



International Investment Slows, but Continues in SC

BY DAN MCCUE

May Maxwell, marketing director of the South Carolina Regional Development Alliance, remembers exactly where she was when she first received word of the \$700 billion bailout that was supposed to prevent financial institutions from collapsing around the world.

She and other members of the alliance were in Germany, having arrived only a day earlier to speak with the heads of several German companies about locating facilities or expanding their presence in the Palmetto state.

"We were concerned, sure," said Maxwell, recalling the sense of uncertainty that came over the delegation from the United States. "But what was interesting was that not one of the 24 companies we met with expressed reservations about what was going on."

Despite turmoil on the financial markets and a slow strengthening of the dollar relative to other currencies, as investors turned to the safety of U.S. Treasury bonds, Maxwell was told South Carolina remained a good bet for foreign investments.

"For them, it all came down to the continued strength of the euro versus the dollar, something that hasn't changed very much despite all that's gone on," she said. "That, and the fact that investment is a long term proposition. Companies making such decisions rarely base a long term commitment on the passions of the moment."

It's no secret that both foreign and domestic companies had taken a liking to South Carolina in the years leading up to the crisis.

In Greenville/Spartanburg, the state's longtime Mecca for foreign investment, more than 106 international companies now have a presence from more than a dozen different companies, including Austria, Belgium, Chile, Great Britain, France, Greece, Italy, China, Japan, Mexico, the Netherlands, Sweden and Taiwan.

In fact, there isn't a single region in the state that hasn't witnessed some form of direct foreign investment, especially in more recent years. Today, foreign investment is responsible for about 9 percent of South Carolina's total private-industry employment, tied for the highest figure among the 50 states.

In addition, foreign-controlled companies account for over one-fifth of the state's manufacturing employment, the highest share in the nation, according to the U.S. Department of Commerce, Bureau of Economic Analysis.

Also plain is the amazing transformative effect these companies have had on South Carolina's economy. The poster child, of course, is BMW.

Fifteen years after opening a \$500 million assembly plant with nearly 2,000 employees in Spartanburg County, the German automaker has more than doubled its staff and increased its plant investment by nearly tenfold.

A recent study by University of South Carolina economist Doug Woodward estimated BMW now generates more than 23,000 direct and indirect jobs in the state.

The automaker has also added more than \$8.8 billion to South Carolina's economy through its own activities and those of more than 40 automotive suppliers who have followed its lead into the state.

Woodward's analysis found that BMW adds more than \$1.2 billion a year in extra wages and salaries and generates an estimated 4.3 jobs in the region for each of the 5,400 employees and contractors who work at the plant.

The plant's fourth expansion, valued at \$750 million, is currently underway.

In the years since BMW chose Greer over nearly 150 other sites it considered worldwide, scores of companies have followed it into the state, many of them settling in the Midlands and Pee Dee.

In 2007, the SC Department of Commerce and allies like the Central SC Alliance, which is comprised of representatives of the 14 counties in the heart of the state enjoyed a record-breaking year for investment and job recruitment, bringing in more than \$4 billion in capital investment and nearly 16,000 new jobs.

Through the third quarter of 2008, the period during which the subprime mortgage and credit crisis deepened profoundly, the state was on pace to exceed 2007's record numbers, according to SCDOC spokeswoman Kara Borie.

As of last October, when the latest figures were available, commerce was more than 30 percent ahead of 2007 in capital investment recruitment, and more than 20 percent ahead in job recruitment, compared to the same period last year.

Some see a slowdown in international prospects

But given what's transpired in the global banking and financial markets since last September, economists now expect the world's multinationals and potential multinationals to hunker down and await signs of an economic recovery, said William Folks, professor of International Business and the University of South Carolina.

As a result, international investment in South Carolina — the engine revving job creation in the state the past several years — will likely slow through 2009.

Gregg Robinson, executive director of the Orangeburg County Development Commission, said he's already seen a drop off of 30 to 40 percent when it comes to new inquiries about sites in his county.

"Prior to the crisis in September, project flow was pretty solid," Robinson said. "At any given time, we're typically working 20 to 25 projects, with about 10 simply being leads, and the rest developing into prospects, meaning company representatives are interested enough to actually visit and take a look around. In the past several weeks, my visits by prospective new industries for our community have definitely been off."

But Robinson believes the slowdown isn't a sign of a prolonged recruitment crisis; rather he thinks it was a manifestation of the precipitous, temporary decline in consumer confidence.

"The early weeks of the crisis were a real doom and gloom time," he said. "There definitely was some retraction and re-entrenchment, but at the same time, we've had massive growth in this state and in the interest international companies have in it."

Robinson also pointed out that while lagging consumer confidence and certain industries — namely the financial sector and U.S. automakers — have been grabbing the headlines, overall, corporate America has generally remained in reasonable shape.

As a result, he believes that while South Carolina has enjoyed a huge influx of investment from Germany, Asia and Dubai in recent years, it may be that over the next 12 months or so, domestic companies begin moving in that space.

