

# *I: Foreign investments*



*Top illustration using Google Earth*

# The good foreign occupation

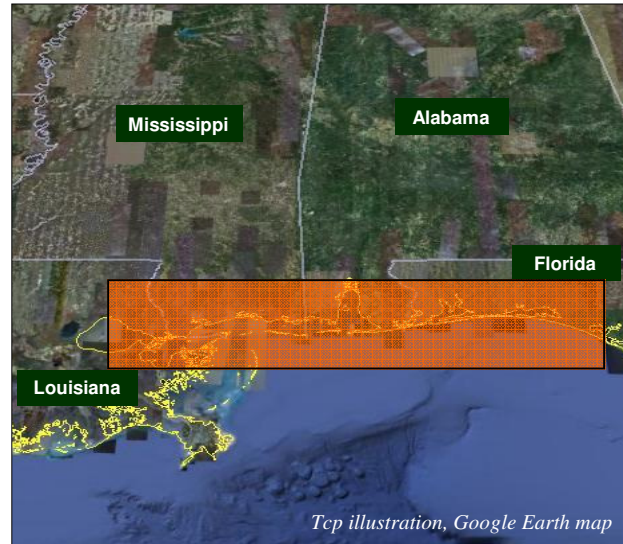
*China is just the latest foreign country to invest in the Gulf Coast aerospace corridor, and it's unlikely to be the last to see the region as a good beachhead...*

There was hardly a ripple in Mobile, Ala., when it was announced in December that a Chinese company would be buying Teledyne Continental Motors Inc., an aerospace company that has been a long-time fixture of the Alabama port city, going back to the 1960s.

The deal slipped under the radar in part because the city was focused on a ferocious fight to build refueling tankers for the U.S. Air Force. EADS, the European parent of Airbus, was battling Boeing Co. for the \$40 billion tanker contract, and the stakes were high for Mobile.

An EADS win would have brought a \$600 million aircraft assembly plant to the city's Brookley Aeroplex. With the tanker competition in its final stages, the arrival of China's AVIC International was relatively unheralded. That was just fine with AVIC, which wanted a quiet introduction to its new home in the United States.

The company's Chinese executives spent months studying the community before closing the deal. They said they were pleased to discover a place where foreign companies are thriving



## Story at a glance

- Multiple foreign countries represented in the Gulf Coast aerospace corridor
- Foreign interest in the Gulf Coast prompted China's AVIC purchase
- Aerospace companies following trail blazed by auto manufacturers
- State leaders from Alabama, Florida, Louisiana and Mississippi hungry for more
- Region has had sites in the final running for aerospace plants several times
- States act as a team on trips to international air shows

and welcomed as partners in both business and social life.

"We were attracted to Mobile's international focus and the continually growing concentration of aviation-related international companies in the Mobile area," said Wu Guangquan, president and CEO of AVIC International.

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*By George Talbot*

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## Part I: Foreign investments



*Airbus North America photo*

Airbus Engineering Center at Brookley Aeroplex in Mobile, Ala. Brookley is a former military base and home to a number of aerospace companies. EADS chose it for a tanker assembly plant, but lost the bid to Boeing.

With that announcement, AVIC became just the latest foreign company to take root on the Gulf Coast. It joins scores of others from Europe and Asia that have established a beachhead in the region, which has a long tradition of global trade through its network of deepwater ports.

Published reports show Mobile alone has 35 foreign companies represented in the city and South Mississippi counts 18. Many of them are engaged in the defense industry, including aerospace and shipbuilding.

They include global players like BAE Systems, which has had a U.S. subsidiary for so long it barely seems British. But there also are upstarts

like Austal USA, an Australian shipbuilder that has gone from humble beginnings on the Mobile waterfront to a major supplier of U.S. Navy warships.

### **The flip side of outsourcing**

It's not surprising that economic development officials in the Gulf Coast region are big believers in "insourcing," where foreign companies invest in the United States and create jobs. That's how Gulf Coast officials viewed EADS's plans to assemble Air Force tankers in Mobile - and why they're still smarting over the Air Force's decision in February to award the contract to Chicago-based Boeing.

