



Foreign Direct Investment: Globalizing Chicago's Economic Development Plans

REPORT OF AN INDEPENDENT STUDY GROUP

Michael H. Moskow and William A. Osborn, *Cochairs*
Scott Leff, *Project Consultant*

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THE CHICAGO COUNCIL
ON GLOBAL AFFAIRS

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Study Group Members

Cochairs

Michael H. Moskow

*Vice Chairman and Senior Fellow for the Global Economy,
The Chicago Council on Global Affairs*

William A. Osborn

*Retired Chairman and Chief Executive Officer,
Northern Trust Corporation*

Members

Sally Blount

Dean, Kellogg School of Management, Northwestern University

Stephen Chipman

Chief Executive Officer, Grant Thornton LLP

Douglas Doetsch

Partner, Mayer Brown LLP

Derek Douglas

Vice President for Civic Engagement, The University of Chicago

John Edwardson

Chairman of the Board, CDW

John S. Gates Jr.

*Founder and CEO, Portaeco LLC
Board Chairman, Regional Transportation Authority*

David Greising (observer)

Consultant, World Business Chicago

Daniel Hamburger

President and Chief Executive Officer, DeVry Education Group

Steve Koch

Vice Chairman, Credit Suisse

Lewis Manilow

*Former Chairman, Advisory Commission on Public Diplomacy and
of the Middle East Committee of the National Democratic Institute*

James McClung

Chairman and Chief Executive Officer, Lismore International

Sheila Penrose

Chairman, Jones Lang Lasalle

Jose Luis Prado

*President, Quaker Foods and Snacks North America and Global
Baking Center of Excellence, PepsiCo*

Michael Sacks (ex-officio)

*Chief Executive Officer, Grosvenor Capital Management
Vice Chairman, World Business Chicago*

Gordon Segal

Founder, Crate & Barrel

Carl Stern

Vice Chairman, Investment Banking Division, Goldman Sachs

Keith Williams

President and Chief Executive Officer, UL LLC

Linda Wolf

*Retired Chairman and Chief Executive Officer,
Leo Burnett Worldwide*

Foreword

The Chicago area, home to over 400 major corporate headquarters, has long been known for the diversity of its commercial, manufacturing, and agricultural businesses. Located at the center of one of the most important economic regions in the world, Chicago—defined here as the seven-county metropolitan area—has thrived on investments from neighboring states and the entrepreneurialism of its people. Globalization, however, has led traditional industries to move outside our region and in many cases outside our national borders. Chicago can no longer rely solely on neighboring states to help sustain its economy. Faced with local, state, and federal government deficits, the city must look for new and creative ways to support long-term economic growth if it is to flourish in the twenty-first century.

In January 2011 The Chicago Council on Global Affairs released the report *Capturing Chicago's Global Opportunity*. The report found that although Chicago ranks as one of the top ten global cities, “it lags its global peers in the amount of inward foreign direct investment (FDI) in the city.” This was based on the 2010 PricewaterhouseCoopers *Cities of Opportunity* study in which Chicago scored seventeenth out of twenty-one capital market centers around the world on physical growth due to the low level of FDI. The more recent *2011 Cities of Opportunity* study ranked Chicago twenty-fourth out of twenty-six cities in attracting FDI capital investments and greenfield projects.

To better understand the challenges and opportunities of FDI in Chicago and develop a comprehensive FDI strategy for the area, The Chicago Council on Global Affairs convened a group of prominent Chicago business and civic leaders that began meeting in January 2012. The study was cochaired by Michael H. Moskow, former president and chief executive officer of the Federal Reserve Bank of Chicago and currently vice chairman and senior fellow for the global economy at The Chicago Council on Global Affairs, and William A. Osborn, former chairman and chief executive officer of Northern Trust Corporation. After months of research, interviews, meetings on the issue and on the strategies and experiences of other major global metropolitan areas, the study group developed key recommendations to help the city reach out to foreign-owned companies and increase FDI through existing and new sources of investment. This report presents the findings and recommendations of the study group members on how to best advance Chicago's economic development through global engagement.

