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Foreign Investment in Texas

Why Here?

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Understanding the factors that drive corporate site location decisions is critical to the public officials, economic development professionals, and local leaders responsible for attracting new business locations and expansions to their communities. Unfortunately, collecting and analyzing such information about domestic corporations can be complicated: it is often difficult to identify and establish contact with company decision makers, and executives may be unable or unwilling to divulge their reasons for choosing one location over another. Analyzing the decision-making process of foreign-owned firms can prove even more problematic inasmuch as these firms are often difficult to identify and tend to have complex corporate structures.

TIP Development Strategies, Inc., an Austin-based consulting firm, set out to shed some light on the factors that influence foreign locations. We surveyed slightly more than 30 foreign corporations that had recently located in Texas. Our sample was identified from our own records and those of the Texas Department of Economic Development (TDED). Given the size of this sample and the small number of completed responses, the survey results should not be interpreted as representing the attitudes and experiences of all foreign companies in Texas. Nevertheless, the results may lend some insight into the reasons why companies choose to invest

in Texas. These findings may also provide a starting point for future research.

Finding the Foreign-Owned Company

What makes a firm “foreign-owned”? Is it the location of the company headquarters? The nationality or place of residence of the CEO or majority shareholder? The location of most of its workforce? The U.S. Bureau of Economic Analysis (BEA), which collects statistics on foreign direct investment (FDI) in the United States, defines a company as a U.S. affiliate of a foreign direct investor when “a single foreign person owns or controls, directly or indirectly, 10 percent or more of the voting securities or equivalent interest.”¹

While this benchmark may help clarify the term “foreign-owned,” it also compounds the problem. Given the modern proliferation of mergers, acquisitions, and divestitures, and the complexity of corporate relationships in a globalized business environment, familiar American companies can swiftly become foreign corporations. For example, well-known U.S. companies, such as Chrysler and Amoco, have been either merged or acquired by an overseas company in recent years. Even some decidedly Texas companies, such as Mrs. Baird’s Bread and Dr. Pepper/Seven Up, have become affiliates of foreign-based firms.

Perhaps the biggest barrier to identifying foreign corporations operating in

Table 1
Top Five Recipients
of Cumulative Foreign
Direct Investment, 1997

State	Gross book value of property, plant, and equipment (millions \$U.S.)
California	91,788
Texas	77,906
New York	53,711
Illinois	37,649
Ohio	35,095

Source: U.S. Bureau of Economic Analysis, 1997 Benchmark Survey (prelim.), Table D-13.

Texas is a lack of public sources for the information. The State of Texas does not differentiate between non-Texas companies based in other states and those based in other countries, so there is no way to obtain a list from administrative records of non-U.S. companies with operations in the state.² Although some aggregate data on the business operations of international corporations are available from the Internal Revenue Service's Statistics of Income program,³ the primary source for foreign investment data is the BEA, which conducts a comprehensive survey of U.S. affiliates of foreign companies every five years. These benchmark surveys cover all U.S. affiliates with total assets, sales, or net income of more than \$3 million. They provide detailed information about the financial structure of U.S. affiliates and the transactions that occur between the affiliates and their foreign parent corporation.

Who Invests in Texas? And Why?

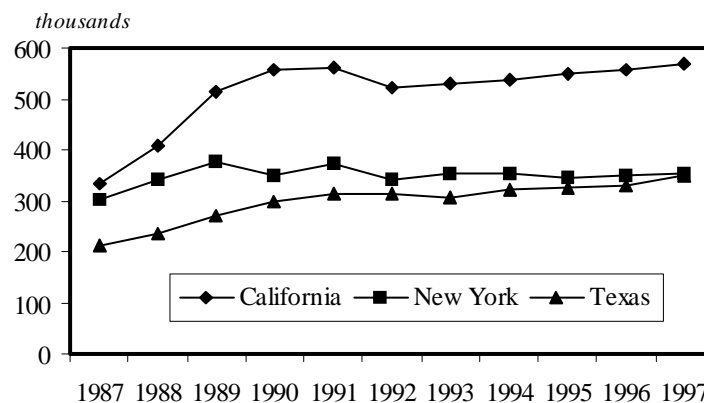
Historically, Texas has been a very attractive location for foreign companies. Many are drawn to the state's productive labor force, world-class infrastructure, central location within North America, expanding marketplace, and positive business climate. In 1997,

the most recent year for which data is available, Texas listed as the nation's second largest recipient of foreign investment, with cumulative foreign (non-bank) investment totaling almost \$78 billion (table 1).

More evidence of the economic impact of foreign direct investment on the Texas economy can be found in the number of Texans employed by overseas companies (figure 1). In 1997, U.S. affiliates of foreign-owned firms employed an estimated 350,600 Texans, accounting for 4.8 percent of total business employment in the state. From 1987 to 1997, employment in these companies grew by 140,000, representing an increase of more than two-thirds. Among foreign companies, British-owned firms, such as British Petroleum and Dr. Pepper/Seven Up (Cadbury Schweppes PLC), employed the largest number of Texans in 1997: 64,500, approximately 75 percent more than in 1987. Significant numbers of Texans also worked for U.S. affiliates of firms based in Germany, Canada, and Japan.