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The project, which also included plans to assemble Airbus A330 jets for the commercial market, would have transformed Brookley into the world's third major center of large aircraft production. Boeing's manufacturing hub in the Seattle area and the Airbus headquarters in Toulouse, France, are powerful economic engines.

EADS vowed to hire and train 1,500 new aerospace workers to staff the plant, with thousands more jobs spread to supplier companies in Mississippi and Northwest Florida.

But the EADS loss exposed many of the challenges that foreign companies can face, particularly when battling American firms like Boeing on their home turf.

The U.S. recession has raised pressure on Congress to protect American manufacturers against foreign competition. But trade experts said Alabama, Mississippi and other Southern states are helping change attitudes about the value of foreign investment.

"Economic reality generally trumps stubborn nationalist pride," writes Micheline Maynard in her 2009 book, *The Selling of the U.S. Economy*. "No matter how much some pundits would wish American companies to have a lock on every dollar earned in the United States, we cannot expect an economy fueled only by American investment – nor should we want one."

According to the Organization for International Investment, which represents the U.S. operations of global companies, some 5.6 million Americans owe their jobs to the investment of foreign-owned companies. The annual payroll is significant: \$408.5 billion.

According to a March 2011 report by OFII, foreign direct investment in the United States in 2010 was \$194.5 billion, up 44 percent from the previous year and the fourth highest year for foreign investment in the past 10 years. Switzerland, the United Kingdom, Japan, France, Germany, Luxembourg and the Netherlands accounted for 79 percent of the 2010 investments.

Florida and Alabama are both among the top states for foreign investments. In Florida, the



### South Alabama

**Aerospace highlights:** Home of a major industrial park at a former Air Force Base; commercial airport is home to several aerospace companies as well as air activities of the U.S. Coast Guard.

**Counties:** Mobile; Baldwin

**Key cities:** Mobile; Foley; Bay Minette; Gulf Shores; Orange Beach

**Population (est. 2010):** 595,133

**Workforce (2008):** 217,879

**Local economic development:**

- Mobile Area Chamber of Commerce (251) 433-6951
- Baldwin Economic Development Alliance (251) 947-2445

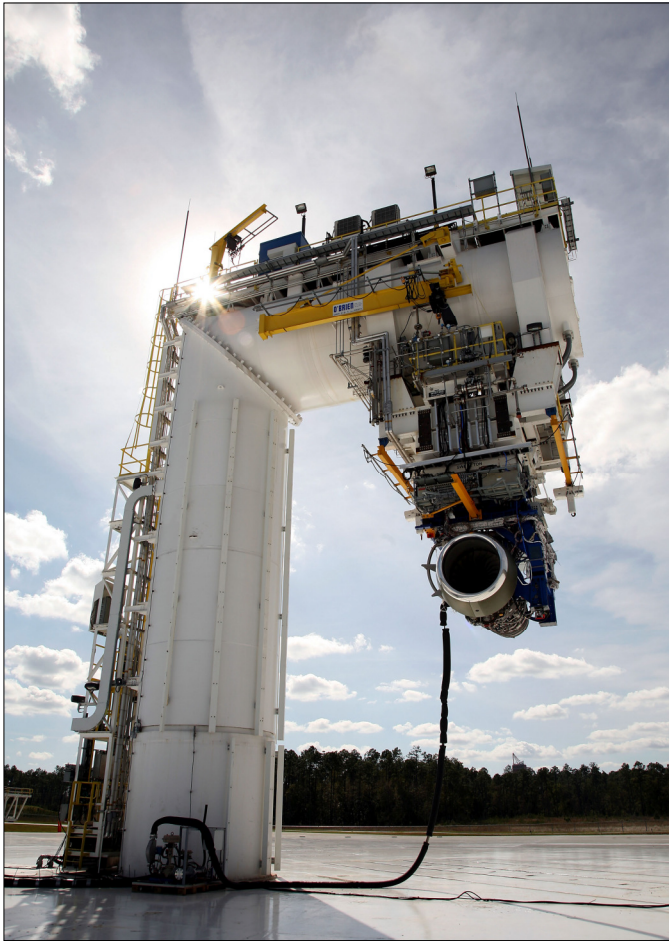
**State economic development:**

- Alabama Development Office (334) 242-0400

U.S. subsidiaries of global companies account for 254,000 jobs, 4 percent of the state's private-sector workforce. That's enough to rank Florida 6th in the nation for the number of jobs that draw a paycheck from the U.S. subsidiaries of global companies.