The first three quarters of last year, for instance, saw the announcement of a new Rollcast Energy facility in Newberry County, the groundbreaking of Olympic Steel's groundbreaking in Sumter County, and the opening of West Star Aviation's new facility in Lexington County and FITESA's new facility in Laurens County.

Of the four companies, three were domestic, while the fourth, FITESA, is a Brazilian producer of nonwoven fabrics.

The picture was similar in Florence County, which witnessed \$135 million in capital investment and the addition of 1,152 new jobs, with the bulk of both coming from two U.S. companies — Monster.com and the H.J. Heinz Co.

Monster is building a new customer service facility in Florence County that will ultimately employ 750; while Heinz is building a new plant that will employ 350.

Espousing the cause of openness

This is not to suggest that anyone in the state is slowing down their efforts to reach out to international companies or to provide workers ready to fill their facilities. Shortly before the holidays, the University of South Carolina announced the founding of its new Confucius Institute, a new wing of its Center for Asian Studies.

A partnership with the Beijing Language and Culture University, the institute will enable more South Carolinians to learn Chinese language and culture and the benefits of trading with a huge, emerging international power. It will also provide 20 scholarships to in-state residents to pursue such studies.

USC's Folks said while it would be difficult to describe the near-term future of foreign investment in the state as "fabulously rosy," he does believe South Carolina will be "very competitive for the investment that's left. I think the strategy we have in place, in terms of luring foreign investment has proven to be a good one and I also think that some of the recent investments we've seen, from China, for one, and from the United Arab Emirates, will continue. Those are still growing economies with substantial money to invest."

Folks said if he has any fears, it's that the financial meltdown could inspire some to want to withdraw from the international economy.

"I think it's important, over the long haul, that we don't erect walls or respond to our problems by becoming too burdensome in terms of new taxes," he said. "To me it seems like the most important thing is that we remain open to international investment and keep encouraging our Department of Commerce to be aggressive in pursuing these opportunities. We've got a great workforce, ready to help these companies succeed, as evidenced by BMW and others in the Upstate, and we've done so much in this area, it is a terrible shame to undermine all those efforts now." ♥



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EUROPEAN EXPERT:

Foreign direct investment in U.S. poised for slow return

BY DAN MCCUE

Foreign direct investment, a cornerstone of the South Carolina economy for decades, stalled in November and will likely witness only a modest recovery in 2009, according to one of Europe's leading experts on such activities.

Graham Mather, president of the European Policy Forum, made that observation while in the state to chair the World Free Zone Convention, a globetrotting annual event never before held in the United States.

But while he expected the effects of the global economic crises to linger, Mather took pains to emphasize that the vast majority of international firms planning investments in the United States have merely been postponed.

"For most of us, the seizing up of the financial markets was the most dramatic, systematic failure we have ever seen, truly a once-in-a-career development," he said. "But not one person I've spoken to has used the word 'cancelled' in regard to their long term plans."

In fact, it was Jafza International's long term plans for Orangeburg, South Carolina that inspired the London-based group to choose the state as the site of this year's gathering.

Organizers said privately they hoped to forge a bond with the Dubai-based developer of logistics and manufacturing parks worldwide, and to afford their members the chance to learn from Jafza's American experience.

The World Trade Convention monitors these special economic development zones around the world in 120-member countries.

Foreign trade zones were first established in the United States as a response to the Great Depression in the 1930s, and have since proven to be a highly effective inducement to investment here.

By definition, a foreign trade zone is a restricted access site, in or adjacent to a Customs port of entry, that is operated un-

der the sponsorship of a corporation under the authority of the Foreign Trade Zone Board and the U.S. Customs Service. They are considered potent vehicles for attracting investment because of the Customs, tariff and tax benefits they provide.

According to the Association of Foreign Trade Zones in Washington, D.C., the three trade zones in South Carolina alone accounted for \$11.5 billion in business in 2006, the latest year for which statistics are available.

The value exports from those zones, which are located in West Columbia, Spartanburg County and Dorchester County, reached nearly \$2 million the same year, while employing more than 8,700.

Mather said new investment in and around foreign trade zones remained stalled because banks still lack the confidence to come forward with loans.

"As a result, I think we're in a time of retrenchment and refining approaches and strategies," he said. "Once the money starts flowing again, those who will win (in the foreign direct investment game) will be those who can communicate an effective message and clear vision."

At the same time, Mather said as governments move from high borrowing to higher taxes to pay for assorted bailouts, those investing in business development will be looking for real value — and the kinds of multiple cost savings free zones afford. Shortly after Mather offered his insights, the World Bank weighed in, predicting world wide economic growth would slow to a crawl in 2009 and that international trade volume would fall for the first time in 26 years.

In its *Global Economic Prospects* report, the anti-poverty bank, which has 185 member nations, predicted the world economy would expand only 0.9 percent in 2009, and that global trade volume would decline 2.1 percent.

The report said the downturn as well as analysts' overall pessimism was being driven in part by slower investment tied to difficult financing conditions.

"The world is in crisis," said Andres Grimes, the newly appointed acting executive director of the South Carolina World Trade Center, during the World Free Zone Convention. "Right now, the smart business people are focusing on when it's over — and we all know it will be over." ▽