

# Foreign Direct Investment: A Source of Jobs for Tenth District States?

By Tim R. Smith

**A** rising wave of foreign direct investment in the United States is receiving widespread attention. Lagging regions of the nation view firms with foreign ownership as potentially strong sources of job creation. To boost the economic outlook, public officials in Tenth District states—Colorado, Kansas, Missouri, Nebraska, New Mexico, Oklahoma, and Wyoming—are increasing their efforts to attract foreign investment in business enterprises. But some observers question whether the new emphasis on such investment is likely to lead

to significant improvement in employment growth.

In light of these developments, this article discusses the efforts of district states to attract foreign direct investment and examines the potential impact of these efforts on employment levels. The first section of the article documents the recent rapid growth in foreign direct investment in the United States and the region, and describes efforts by public officials in district states to increase this activity. The second section evaluates district efforts and policy alternatives in light of recent studies of the potential benefits and costs of state recruitment efforts. The third section discusses the potential employment benefits of efforts to attract foreign direct investment relative to overall regional employment growth. The article concludes that the states' recruitment efforts should be directed at the overall state economic environment rather than at tax incentives or other direct financial inducements.

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## I. INCREASED INTEREST IN FOREIGN DIRECT INVESTMENT

The rapid nationwide growth of foreign direct investment and related employment has led to a heightened interest by Tenth District state policymakers in attracting foreign direct investment. Foreign direct investment is defined in this article as direct or indirect foreign ownership of 10 percent or more of the voting securities of a corporation or an equivalent interest if an unincorporated business. Therefore, this definition includes investments such as manufacturing plant and equipment, retail stores, or real estate, but it does not include foreign portfolio investments in bank deposits, non-voting securities, and U.S. Treasury securities.<sup>1</sup> This section describes the growth in foreign investment in business enterprises, both in the nation and in the region, and highlights the important features of recent efforts by district states to increase this growth.

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<sup>1</sup> This definition of foreign direct investment and the indicators of growth in this investment used in this article correspond directly with the Commerce Department's definition of a U.S. affiliate: "A U.S. business enterprise in which a single foreign person owns or controls, directly or indirectly, 10 percent or more of the voting securities if an incorporated business enterprise or an equivalent interest if an unincorporated business enterprise." Foreign-owned property, plant, and equipment are the value of these assets at U.S. affiliates, and employment related to foreign direct investment is employment at U.S. affiliates. The foreign direct investment data presented in this article are from "U.S. Affiliate Financial and Operating Data—Nonbank U.S. Affiliates," provided on magnetic tape by the U.S. Department of Commerce, Bureau of Economic Analysis. Foreign portfolio investments in bank deposits, non-voting securities, and U.S. Treasury securities are not included. The foreign direct investment data are described and summarized in Howenstine 1988.

## The rise in foreign direct investment in the United States

Two indicators of foreign direct investment in the United States have grown significantly since the late 1970s. The real value of foreign-owned property, plant, and equipment increased at an average annual rate of 14.6 percent from 1977 to 1986.<sup>2</sup> Similarly, employment related to foreign direct investment in the nation grew at an average annual rate of 10.4 percent over the period (Chart 1).<sup>3</sup>

These two indicators of foreign direct investment have grown even more rapidly in Tenth District states. The real value of foreign-owned property, plant, and equipment increased at an average annual rate of 17 percent from 1977 to 1986. Similarly, employment related to foreign direct investment in district states grew at an average annual rate of 10.9 percent (Chart 2).

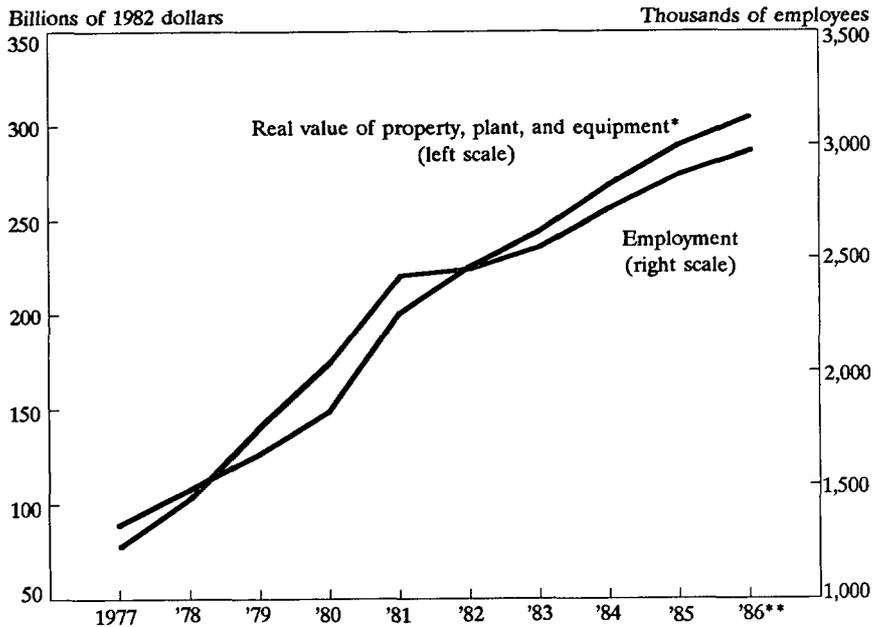
The extraordinary growth in foreign direct investment in the nation and in the region has