The study is particularly timely because in February 2012, at Chicago Mayor Rahm Emanuel's request, World Business Chicago released *A Plan for Economic Growth and Jobs*, which identifies opportunities for Chicago to improve its global competitiveness. That report was produced in collaboration with the Brookings Institution Metropolitan Policy Program, McKinsey & Company, Metropolis Strategies, and RW Ventures. To ensure that the recommendations made in this report align with the city's broader economic goals, The Chicago Council consulted closely with the architects of the city's economic development plan.

The Chicago Council has published numerous reports focused on Chicago's global competitiveness. In collaboration with A.T. Kearney and *Foreign Policy* magazine, the Council released the Global Cities Index, ranking the world's major metropolitan regions on economic competitiveness in 2008, 2010 and 2012. In 2007 the Council convened a study group that released the report *The Global Edge: An Agenda for Chicago's Global Future*. And in 2004 the Council published, through the University of Illinois press, *Global Chicago*, one of the first city-specific books looking at the characteristics that define global cities. The Council's own Global Chicago Initiative has been dedicated since 2001 to promoting Chicago as a global city through publications, seminars, and the globalchicago.org website.

Acknowledgments

I want to extend my most sincere appreciation to the two study group cochairs, Michael H. Moskow and William A. Osborn, for their leadership and guidance of this project. Their involvement from the conception of the study to developing the report's agenda and providing valuable feedback on the final report showed their commitment to making Chicago a more attractive destination for international investment and business activity.

I would also like to extend my appreciation to the members of the study group, all of whom are deeply committed to the city's future and bring unique insight that helped shape the final report. We are grateful for the time they took out of their busy schedules to participate in our meetings and provide essential feedback on drafts of the report.

The study group would like to acknowledge McKinsey & Company and Virginia Simmons, leader of their Chicago office, for providing research support and fact-based analysis.

I would like to extend my gratitude to Scott Leff, founder of Leff Communications, who was the principal writer and project consultant for this report. Working closely with the cochairs and study group members, Scott developed agendas for the study group, identified experts to interview and speakers to brief the group, and eventually drafted and redrafted the final study group report. He deserves a great deal of the credit for bringing it to completion.

I am grateful for the expert advice we received from those who briefed the group. Torsten Gessner, chairman and chief executive officer of ThyssenKrupp North America, generously discussed ThyssenKrupp's decision to open regional headquarters in Chicago, and Henry Paulson Jr., former secretary of the U.S. Treasury and current distinguished senior fellow at the University of Chicago Harris School of Public Policy, offered insights on the key strategies and obstacles he sees driving and inhibiting foreign direct investment. I also want to thank those who were interviewed for the study. For a complete listing, see page 58.

Several other individuals were instrumental in making this report possible. Rachel Bronson, vice president of studies at the Council, oversaw the process with great skill and direction from its inception through the creation and production of the report. Council staff Juliana Kerr Viohl and Tyler Strom convened meetings, managed logistics and communications, and guided the report through the final phases to publication. Catherine Hug applied her expert editing skills to the report. Council intern Alex Giersch also provided valuable support.

None of this would have been possible without the generous support of one of our most distinguished board members, Lewis Manilow, former chairman, Advisory Commission on Public Diplomacy and of the Middle East Committee of the National Democratic Institute, who has spearheaded many initiatives in Chicago to ensure long-term global competitiveness. I am deeply grateful to his generosity and continued commitment to this organization.

Marshall M. Bouton
President
The Chicago Council on Global Affairs
August 2012

Executive Summary

Chicago is one of the world's top ten metro economies in the world. It ranks eighth in GDP and ninth in competitiveness on the 2012 *Global Cities Competitiveness Index*. Over the past decade, however, the region's performance on key indicators such as GDP growth, productivity, population growth, and employment has begun to lag behind other U.S. and global cities.