In Alabama, companies with foreign roots account for 78,400 jobs, employing nearly 5 percent of Alabama's private-sector workforce.

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*Rolls-Royce photo*

Rolls-Royce tests commercial jet engines at NASA's Stennis Space Center, Miss. They are flown in and out of nearby Stennis International Airport in Kiln, Miss.

tributes of an area and spur additional investment.

Foreign companies invest in the United States for a variety of reasons, including proximity to markets, customers or materials; access to expertise, access to a trained workforce and, in some cases, a lower cost of doing business.

But it's not always easy to enter the U.S. marketplace. The Treasury Department's Committee on Foreign Investment in the United States, CFIUS, is an inter-agency group that oversees international investment in this country. It has to determine the effect of a transaction on the national security.

The U.S. defense market is particularly difficult for foreign companies to crack. The United States has restrictions on the purchase and export of military assets, which includes restrictions on non-U.S. citizens' access to defense technologies at the workplace.

International companies have had to work around legal and policy requirements through a variety of means, like setting up U.S. subsidiaries, acquiring American companies or entering into partnerships with U.S. contractors.

### Expansion mode

That places Alabama 25th in the nation in the number of jobs at foreign-owned firms.

In Louisiana, U.S. subsidiaries of global companies account for 48,100 jobs, more than 3 percent of the state's private-sector workforce.

In Mississippi, 26,800 workers get a paycheck from the U.S. subsidiaries of global companies, close to 3 percent of Mississippi's private-sector workforce.

When these companies land, the most obvious benefits are job creation and the tax dollars that are generated. But there's also the less tangible side. The successful launch of a new operation can broaden international awareness of the at-

Economic development officials are interested in any foreign investment, like the U.K.'s Blade Dynamics, which began producing windmill blades at NASA's Michoud Assembly Facility in New Orleans last year. But they are particularly interested in attracting aerospace companies. International aerospace firms are expanding across the Deep South, following a trail blazed by foreign automotive manufacturers beginning in the mid-1990s.

Fields that once produced timber and cotton are now home to some of the world's most advanced and efficient auto plants. The list includes BMW in South Carolina, Kia in Georgia,

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Nissan and Toyota in Mississippi and Honda, Hyundai and Mercedes Benz in Alabama.

Their success has helped open a wave of new investment from the aerospace sector, and state leaders from Alabama, Florida, Louisiana and Mississippi are hungry for more.

“You can look back over the last 10-12 years with regard to the automobile industry in the South and you are about to see the same thing with regard to aviation and aerospace,” said former Alabama Gov. Bob Riley, who led a multi-state initiative to recruit aerospace jobs as head of the Southern Governors Association.

The growth of Southern aerospace is still an emerging story, but the world’s top aircraft and defense firms are taking notice. Many of the industry’s biggest names already have a presence on the Gulf Coast: France’s Airbus, Italy’s Finmeccanica, Britain’s Rolls-Royce and, the newest entrant, China’s AVIC International.

Economic developers, eager to build on the momentum, have banded together to promote the region as a prime market for aerospace investment. Their marketing effort is centered on the Aerospace Alliance, a four-state coalition whose goal is to promote the Gulf Coast region as a world class aviation, aerospace and defense corridor.

“This alliance will go far in promoting our region for what it is – one of the largest aerospace corridors in the world and a great place for companies in this sector to do business,” said Mississippi Gov. Haley Barbour.