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<sup>2</sup> Because over half of foreign direct investments are acquisitions (Herr 1988), these measures do not always represent a net addition to business fixed investment or employment. For example, the acquisition of 10 percent or more of the equity in a U.S. firm by a foreign firm represents an increase in foreign direct investment, but domestic business fixed investment would probably increase less. Likewise, an increase in foreign direct investment does not always result in a commensurate increase in employment. Nonetheless, these measures provide an approximation of the levels of economic activity associated with foreign direct investment.

<sup>3</sup> As Chart 1 shows, the rate of growth in foreign-based employment slowed significantly after 1981. The slower growth from 1982 to 1986 was partly due to increased sales and liquidations of foreign investments, which offset some of the acquisitions and establishments of U.S. firms by foreigners (Howenstine 1988).

**CHART 1**  
**Foreign direct investment in the United States, 1977-86**



\*The real value of property, plant, and equipment was approximated by deflating nominal values with the fixed-weight price index for gross private nonresidential investment.

\*\*Preliminary.

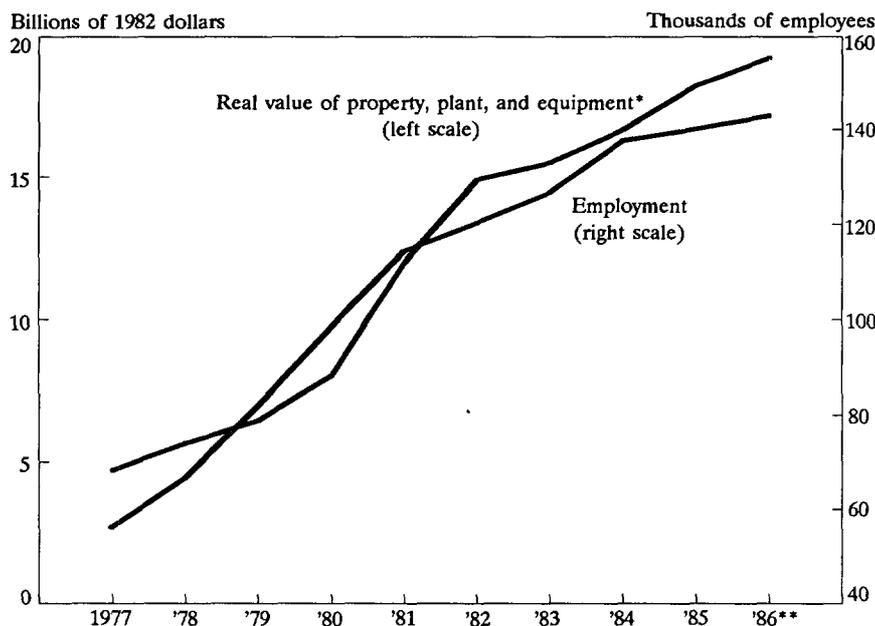
Sources: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data from "U.S. Affiliate Financial and Operating Data—Nonbank U.S. Affiliates," and U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, Table 7.1.

attracted the attention of public officials in district states. In particular, the rapid growth of foreign-based employment has played an especially important role in prompting state policymakers to bolster lagging state economies by attracting more foreign direct investment. Although the exact nature of the recruitment programs varies from state to state, several common characteristics of these programs have emerged.

### **State efforts to attract foreign direct investment**

Initiatives geared toward attracting foreign direct investment represent a new and increasingly important facet of economic development programs in Tenth District states. All district states expect to increase this facet of economic development. Although such efforts often go hand in hand with efforts to promote state

**CHART 2**  
**Foreign direct investment in the Tenth District, 1977-86**



\*The real value of property, plant, and equipment was approximated by deflating nominal values with the fixed-weight price index for gross private nonresidential investment.