Europe is the source for the majority of foreign investment in Texas. In fact, Texas is the top location for U.S. investment for The Netherlands, Germany, France, Belgium, and Italy and the number two destination for British

Figure 1
Employment of Foreign Affiliates for Top Three States, 1987-1997



Source: U.S. Bureau of Economic Analysis. Data for 1988-1991 and 1993-1996 are revised estimates from *Foreign Direct Investment in the United States*. Data for 1987, 1992, and 1997 (prelim.) are from U.S. BEA *Benchmark Survey*. Data through 1991 are from *Survey Table F-8*; beginning in 1992, from *Table G-8*.

Overall foreign direct investment in Texas showed significant growth between 1987 and 1997, with cumulative investment increasing 87 percent, from \$42.6 billion to \$77.9 billion.

and Swedish investment. With its U.S. headquarters located in Houston, Royal Dutch Shell accounts for much of the Dutch investment in Texas.⁴ Other European nations with significant non-bank holdings in Texas include the United Kingdom, Germany, and France. Among non-European nations, Japan also has considerable non-bank holdings in Texas. The state heads the list for Mexican foreign investment and is second for Australian investment (table 2).

Overall foreign direct investment in Texas showed significant growth between 1987 and 1997, with cumulative investment increasing 87 percent,

Table 2
Foreign Affiliates in Texas, 1997

Country	Gross property, plant, & equipment (millions \$U.S.)	Employees (thousands)
Netherlands	11,829	22.7
Japan	9,833	36.4
United Kingdom	9,061	64.5
Germany	8,700	45.0
France	6,537	32.6
Belgium	4,029	5.7
Canada	3,116	39.5
Australia	2,312	8.5
Switzerland	2,133	22.4
Mexico	874	6.0
Italy	776	4.3
Sweden	704	7.2
Total	77,906	350.6

Source: U.S. Bureau of Economic Analysis, *1997 Benchmark Survey (prelim.)*. Gross property plant & equipment data are from Table D-13; employment data, from Table G-8.

from \$42.6 billion to \$77.9 billion. Japanese investment in Texas produced the most dramatic increase over the period, rocketing an astounding 1,069 percent, from \$841 million to \$9.8 billion. In contrast, Canada, which until 1995 had the largest investment holdings in Texas, showed the largest decrease: total Canadian holdings in Texas dropped by \$6.6 billion between 1994 and 1995, due in large part to the Seagram Corporation's divestiture of Conoco during that period.

Traditionally, the state's manufacturing, petroleum, and petrochemical

industries have attracted most of the foreign investment. However, an analysis of investment by industry between 1987 and 1996⁵ suggests the growing importance of non-manufacturing-based sectors of the economy, such as the services sector (figure 2). While the share of petroleum and manufacturing industry employment remained steady or decreased during this period, the percentage of the total employment of foreign affiliates in the services sector grew from 2.3 percent in 1987 to 16.2 percent in 1996. In percentage terms, employment in the "other industries" category made the highest gains during the period, increasing by nearly 150 percent. Perhaps this reflects the emerging information sector, which is not recognized in the Standard Industrial Classification system under which the data were collected.

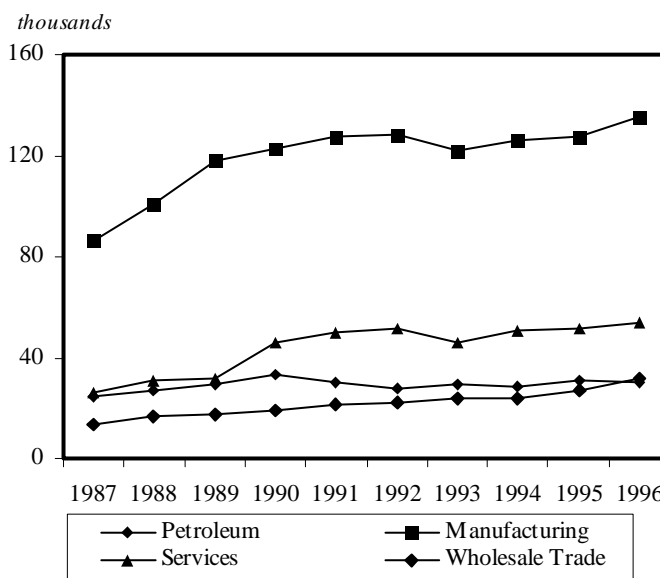
Foreign companies maintain a strong interest in Texas as a location for investment. What draws them here? To find out more about the factors that influence investment decisions by foreign corporations, we conducted a brief survey of firms that had recently expanded in Texas.

Survey Results

We used a combined list of recent international locations from our records and those of TDED to create a sample of about 30 companies. We received completed surveys from twelve corporations (table 3). The responses from the surveyed companies, primarily manufacturers, offer some insight into what drives foreign investment decisions in general.