“The Gulf Coast states share geographic proximity, a long tradition of aerospace and aviation activities and a skilled and experienced workforce, and by joining together, we will be well-



*Paris Air Show photo*

An Airbus A380 at the Paris Air Show in 2009, when Mobile, Ala., was in the running for an Airbus assembly plant to make tankers for the U.S. Air Force. The award went to Boeing, but Mobile still hopes to land a major aircraft assembly facility.

positioned to take advantage of opportunities to grow this sector in our region,” Barbour said.

### **Tanker silver lining**

The Aerospace Alliance suffered a setback when EADS lost the tanker war, but Southern business and political leaders said the high-profile competition brought international recognition to the region and all the aerospace activity that’s already in place.

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“Our prospects for growth in the aerospace sector are as bright as ever,” said Win Hallett, president of the Mobile Area Chamber of Commerce. Hallett and others cited the following as some of the benefits from the competition:

- Brookley Aeroplex, a former Air Force base with access to rail lines, highways and the Port of Mobile, gained recognition as one of the premier sites for aerospace manufacturing.

- The partnerships with EADS and Airbus could lead to future investment. Airbus, which had proposed to build A330 freighters at the Mobile assembly plant, is continuing to evaluate Brookley as a site for commercial production.

- Regional alliances built as part of the competition are an asset to potential investors.

“I have no doubt in my mind that we will build airplanes in Mobile,” said Mobile Mayor Sam Jones. “We’re just going to have to work twice as hard to achieve that goal.”

EADS already does business in Mobile. The European company’s Airbus subsidiary employs 150 at an engineering center at Brookley, and Airbus military operates an aircraft maintenance and training facility for the U.S. Coast Guard at Mobile Regional Airport.

Ralph Crosby, chairman of EADS North America, said the company “could have made no better choice” than to come to the Gulf Coast.

“The partnerships we’ve formed are real and they are enduring,” Crosby said. “The fact is, as far as EADS is concerned, Mobile is at the top of the list for any commercial production we might establish in America.”

Even without the tanker, Mobile has been successful in attracting foreign investment. The *Mobile Press-Register* recently counted 35 foreign-owned companies in Mobile County that employ nearly 10,000 people, or roughly one in every 15 private-sector workers.

### Global South Mississippi

Right across the state line in South Mississippi, at least 18 companies in the three-county

area have ties to foreign shores. Economic developers there are eager to expand that number.

“Foreign direct investment has clearly played a major role in the economic development of the Mississippi Gulf Coast region, and I predict that it will manifest itself in a number of different ways in the years to come,” George Freeland, executive director of the Jackson County Economic Development Foundation, told the *Alliance Insight* science and technology newsletter in 2009.

“Already, foreign investments have served to expand our traditional industrial sectors in the form of petrochemical and commercial and defense shipbuilding. I think they will increasingly impact other emerging sectors such as aerospace and energy-based projects.”

Foreign-owned companies in Mississippi are involved in a range of industrial sectors, including defense, aerospace, security, materials and advanced materials, energy and power, according to *Insight*.

Rolls-Royce has two operations. The United Kingdom company tests commercial jet engines at Stennis Space Center in Hancock County and makes propellers for Navy ships at Rolls-Royce Naval Marine in Pascagoula.

QinetiQ North America is the U.S. subsidiary of QinetiQ, a defense technology and security company founded in the U.K. as a national defense lab, similar to DARPA. It has an operation in Long Beach.

Two of the companies, both in Hancock County, are involved in airborne sensor equipment and operation. One is Selex Galileo, owned by Finmeccanica, and the other is Optech International, the U.S. operation of Canada's Optech.

Three companies have advanced materials operations in Hancock County’s Port Bienville Industrial Park. They are the former Mississippi Polymer Technologies, now a part of Belgium's Solvay Advanced Polymers; France's SNF Polychemie; and Saudi Arabia's SABIC, the former GE Plastics.

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### Cross-state ties

Many of the foreign operations in the Gulf Coast have sites in several states. U.K.-owned BAE Systems, which has a Navy defense systems operation in Gautier, Miss., also has aerospace activities in Fort Walton Beach, Fla. The company expanded into Alabama last year, paying \$352 million to purchase the Atlantic Marine Inc. shipyard at the Port of Mobile.