\*\*Preliminary.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data from "U.S. Affiliate Financial and Operating Data—Nonbank U.S. Affiliates," and U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Accounts, Table 7.1.

exports, this article concentrates exclusively on state initiatives to attract foreign direct investment.<sup>4</sup>

States' efforts to attract foreign direct investment generally fall into two main categories. The first category includes all activities

that provide foreign businesses with information about the business climates of the states. The second category includes direct incentives to foreign investment. Most recruitment efforts by district states currently fall into the first category.

*Providing information.* The chief way Tenth District economic development agencies attract foreign direct investment is through providing information about state economic environments. All district states collect and disseminate state economic information, which

<sup>4</sup> Telephone interviews with state economic development officials were used to supplement information from the National Association of State Development Agencies 1986 and Berry and Mussen 1980.

foreign investors use to make location decisions. Most state governments also attempt to reduce foreign investors' costs of acquiring information about their state through promotional activities, such as advertising in foreign trade publications or participating in international trade shows.

Establishing more offices abroad has been the most significant recent change in district states' commitment to these informational strategies. Although Nebraska and New Mexico have no offices overseas, several other states have recently added offices.

District states target informational activities predominantly at Pacific Rim countries. Most states have either established offices in Japan and Taiwan or have identified these countries as targets for future promotional efforts. Wyoming has maintained an office in Australia and currently operates an office in Taiwan. Only a few states have aimed their information strategies at Western Europe. Kansas and Missouri, for example, maintain offices in West Germany.

*Direct incentives.* Direct incentives offered by Tenth District states fall into three main categories: tax incentives, financial assistance, and employment assistance. These incentives are generally offered to all potential sources of foreign direct investment. Only rarely are individual foreign businesses targets of state incentive packages. Moreover, these incentives are often provided to both foreign and domestic businesses.

Tax incentives, the first category of direct incentives, most commonly take the form of tax credits tied to job creation and property tax abatement in district states. All states that provide tax incentives make them available to all potential investors, foreign or domestic.

Nebraska's efforts to retain business and encourage business formation and expansion through tax incentives have been well publicized. An important feature of Nebraska's tax incentives is that they are performance-based—that is, the incentives are tied to the number of jobs created by the investment. Wyoming promotes its entire tax structure—especially the absence of business taxes and state income tax—to potential investors.

Financial assistance, such as low-interest loans, loan guarantees, private activity bonds, or cash grants, constitutes the second category of direct incentives.<sup>5</sup> However, these measures are not widely used to attract foreign businesses to district states. Only two states rely heavily on direct financial assistance, and one of those states plans to significantly deemphasize direct financial incentives this year.

Employment assistance, the third category of direct incentives, primarily takes the form of job training in district states. But the importance of employment assistance varies considerably from state to state. Some states have no employment assistance programs, while other states maintain extensive job training programs. For example, Colorado's First Customized Training Program provides trained labor for new and expanding firms in the state.

District states are placing more emphasis on efforts to attract foreign direct investment, but so far these efforts have been modest. The core of these efforts has been to provide information about state business climates to foreign

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<sup>5</sup> Most bonds issued under the federal Industrial Revenue Bond Program are now called private activity bonds instead of industrial revenue bonds. The interest on these bonds is exempt from federal tax.

businesses. To date, district states have offered few direct incentives.<sup>6</sup>

## II. EVALUATING STATE RECRUITMENT EFFORTS

Knowing how state policymakers can influence business location is a necessary step in evaluating the potential effectiveness of current state efforts to attract foreign direct investment. Another important step is understanding the benefits and costs of state recruitment efforts. This section discusses how public policy can influence business location, the potential benefits and costs of recruitment efforts by Tenth District states, and alternatives for future recruitment programs.

### The role of public policy in business location

State efforts to attract foreign direct investment should be viewed as part of a larger class of economic development efforts. All states engage in some kind of economic development. Among other things, states compete with other states for businesses with potential to increase economic activity and generate tax revenue. Because of recent growth in foreign direct investment, states are singling out foreign businesses as targets of economic development efforts.

Any determination of the effects of state policy on the location of foreign direct invest-

ment must rely on studies of business location. To help guide state policymakers, economists have studied the location of new businesses and branch facilities and have identified key location factors.<sup>7</sup> Most of these studies focus on the location of domestic businesses. However, limited evidence suggests that the same factors that influence domestic businesses also influence foreign businesses locating offices or plants in the United States.<sup>8</sup> Both types of businesses try to choose a location that will enhance revenues and lower costs.