FDI: An important element in Chicago's economic development

As the region's leaders look to improve its economic vitality and generate new sources of revenue, increasing the level of foreign direct investment (FDI) is a critical component. Foreign-owned companies are vital contributors to the region's economy, representing a cumulative FDI stock of \$40 billion and employing an estimated 200,000 people. The experiences of leading metro areas have shown that a well-funded, strategic effort to reach out to foreign companies could have an enduring impact on both job creation and economic activity.

Competition for FDI among global cities has increased, but Chicago has a number of strengths that make it an attractive location for foreign companies seeking to establish or expand their presence in the United States: mature professional and business services, a major commercial and transport hub, excellent quality of life, strong human capital, and a growing concentration of innovation and investors. In reaching out to foreign companies, Chicago must overcome several obstacles—Illinois' fiscal situation and business climate, the region's complex government bureaucracy and lack of coordination, and insufficient efforts to promote the region to foreign companies. While addressing Illinois' financial condition is beyond the scope of this report, the Chicago region can significantly improve its attractiveness to foreign investors by focusing on the remaining two areas.

What Chicago can learn from its global peers

Based on our research and analysis, cities that have been successful in increasing FDI have established a lead investment promotion agency that serves as a one-stop shop for companies. This agency

provides business services and assistance to help foreign companies and acts as an umbrella organization to coordinate the activities of relevant government agencies and stakeholders.

A number of global cities have developed and executed FDI strategies that have made significant contributions to their economic development. In particular, three cities—Bogota, Colombia; Frankfurt, Germany; and Toronto, Canada—have achieved success in this area and share some of Chicago's characteristics. All have established lead investment promotion agencies in the past fifteen years, and the combination of concrete steps to improve their business climate and more effective outreach has contributed to impressive gains in FDI for each city since 2003. Over the past several years, these cities have captured an average of more than \$1 billion in FDI annually, far surpassing Chicago's performance of \$570 million a year from 2003 to 2011.

A regional FDI initiative for Chicago

In February 2012 World Business Chicago, a public-private partnership focused on economic development and chaired by Mayor Emanuel, released *A Plan for Economic Growth and Jobs*. Several strategies outlined in the plan would create a more dynamic business climate for all companies, both domestic and international, and can serve as a platform on which to build a strategy for increasing FDI in the region. The Chicago Council's study group developed recommendations that would enable Chicago to launch a regional FDI initiative.

Develop and implement a comprehensive FDI strategy

The most successful cities do not cast a wide net but instead take a methodical approach to identifying companies in industries that play to their strengths and support their overarching objectives. The Chicago region can make progress by focusing on two complementary areas.

Pursue existing sources

- Work with foreign-owned companies already in Chicago.
- Reach out to foreign-owned companies with U.S. locations.

- Develop clusters in high-growth sectors.
- Focus on high-potential sources by country and industry.

Target long-term, high-potential sources

- Strengthen and expand relationships with China.
- Monitor global trends for new opportunities with emerging nations.

Provide strong leadership to support the FDI initiative

Implementing a comprehensive FDI strategy for the Chicago region will require effective leadership. To be successful, elected officials and government agencies, each with their own constituency, must coordinate efforts and resources toward a common goal. The following efforts can sustain regional commitment and collaboration, help Chicago successfully reach out to global businesses, and secure critical investments for the future.

- Make FDI a priority and appoint a seasoned executive to lead the effort.
- Promote investment and collaboration throughout Chicago's seven-county region.
- Accelerate the creation of a more business-friendly environment.
- Mobilize individuals as ambassadors for Chicago.
- Communicate Chicago's FDI strategy to stakeholders in order to build support.

Designate a single organization to coordinate the initiative

Chicago must build the organizational capacity to coordinate FDI activities and help develop and implement a focused strategy. The study group recommends designating World Business Chicago as the one-stop shop for foreign investment. The following efforts can help support its mission.

- Augment World Business Chicago's capabilities and secure funding for expanded operations.
- Increase collaboration with agencies to promote Chicago to foreign markets.
- Build stronger relationships with key consulting businesses to help generate leads.
- Promote Chicago through underused channels.

The recommendations in this report offer a defined path to increase the amount of foreign investment flowing into the Chicago region.