Another international firm with cross-state ties is Singapore Technologies. The company's U.S. subsidiary, Vision Technologies Systems, owns VT Halter Marine of Pascagoula and Moss Point, and builds ships, including military.

It also owns ST Aerospace Mobile, one of the country's largest aircraft maintenance, repair and overhaul operations. The Singapore-based company employs about 1,500 at its MRO facility at the Brookley Aeroplex, and has recently won new contracts converting Boeing 757s to passenger-cargo combinations – work that could help it expand in Mobile.

Italy's Finmeccanica owns Selex Sensors & Airborne Systems Inc., the U.S. business development, marketing and product support arm. Selex Galileo has an operation in Kiln, Miss., and Finmeccanica's DRS Technologies is in Okaloosa County, Fla.

### A major new player

The newest player to come to the Gulf Coast is AVIC International. The Chinese company completed its purchase of Continental Motors in April, and is already making plans to expand. The \$186 million deal included Continental's 400-worker manufacturing plant at Brookley, where it produces aircraft piston engines, and a small aircraft service facility in nearby Fairhope.

Based in Beijing, AVIC International is a major aerospace player, counting Boeing, Airbus and Honeywell among its clientele. AVIC International's seven listed companies took in \$6 billion in sales last year.

AVIC officials said the Continental deal gives them a critical foothold in the U.S., and that they fully intend to capitalize on it.

"We found great opportunity to invest here in the purchase of Continental," Tian Shan, AVIC International's vice president of supply chain, told the *Mobile Press-Register*. "We have a plan to provide additional investment based on the international market."

The deal also could open dramatic trade opportunities in China, where the general aviation market is exploding. Although China's population is four times that of the U.S. population, there are only 900 general aviation aircraft in the country, contrasted with 230,000 such aircraft in the U.S, according to company officials.

"They want to come in, establish and stabilize their business with us and then look to develop a strategy to expand on that," said Rhett Ross, Continental's president. "I can say that, in meeting with management team, they have a number of ideas that would include expansion into the broader general aviation sector."

The AVIC deal is the latest in a string of investments that helped Mobile land a top spot in FDI's recent ranking of top cities for foreign direct investment. The magazine, published by London's *Financial Times*, is aimed at executives and consultants who might be picking new business locations around the world.

Rankings were compiled using numbers and judges' opinion to rate cities on their chances for attracting foreign investment, economic development and business expansion.

"This ranking is further proof that Team Mobile's strategy for attracting foreign direct investment is right on track," said Troy Wayman, the Mobile Area Chamber's vice president for economic development. "Being ranked in the Top 10 for strategy puts us in very good company and sets us apart from much of our competition in the nation."