Researchers generally agree that two sets of factors—environmental and discretionary— influence business location decisions. The first set of location factors pertains to a state's overall economic environment, such as labor market conditions, access to markets, transportation, education, tax structure, weather, and quality of life. These environmental factors are the most important influences on business location. The second set of location factors includes more narrowly defined policy elements, such as tax incentives and direct financial incentives. These discretionary factors have been found to have only small effects on business location.<sup>9</sup>

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<sup>7</sup> The findings of recent location studies summarized in this section are largely based on a review of the business location literature provided in Wasylenko 1985.

<sup>8</sup> Two studies that specifically address foreign business location are Arpan and Ricks 1975 and Coughlin and Morgan 1988. General location patterns of foreign businesses are discussed in two additional studies: O hUallachain 1985 and Little 1983.

<sup>9</sup> Methodological differences among location studies lead to differences in the measured effects of individual factors. For example, location determinants are not the same for all industries. However, the class of broad business-climate variables that affect the revenues and costs of businesses are generally considered to be more important determinants of

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<sup>6</sup> Interviews with state economic development officials may understate the use of direct incentives in district states because local governments can also offer tax incentives and other financial inducements.

Both environmental and discretionary location factors offer opportunities for state policymakers to influence business location. Most of the environmental factors can be enhanced by long-range economic development programs, but policymakers have little control over these environmental factors in the short run. Public policy cannot influence weather and some quality-of-life factors, and changes in other broad environmental factors can be accomplished only over a long period of time. Roads and airports can be built to improve a state's transportation infrastructure, and university curriculums or research programs can be altered to improve a state's educational environment. But changes like these cannot be made overnight.

As a consequence of both the long-range nature of the environmental location factors and of the generally shorter tenure of state policymakers, states have come to rely on two key discretionary factors to attract foreign direct investment. States offer tax incentives or other direct financial incentives to influence more quickly the pattern of business location. The efforts to attract foreign direct investment to district states described above clearly feature some policies oriented toward these discretionary factors.

Although more controllable by state policymakers in the short run, discretionary factors are generally considered secondary influences on business location. State efforts to influence the location of foreign businesses through tax incentives and direct financial incentives will

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business location than narrowly defined fiscal variables, such as taxes and direct financial incentives (Wasylenko 1985 and Wasylenko and McGuire 1985).

have the largest effect in states with business climates that are highly unfavorable compared with competing locations. Otherwise the location decision will be influenced primarily by environmental factors.<sup>10</sup>

Recent location studies have found that in some cases taxes affect business location.<sup>11</sup> However, state efforts to attract foreign direct investment through tax incentives are not likely to have much of an impact except in states where taxes are much higher than in other states. For example, partial tax reductions through exemptions, deductions, credits, or abatements are not likely to change location decisions made on the basis of environmental factors.<sup>12</sup>

Similarly, direct financial incentives may be only marginally successful at attracting foreign direct investment. State programs such as direct state loans, loan guarantees, private activity bonds, and cash grants affect business location by reducing the cost of borrowing. While some location studies have found that direct incentives have a positive effect on business location, the effect is not big enough

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<sup>10</sup> Aggregate results from cross-section studies cannot be used to draw conclusions about individual states. Instead, the position of an individual state relative to other states with respect to statistically significant location factors determines the ultimate effect of these factors on business location and employment growth in that state (Wasylenko 1985 and Wasylenko and McGuire 1985).

<sup>11</sup> The following studies provide some empirical support for the contention that taxes influence business location: Plaut and Pluta 1983, Newman 1983, Bartik 1985, and Wasylenko and McGuire 1985.

<sup>12</sup> See footnote 9.

to offset the locational effects of other factors.<sup>13</sup>

The short-run focus of state policymakers, therefore, is in direct contradiction to the evidence on the importance of long-run environmental factors to business location. This evidence suggests that changes in environmental factors will likely have a larger impact on the geographical distribution of direct investment—both foreign and domestic—than attention to discretionary factors.

### **Benefits and costs of state recruitment efforts**

Recent studies of business location suggest that states can do little in the short run to influence the location of firms. Further, the economic benefits of state efforts to change their business climates through tax policy or direct financial incentives are likely to be small, simply because these measures have only a small influence on business location. Of course, the benefits and costs of recruitment efforts differ from state to state. Each state must balance the potential benefits of their efforts against their costs.

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<sup>13</sup> Evidence about the effects of financial incentives is less abundant than evidence about taxes. Most studies use some index of business climate factors, which blurs the distinction between individual types of financial incentives. For example, Plaut and Pluta 1983 finds that an adverse business-climate rank has a negative and statistically significant relationship with state employment growth. However, the reasoning put forward in footnote 10 implies that the size of the effect will depend on the relative position of states with respect to financial incentives offered. On the other hand, some evidence suggests that direct incentives offered specifically to foreign-based firms are ineffective (Coughlin and Morgan 1988).