Chapter I

FDI: An Important Element in Chicago's Economic Development

Chicago is one of the world's top ten metro economies.¹ It ranks eighth in GDP and ninth in competitiveness on the 2012 *Global Cities Competitiveness Index*.² As an economic driver in the Midwest, the city's diversified economy, concentration of Fortune 500 companies, transport and logistics infrastructure, and dynamic pool of human capital have made it a center of economic development.

Over the past decade, however, the Chicago metro region's performance on key indicators such as GDP growth, productivity, population growth, and employment has begun to lag behind other U.S. and global cities.³ Although Chicago's solid economic foundation remains intact, its momentum is faltering. As globalization has altered the drivers of economic development and increased competition for business investment, Chicago must take urgent action to maintain and enhance its position among leading urban centers. Without a significant shift in the region's collective mind-set, Chicago will slowly cede its position as a leading global center to hungrier and better organized metro areas.

As the area's leaders look to improve its economic vitality and generate new sources of revenue, increasing the level of foreign direct investment (FDI) is a critical component. Chicago has traditionally relied on investment from neighboring states in the Midwest region to sustain its economy. Given the global nature of commerce, however, this strategy must be supplemented by other efforts. Going forward, Chicago must turn its attention to developed and emerging international markets to support long-term growth.

Attracting more FDI to Chicago would deliver substantial benefits. Currently, Chicago is home to more than 1,500 foreign-owned companies. These businesses are vital contributors to the region's economy, representing a cumulative FDI stock of \$40 bil-

1. See Economist Intelligence Unit, *Hot Spots: Benchmarking Global City Competitiveness*, 2012; A.T. Kearney, *2012 Global Cities Index and Emerging Cities Outlook*; and PricewaterhouseCoopers, *Cities of Opportunity*, 2011.

2. *OECD Territorial Reviews: The Chicago Tri-State Metropolitan Area*, chapter 1, p. 12, March 2012, http://www.oecd.org/document/44/0,3746,en_2649_34413_49820716_1_1_1_1,00.html.

3. For more detail, see World Business Chicago, *A Plan for Economic Jobs and Growth*, February 2012.

Definitions

Chicago

For the purposes of this report, "Chicago" will refer to the seven-county metropolitan region comprising Cook, DuPage, Kane, Kendall, Lake, McHenry, and Will counties, with a total population of 8.6 million.

Foreign direct investment (FDI)

FDI is defined as investments made by foreign entities in U.S. businesses and organizations that create new, long-term value. Companies can enter a market through greenfield investments—new facilities or the expansion of existing facilities—or mergers and acquisitions (M&A).

Unless otherwise noted, all figures in this report refer to greenfield FDI. This metric is used by data sources such as the U.S. Census, the United Nations, and Organisation for Economic Co-operation and Development to report foreign investment and allows valuable comparisons between global cities, including urban centers in both developed and emerging nations. While certain capital-intensive investments will have more of an impact on total greenfield FDI than other activities such as the relocation of a corporate headquarters, the presence of mature and developing cities in global FDI rankings indicates that greenfield FDI offers an accurate measure of a city's overall performance.

lion and employing an estimated 200,000 people.⁴ According to the Organization for International Investment, each job created by foreign investment in the United States supports an additional three jobs. Moreover, the average salary for a job at a U.S. subsidiary of a foreign company in Illinois is \$81,900, nearly \$27,000 higher than the average pay for positions at Illinois businesses.⁵

As the experiences of metro areas such as Bogota, Colombia; Frankfurt, Germany; and Toronto, Canada have shown (discussed later in this report), a well-funded, strategic effort to reach out to foreign companies could have an enduring impact on both job creation and economic activity. The presence of foreign-owned companies has helped to make Chicago a truly diverse, cosmopolitan urban center and can serve as a strong foundation for drawing more foreign executives to the region. Since such investments are generally long term in nature, the benefits also accrue well into the future.

