoming never had overseas offices (SIDO, 2019). On the other hand, states such as Pennsylvania (17 offices), Florida (14) and Missouri (12) operated most of the overseas offices (SIDO, 2013).

<sup>4</sup> Figures 3 and 4 show the total number of overseas trade and investment offices for each

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<sup>2</sup><https://www.selectusa.gov/FDI-global-market>

<sup>3</sup>States not operating overseas offices in 2015: Massachusetts, Maine, New Hampshire, Nevada, Rhode Island, South Carolina, South Dakota, Virginia, Vermont, Wyoming. States not operating overseas offices in 2013: Arizona, California, Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island, South Dakota, Vermont, Wyoming

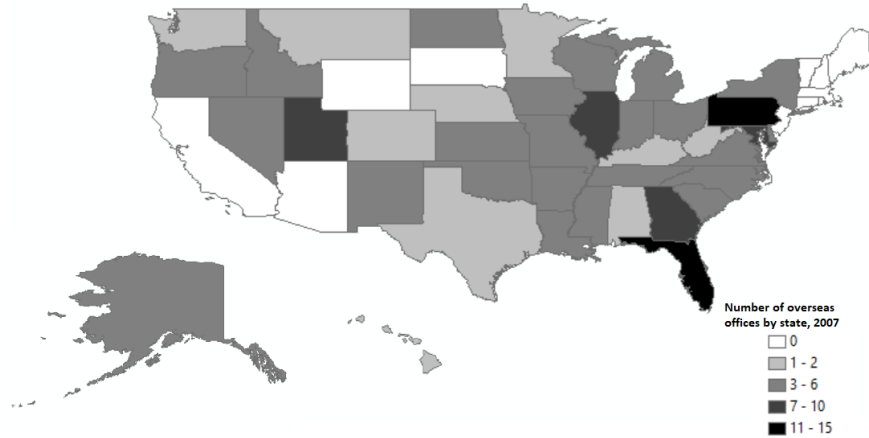
<sup>4</sup><https://www.sidoamerica.org/resources/sido-surveys/>

state for the selected years.

Figures 1 and 2 show the location of overseas trade and investment offices by state for the years 2007 and 2016. Europe (including all European countries), Japan and China are among the most popular locations for overseas investment offices.

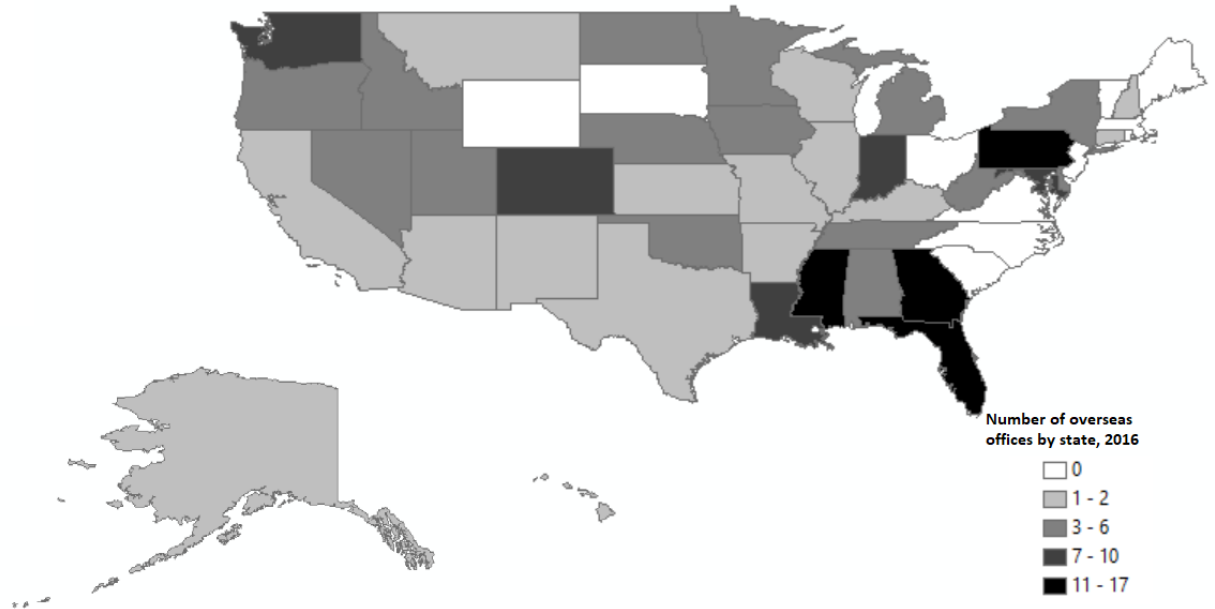
### Figures

Figure 1: **Number of overseas Investment and Trade offices by state, 2007**



Source: Calculations based on SIDO Survey and author's data set coming from each state  
This map shows the total number of overseas investment and trade offices for each state. To prepare this map, I combined the information from SIDO Survey 2013 (the earliest version that I currently have) and from the each state's trade and investment representative & the state trade and investment offices' websites. It is based on the current data set that I have. 13 states; Arizona, California, Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Rhode Island, South Dakota, Vermont and Wyoming, did not operate any overseas investment and trade office.

Figure 2: Number of overseas Investment and Trade offices by state, 2016



Source: Calculations based on SIDO Survey and author's data set coming from each state. This map shows the total number of overseas investment and trade offices for each state. To prepare this map, I combined the information from SIDO Survey 2015 (the earliest version that I currently have) and from the each state's trade and investment representative & the state trade and investment offices' websites. It is based on the current data set that I have.

Figure 3: Location of state overseas offices in 2007



Source: Calculations based on SIDO Survey and author's data set coming from each state. This map shows the total number of state investment and trade overseas offices based on their location. To prepare this map, I combined the information from SIDO Survey 2013 (the earliest version that I currently have) and from the each state's trade and investment representative & the state trade and investment offices' websites. It is based on the current data set that I have.

Figure 4: Location of state overseas offices in 2016



Source: Calculations based on SIDO Survey 2015 and author's data set coming from each state  
This map shows the total number of state investment and trade overseas offices based on their location.

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