The potential benefits of increased foreign direct investment generally involve heightened economic activity through added employment. New foreign plants or offices contribute directly to job growth in a state, and foreign acquisitions of existing businesses may also provide a needed infusion of capital or improved management.

The employment generated by direct foreign investment spawns other benefits. For example, purchases of intermediate products and services by a foreign manufacturing plant may significantly improve business activity in the region near the plant. Moreover, the incomes stemming directly from new foreign businesses are multiplied when these incomes are used to purchase other goods and services in a state. States may also benefit from increased business-tax revenues and income-tax revenues from the payrolls of foreign affiliates. Another related benefit is a reduction in unemployment and welfare costs to the extent that the employees of foreign businesses were previously unemployed.

The main costs of state efforts to attract foreign direct investment are expenses associated with providing information and direct financial incentives or forgone tax revenues from tax incentives. Significant costs can also be incurred in designing and administering recruitment programs. Other indirect costs include the effects on profits of existing businesses as new businesses compete in local markets for products and productive inputs. For example, when a new foreign business depends on local product and labor markets, it can reduce the profits of existing businesses as it lowers product prices to attract customers and raises wages to attract workers.

Generalizations about the nature of benefits

and costs of state efforts to attract foreign direct investment provide only a rough guide for public policy. Each initiative must be evaluated by state policymakers in terms of its benefits and costs. The limited effectiveness of policies aimed at discretionary factors suggests that the benefits of large-scale tax incentives or financial inducements may be outweighed by their considerable costs. On the other hand, the potential benefits of some activities, such as providing information, may outweigh their costs.<sup>14</sup> For example, Kansas views its informational strategy as a cost-effective recruitment tool. Kansas policymakers seek to increase jobs by heightening foreign investors' awareness of the state's nonagricultural industries, such as aircraft and automobile manufacturing.

The benefits and costs of efforts targeted at individual foreign businesses may be quite different than the benefits and costs of more broadly applied incentives. In principle, targeted incentives could be designed to secure benefits that are more likely to exceed costs. For example, the economic benefits of the Nissan automobile assembly plant in Tennessee have probably made the inducements involved in its location decision worthwhile public expenditures.<sup>15</sup> But state policymakers should consider all costs, both direct and indirect, including the administrative costs incurred in

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<sup>14</sup> Although there is little direct evidence of the cost effectiveness of providing information, the overall importance of environmental location factors suggests that the benefits of advertising a favorable business environment likely would outweigh the cost of that advertising. Of course, establishing such a favorable business environment is a prerequisite.

<sup>15</sup> For a detailed discussion of the Nissan case, see Fox undated.

designing an incentive package, identifying foreign targets, and negotiating with recipients.

## Policy directions

State policymakers can use information about business-location decisions and the nature of the benefits and costs of state recruitment efforts to provide guidance for public policy. And because district state policies to attract foreign direct investment are still relatively new, state policymakers have an opportunity to develop programs that offer probable results while being cost effective.

District states can improve their efforts to attract foreign direct investment by taking a long-range view, emphasizing the relatively more important environmental location factors over discretionary factors. For example, district states should probably maintain a relatively low emphasis on costly efforts aimed at discretionary location factors. Given the recent findings of location studies, tax incentives and other direct financial incentives will likely have only limited success in attracting foreign direct investment and thereby yield limited economic benefits for district states.<sup>16</sup>

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<sup>16</sup> The costs of tax incentives are especially likely to outweigh their benefits in Tenth District states because the tax climates of these states already compare favorably with the national average. Tax effort in district states—state and local tax collections measured against the potential ability of state and local governments to obtain revenues—generally averages about 10 percent below tax effort nationwide. An index of state tax effort averaged 92.4 for a representative tax system in 1986 for district states, compared with the U.S. index of 100.00. Among district states, tax effort exceeded nationwide tax effort only in Wyoming, where severance taxes on mining firms and property taxes offset the absence of a state corporate or personal income tax. For a detailed discussion of state tax efforts, see Advisory Commission on Intergovernmental Relations 1989.

District states probably should continue to disseminate information to potential investors because potential investors from abroad likely have only scant knowledge of the region. Information about interior regions of the United States, such as the Tenth District states, may be more difficult to obtain abroad than information about the coastal regions, where there are larger numbers of foreign businesses. Therefore, state governments in the district presumably can play an important role in attracting foreign investment simply by providing information about the attractive characteristics of their business climates.<sup>17</sup> Such efforts are a relatively low-cost way of changing foreign investors' perception of a state. Providing information, however, cannot overcome unfavorable environmental factors, such as adverse weather or a poor educational system.