What were your principle reasons for expanding/locating in Texas? The majority of respondents cited proximity to their customer base as their first reason. The relative advantages of the Texas labor market ranked second, and the geographic location and transportation infrastructure in Texas, namely the various international airports and seaports, placed third. A few of the respondents

Figure 2
Employment of Foreign Affiliates in Texas,
by Selected Industries, 1987-1996



Source: U.S. Bureau of Economic Analysis. Data for 1988 through 1991 and 1993 through 1996 are revised estimates from *Foreign Direct Investment in the United States: Operations of U.S. Affiliates of Foreign Companies*. Data for 1987, 1992, and 1997 are from U.S. BEA Benchmark Surveys. Data through 1991 are from Table F-7 of the listed publication. Beginning in 1992, the data can be found in Table G-7.

The majority of respondents cited proximity to their customer base as their primary reason for expanding in or locating to Texas.

stated that incentive packages offered at the local level were a significant factor in their site selection process.

What brought Texas to your attention as a viable location to expand/relocate? The majority of participants stated that a customer or supplier had first brought Texas to their attention. Half of the companies ranked an industry contact as their second reason. The lowest ranking responses were a “magazine advertisement for Texas” and “exposure at a trade show.” This is significant because little international marketing (in the two forms mentioned above) is currently being done at the state level. (Of course, this may also reflect a lack of interest by international firms in the type of publications where a Texas ad might be found.) Similarly, the firms surveyed showed little interest in attending trade shows.

What will keep you in Texas? In keeping with the pattern from earlier questions, the majority of respondents cited their customers as the key to their future plans. One company stated,

“Proximity to our customers is the most important factor that will keep us in Texas. If our customers move, we move.” Competitive wage rates and a good labor supply followed closely as the second most cited reason, and good economic conditions rounded off the list as the third most popular response. The two responses that received the least support were expanding transportation infrastructure and renewing incentives. Lack of interest in incentive renewal is encouraging in that it implies that most of these firms do not expect further tax breaks, or other incentives, to remain at their current location.

If another state offered you a proposal containing substantial incentives to relocate, would you consider it seriously? All but two of the companies surveyed stated that they would not consider moving their operation to another state under those conditions. The primary reasons, once again, centered on their existing customer base here in Texas. According to one com-

Table 3
Respondent Profile

Type of industry	Country of origin	Investment in Texas (millions \$U.S.)
plastics	Canada	5.0
machinery	Canada	1.5
plastics	Canada	2.5
plastics	Mexico	0.3
injection molding	Sweden	3.5
semiconductor	Japan	30.0
plastics	France	10.0
aircraft products	Canada	0.1
precision metal products	Singapore	12.0
plastics	Sweden	3.5
chemicals	Japan	n.a.
hog production	Japan	100.0

pany, “the real cost of expanding is difficult to calculate, plus we are close to one of our main customers and they like to have their suppliers close by.” The two companies that indicated they would relocate if offered incentives gave the following reasons: “economics is the bottom line” and “only if the cost of doing business was a lot lower.”

In the next 12-24 months do you anticipate further expansion? Approximately 75 percent of the respondents indicated that they do anticipate expansion. Of these, 100 percent said that Texas would be considered in their expansion plans. This response has some very positive implications: it indicates that the majority of these foreign firms have had positive experiences here and view the state as a good place to do business, and it describes a healthy, growing economy. Most importantly, it indicates that Texas will be considered for continued business expansions by these firms, which means the potential for new jobs for Texans.

Conclusion

Given the small number of responses and the uncertainty about the overall number of foreign firms in the state, the results of this survey cannot be generalized. Nevertheless, the responses of the surveyed firms were marked by several recurring themes—namely, the importance of proximity to customers and the strength of the Texas labor market as a factor in the firms’ location decisions and in their plans to remain in the state—that can serve as clues to what drives foreign investment decisions in general. Ideally, further research would show that these positive findings would hold true for a larger sample of firms.

Notes

1. U.S. Bureau of Economic Analysis, *Foreign Direct Investment in the United States: 1997 Benchmark Survey, Preliminary Results*.

2. Furthermore, registering businesses is largely performed at the state level, so there are very few federal records that provide data on specific foreign corporations operating in the United States. Federal records on foreign companies are primarily financial in nature, such as tax returns and corporate filings with the Security and Exchange Commission. (Many corporate filings, such as annual reports, are accessible through the SEC’s Electronic Data Gathering, Analysis, and Retrieval database at www.sec.gov/edaux/searches.htm.) These records are often lengthy, complex and, in the case of tax returns, confidential. There are some private sources for identifying foreign corporations, but these are often incomplete and may be prohibitively expensive.

3. See www.irs.gov/tax_stats/inter.html for a list of international data products.

4. Ironically, employment at Dutch-owned firms in the state actually decreased over the ten-year period between 1987 and 1997, falling from 35,200 to 22,700. Because of the large Dutch investments in the petroleum and petrochemical sectors, much of this reduction can likely be attributed to the overall employment decline in these sectors during the period.

5. The BEA 1997 *Benchmark Survey* uses the new North American Industrial Classification System (NAICS), making comparisons with earlier industrial data exceedingly difficult in some cases.

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