To date, few U.S. cities have been successful in mounting coordinated efforts to generate more FDI. However, municipal leaders increasingly understand the enormous value that foreign companies could bring to their cities in the form of job creation and tax rev-

4. According to estimates from World Business Chicago.

5. Organization for International Investment, *Chain Reaction: Global Investment Works for America*, May 2012.

enues. Most U.S. cities have been struggling to crack the code, and only a handful have developed effective strategies to reach foreign markets. Yet competition among U.S. cities for foreign investment has intensified, and some of Chicago's direct competitors such as Atlanta and Dallas are engaged in aggressive campaigns for FDI.

Despite Chicago's underperformance to date, there's still time to establish the city as an important gateway for foreign companies to the North American market. This study offers specific recommendations on how to attract more foreign direct investment to the region. The report is based on in-depth analysis; interviews with representatives of successful investment promotion agencies; insight from executives of domestic and foreign-owned companies in the Chicago area; discussions with leaders of nongovernmental organizations; an assessment of the criteria that foreign companies used to select Chicago as a location; the perspectives of site selection firms; and the wisdom and experience of our study group, which comprises leaders from business, education, and government.

Chapter II

Chicago's Recent Track Record for FDI

Among the twenty largest U.S. cities, Chicago is the third leading recipient of FDI in the United States (see figure 1). New York City is the leading recipient of FDI, with an annual average of \$1.8 billion. Houston ranks second, followed by Chicago, Los Angeles, and San Francisco.

From 2003 to 2011 Chicago attracted a total of \$5.12 billion in greenfield FDI, or an average of \$570 million a year. While this might seem impressive, they are somewhat misleading. BP's investment in the region accounted for fully 37 percent of the total during this period.⁶ Without it, Chicago's numbers drop significantly and pale in comparison to leading global cities. As to the sources of FDI, just ten countries—all developed nations—accounted for 83 percent of greenfield investment during this period (see figure 2).

Similar to other large U.S. cities, FDI in Chicago is distributed across many industries, with no clear concentration (see figure 3). Indeed, a total of twelve industries received more than \$100 million in FDI from 2003 to 2011.

FDI trends in the United States

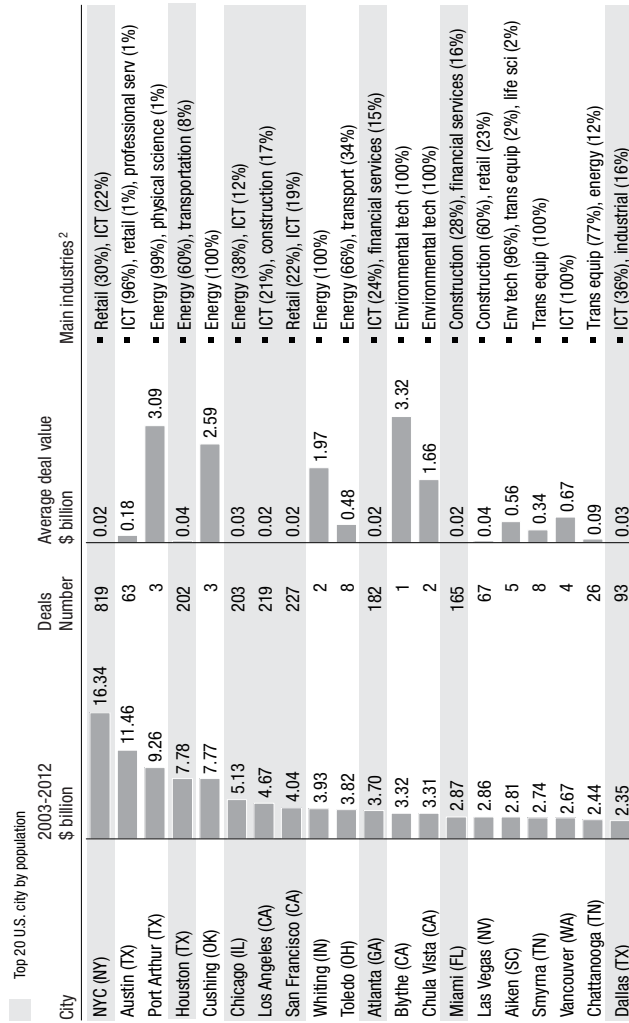
The United States has historically been the most favored destination for foreign investment, but its share of global FDI has fallen from approximately 40 percent in the early 1980s to around 20 percent in recent years.* While the United States led the world in attracting FDI in 2011 with \$228.2 billion, the financial crisis and resulting recession have led many foreign executives to question the fundamentals of the U.S. economy. Further, the United States has not had a consistent strategy to pursue FDI, and its regulatory environment, tort laws, and sensitivity to foreign ownership of assets in certain industries present obstacles to global investors.