States should coordinate their efforts to attract foreign direct investment with broader economic development programs. Although long range in nature, broad economic development programs can address environmental location factors. For example, strategies to enhance a state's transportation infrastructure or educational system are probably better strategies in the long run for attracting foreign investment than policies aimed at discretionary factors. Development programs should focus on effective ways to spend tax revenues rather than on the taxes themselves. Even high-tax states might more effectively attract foreign direct invest-

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<sup>17</sup> Evidence about tax effort in Tenth District states suggests that the narrowly defined business climates of these states may compare favorably with many other states. See footnote 16.

ment by reallocating tax revenues to more highly valued public services, such as education, health, and public safety.<sup>18</sup>

Failure to coordinate foreign investment promotion with other economic development activities can undercut a state's efforts to provide information. Clearly, advertising a state's economic environment will not be effective if the state's economic environment is unfavorable. Progress in formulating overall state economic development strategies and any resulting improvement in the regional business climate would obviously enhance the informational efforts of district states.

The effectiveness of incentives targeted at individual businesses is not well understood. Conclusions about broadly applied recruitment efforts cannot be extended to those efforts targeted at individual businesses. Some states have won handsome prizes by offering large packages of direct financial assistance and tax incentives to individual foreign businesses. For example, lucrative incentives offered by Kentucky no doubt played a role in Toyota's decision to locate an assembly plant in that state. But such prizes are rare and costly to obtain, and there is little evidence to suggest that such a strategy can be universally successful.<sup>19</sup>

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<sup>18</sup> Helms 1985 concludes that higher state taxes retard economic growth when the revenue is used to fund transfer payments. But if the additional revenue is used to fund education or some other public service, such as health and public safety, the improved economic performance may outweigh the negative influence of the tax. For further information on this issue, see Brown 1987.

<sup>19</sup> Even when targeted incentives are successful in attracting a foreign business, the economic benefits may fall short of expectations. For example, the Toyota plant in Kentucky may be unable to provide benefits to offset the substantial recruitment costs incurred by the state.

Nevertheless, a well-developed strategy of targeting individual businesses, one that carefully weighs the costs and benefits of each case, could be less costly than broadly applied incentives. And if such a strategy has realistic objectives about which foreign businesses might be attracted to the region, its benefits could outweigh its costs.

Recent knowledge about business location and a general understanding of the benefits and costs of state efforts to attract foreign direct investment suggest some general directions for public policy. State policymakers must ask which of these efforts are more likely to attract foreign direct investment and provide benefits that exceed costs. Policymakers also need to ask whether the potential employment effects of foreign direct investment are large relative to other sectors of their state economies.

### **III. POTENTIAL EMPLOYMENT EFFECTS**

Even with the most effective efforts to attract foreign direct investment, the question remains: Are Tenth District states likely to realize large economic benefits? To answer this question, economic activity associated with foreign direct investment must be put in perspective.

Absolute levels of economic activity directly associated with foreign direct investment have grown rapidly, but this activity remains a small share of overall economic activity. Total employment in district states grew more than 1 million from 1977 to 1986, but jobs at affiliates of foreign firms accounted for a relatively small 9 percent of that growth.

One measure of the importance of foreign direct investment is the associated share of total

employment. The share of total employment associated with foreign direct investment, while nearly doubling from 1977 to 1986, remains quite small. Foreign direct investment accounted for 3.6 percent of total private national employment in 1986, up from 1.9 percent in 1977 (Chart 3). In district states, foreign direct investment accounted for an even smaller 2.6 percent of total private employment in 1986. Moreover, foreign direct investment accounted for smaller shares of employment in all district states than in the nation (Chart 4).

Manufacturing is the industry that has attracted the most foreign direct investment and received the most attention from state policymakers. Yet foreign direct investment accounts for only 7.4 percent of total manufacturing employment in the United States and only 6.0 percent in the district (Chart 5). And the share of total manufacturing employment accounted for by foreign direct investment is smaller in four of the seven district states than in the nation.