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<b>Foreign subsidiaries in Alabama</b>		
AEGON USA	Honda North America	Saint-Gobain
Air Liquide America	Huhtamaki	Shell Oil Company
Akzo Nobel	Hyundai Motor America	Siemens
AMEC	Iberdrola Renewables	Sodexo
BAE Systems	InterContinental Hotels Group	Sony Corp. of America
BASF	John Hancock Financial Services	Tate & Lyle North America
BP	Lafarge North America	Thales USA
Cobham	Maersk Inc	ThyssenKrupp Stainless USA, LLC
Daimler	Magna	ThyssenKrupp Steel USA LLC
EADS North America	Michelin	T-Mobile USA
Elbit Systems of America	Nestlé USA, Inc.	TOTAL Holdings USA
Ericsson	Novartis	Toyota Motor North America
Evonik Degussa	Oldcastle, Inc.	Tyco International
GKN America Corp.	Randstad	Umicore USA
GlaxoSmithKline	Rexam	Voith Holdings, Inc.
Hanson North America	Rolls-Royce North America Inc.	Zurich North America
Holcim (US) Inc.	SABIC Innovative Plastics	
<b>Foreign subsidiaries in Louisiana</b>		
AEGON USA	Hanson North America	Saint-Gobain
Air Liquide America	Heineken USA	sanofi-aventis
Akzo Nobel	Iberdrola Renewables	Shell Oil Company
APL Limited	John Hancock Financial Services	Siemens
BASF	Lafarge North America	Sodexo
BOSCH	Magna	Syngenta Corporation
BP	Nestlé USA, Inc.	T-Mobile USA
Bridgestone Americas	Novartis	TOTAL Holdings USA
Ericsson	Oldcastle, Inc.	Tyco International
Evonik Degussa	Randstad	Voith Holdings, Inc.
GlaxoSmithKline	Rolls-Royce North America Inc.	Zurich North America
<b>Foreign subsidiaries in Mississippi</b>		
AEGON USA	Heineken USA	Saint-Gobain
Air Liquide America	Holcim (US) Inc.	Shell Oil Company
Akzo Nobel	Iberdrola Renewables	Siemens
BAE Systems	Lafarge North America	Sodexo
BASF	Nestlé USA, Inc.	Solvay
Boehringer Ingelheim	Novartis	Sony Corp. of America
BP	Oldcastle, Inc.	Square D
Bridgestone Americas	Philips Electronics North America	Tata Group
EADS North America	Randstad	T-Mobile USA
Ericsson	Reed Elsevier	Tyco International
GDF Suez Energy North America	Rexam	Voith Holdings, Inc.
GlaxoSmithKline	Rolls-Royce North America Inc.	XL Global Services
Hanson North America	SABIC Innovative Plastics	Zurich North America
<i>Source: Organization for International Investment</i>		

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<b>Foreign subsidiaries in Florida</b>		
AEGON USA	Givaudan	Smith & Nephew, Inc.
ACE Group	GlaxoSmithKline	Sodexo
Air Liquide America	Hanson North America	Square D
Airbus North America	Heineken USA	Sumitomo Corp. of America
ALSTOM	HSBC North America Holdings	Syngenta Corporation
AMEC	Hyundai Motor America	Tata Group
APL Limited	ING America	Teva Pharmaceuticals USA
BAE Systems	InterContinental Hotels Group	Thales USA
BASF	John Hancock Financial Services	Thomson Reuters
BIC Corporation	Lafarge North America	ThyssenKrupp Elevator Corporation
bioMerieux, Inc.	Maersk Inc	T-Mobile USA
Boehringer-Ingelheim Corp.	Nestlé USA, Inc.	TOTAL Holdings USA
BOSCH	Novartis	Tyco International
BP	Oldcastle, Inc.	Unilever
Bridgestone Americas	Panasonic Corp. of North America	Voith Holdings, Inc.
Case New Holland	Philips Electronics North America	Volkswagen Group of America
Cobham	Randstad	Volvo Group North America
Daimler	Reed Elsevier	Westfield LLC
Diageo, Inc.	Rolls-Royce North America Inc.	Wolters Kluwer
EADS North America	Saint-Gobain	WPP Group USA
Electrolux North America	sanofi-aventis	XL Global Services
Ericsson	SAP America	Zurich North America
Experian	Shell Oil Company	
Generali USA	Siemens	

*Source: Organization for International Investment*

<b>Business incubators</b>		
<i>Site name</i>	<i>Location</i>	<i>Phone</i>
Business Innovation Center	Mobile, Ala.	251-660-7002
Baldwin County Business Incubator	Robertsdale, Ala.	251-947-2445
Center for Innovation and Entrepreneurship	Pensacola, Fla.	850-607-8060
Innovation Center	Biloxi, Miss.	228-392-9741
Jefferson Parish EDC, Business Innovation Center	Avondale, La.	504-833-1881
Mississippi Enterprise for Technology	Bay St. Louis, Miss	228-688-3144
New Orleans BioInnovation Center	New Orleans, La.	504-680-2973
UNO Research and Technology Park, Innovation Center	New Orleans, La.	
Emerald Coast Technology and Research Center	Shalimar, Fla.	850-362-6467
IHMC Tech Campus, Pensacola Technology Park	Pensacola, Fla.	