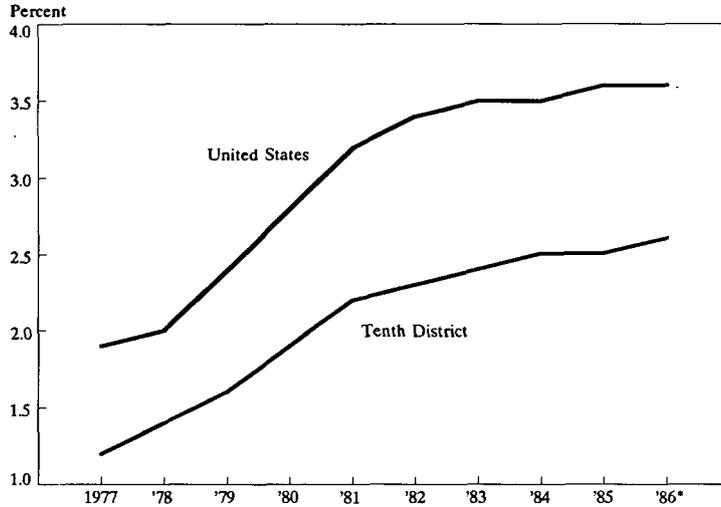
If foreign investment in manufacturing enterprises does not promise large economic benefits to district states, can states capture such benefits from foreign direct investment in other industries? For example, the foreign shares of mining and petroleum employment in the nation are larger than the foreign share of manufacturing employment (Chart 6).<sup>20</sup> This fact sug-

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<sup>20</sup> The major industry classification "petroleum" includes all of the various three-digit petroleum subindustries identified by the Bureau of Economic Analysis. All other major industries exclude these petroleum subindustries. For example, mining excludes crude petroleum and gas, manufacturing excludes petroleum refining and coal products, and trade excludes gasoline service stations and wholesale petroleum trade.

**CHART 3**

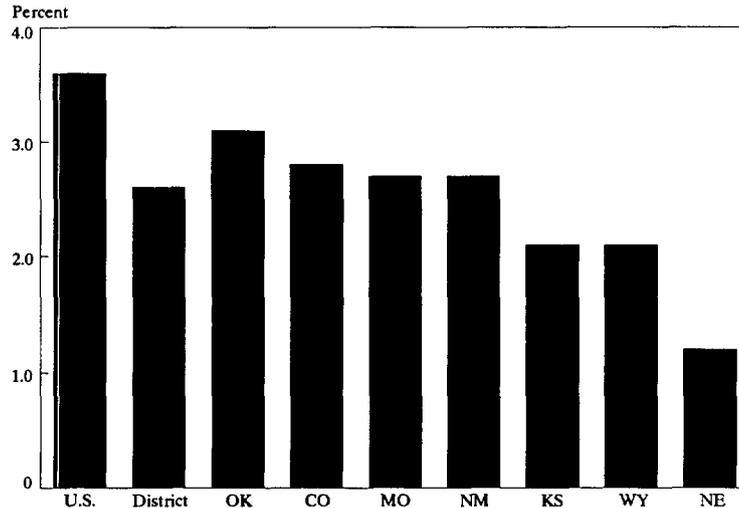
**Foreign share of total employment, U.S. and Tenth District, 1977-86**



\*Preliminary.

**CHART 4**

**Foreign share of total employment in Tenth District states, 1986**

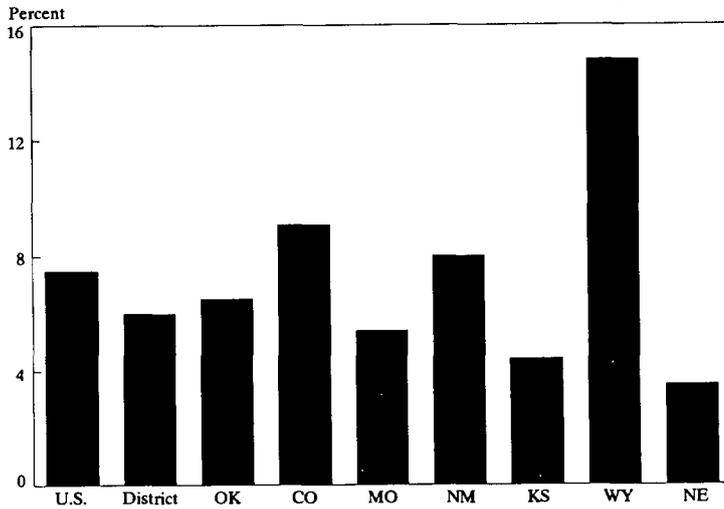


Note: Total employment includes only employment at privately owned establishments; government-owned establishments are excluded. Data for employment shares are preliminary.

Sources: U.S. Department of Commerce, Bureau of Economic Analysis, unpublished data from "U.S. Affiliate Financial and Operating Data—Nonbank U.S. Affiliates," and Bureau of Labor Statistics, unpublished employment data from ES-202 magnetic tapes.

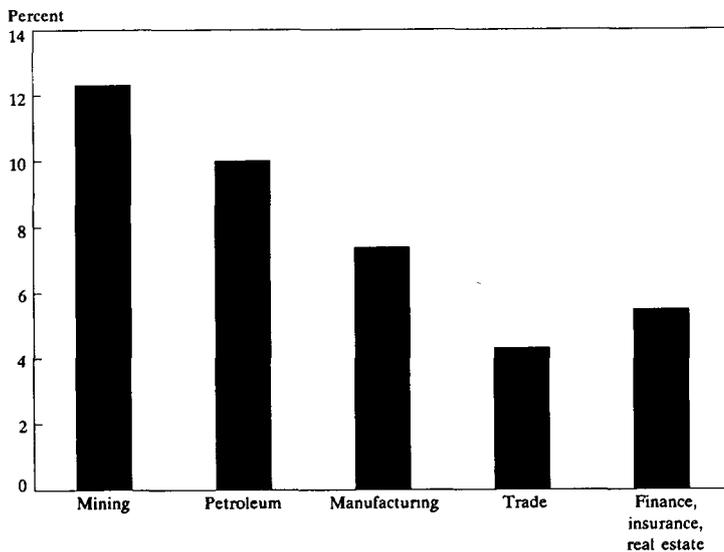
**CHART 5**

**Foreign share of manufacturing employment, U.S. and Tenth District states, 1986**



**CHART 6**

**Foreign share of employment in the U.S., by industry, 1986**



Note: Total employment includes only employment at privately owned establishments; government-owned establishments are excluded. Data for employment shares are preliminary.

Sources: See sources for charts 3 and 4.

gests that state leaders might try to attract foreign direct investment in mining and petroleum industries to generate jobs. Such a strategy probably offers little promise, however. Even if district states look toward mining—the industry with the largest foreign employment share—for foreign-based job growth, the overall impact on employment will likely be small, because mining accounts for a relatively small share of district employment (Table 1).<sup>21</sup> Thus, the impact on employment growth of district states' efforts to attract foreign direct investment in industries with larger than average foreign employment shares will probably be small, because these industries make up a relatively small share of the district economy. Moreover, foreign direct investment in industries such as trade, which make up a large share of the district economy, is likely to have a small employment impact because the foreign share of employment in these industries is small.

Despite the rapid growth of foreign direct investment, such investment accounts for only a small share of total employment in the district. And while foreign shares of employment are larger in some individual industries, such as manufacturing and mining, the district's industry mix suggests that foreign direct investment in these industries will not likely be a major

<sup>21</sup> Petroleum is not separated from the other industry categories in Chart 6 because sufficient industry detail is not available for Tenth District states. Although data limitations prevent the calculation of the petroleum share of employment in the Tenth District, it is probably somewhat larger than the 15 percent national share. Employment in the petroleum industry nonetheless represents a relatively small share of district employment.

TABLE 1  
**Industry shares of total employment, Tenth District and United States, 1986**  
 (percent)

Industry	Tenth District	United States
Mining	2.3	0.9
Manufacturing	19.4	23.1
Trade	30.9	28.8
Finance, insurance, and real estate	7.6	7.5
Services	25.5	26.1
Other	14.3	13.6
	100.0	100.0

Note: Total employment includes only employment at privately owned establishments; government-owned establishments are excluded. Data are preliminary.

Source: Unpublished data from U.S. Department of Labor, Bureau of Labor Statistics, ES-202 series.

source of job growth. Therefore, even well-focused efforts to attract foreign direct investment may not yield large economic benefits.

#### IV. CONCLUSIONS

Substantial growth in foreign direct investment and related job growth have prompted state and local policymakers to recruit this investment. Policymakers in Tenth District states only recently have begun to formulate specific initiatives aimed at attracting foreign direct investment. Because these efforts are still in a formative stage, they can and should be guided by recent information about business location.

Business location studies suggest that environmental factors, such as labor market con-

ditions, transportation, and education, rather than discretionary factors, such as taxes and direct financial incentives, are the primary determinants of business location. Furthermore, states can do little in the short run to influence the location of foreign businesses. Discretionary factors can be altered in the short run, but are not likely to outweigh the effects of environmental factors, which change slowly. These relationships between public policy and business location factors suggest that states should seek to improve their economic environments in the long run instead of increasing emphasis on short-run incentives. By taking a long-range approach, states in the region can integrate efforts to recruit foreign direct invest-

ment with broader economic development goals.

Recruitment efforts aimed at foreign direct investment in industries with the largest shares of employment will likely improve the outlook for foreign direct investment in Tenth District states, but the overall impact on employment will probably be small. Therefore, states should carefully consider the potential benefits and costs of these recruitment efforts. Given the small overall employment impact of foreign direct investment in district states, state policymakers need to view recruiting foreign businesses as only one of many strategies to achieve broad economic development objectives.