Recently, the U.S. federal government has enhanced its capabilities to promote the country as a destination for foreign investment. In recognition of the importance of FDI to the U.S. economy, President Obama created the SelectUSA initiative by executive order on June 15, 2011. Under the auspices of the Department of Commerce, SelectUSA conducts outreach, provides information, and serves as an ombudsman at the federal level for promoting FDI. The initiative seeks to maintain the position of the United States as the premier FDI destination in the face of global competition for business investment.

* United Nations Conference on Trade and Development (UNCTAD) FDI database.

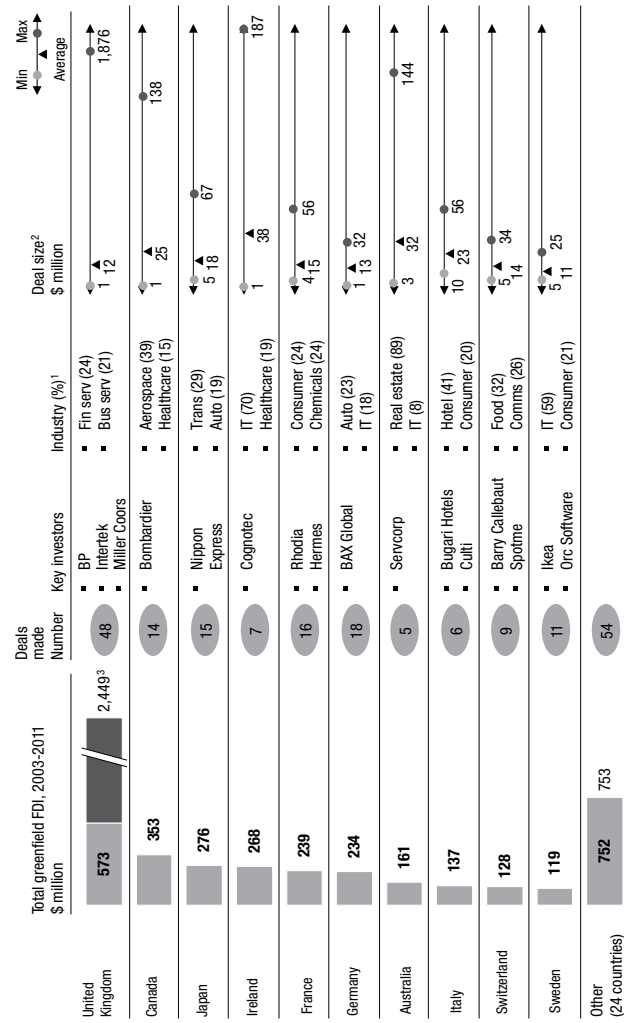
6. In 1998 BP acquired Chicago-based Amoco for \$48 billion. Six years later BP invested \$1.876 billion to upgrade its refining capacity in the Chicago region.

Figure 1 - Chicago is the third leading recipient of FDI among the largest U.S. cities



¹ Cities 21 to 1,747 account for \$213.552 billion and 5,430 deals; 1,568 deals are unclassified.
² Information and Communications Technology (ICT) includes equipment and computer software.
 Source: FDI Markets.

Figure 2 - Top ten investor countries account for 83 percent of Chicago's greenfield FDI



¹ Excludes BP deal
² Rounded deal may be less than 1 million
³ BP Investment accounts for \$1,876 million
 Source: FDI Markets.

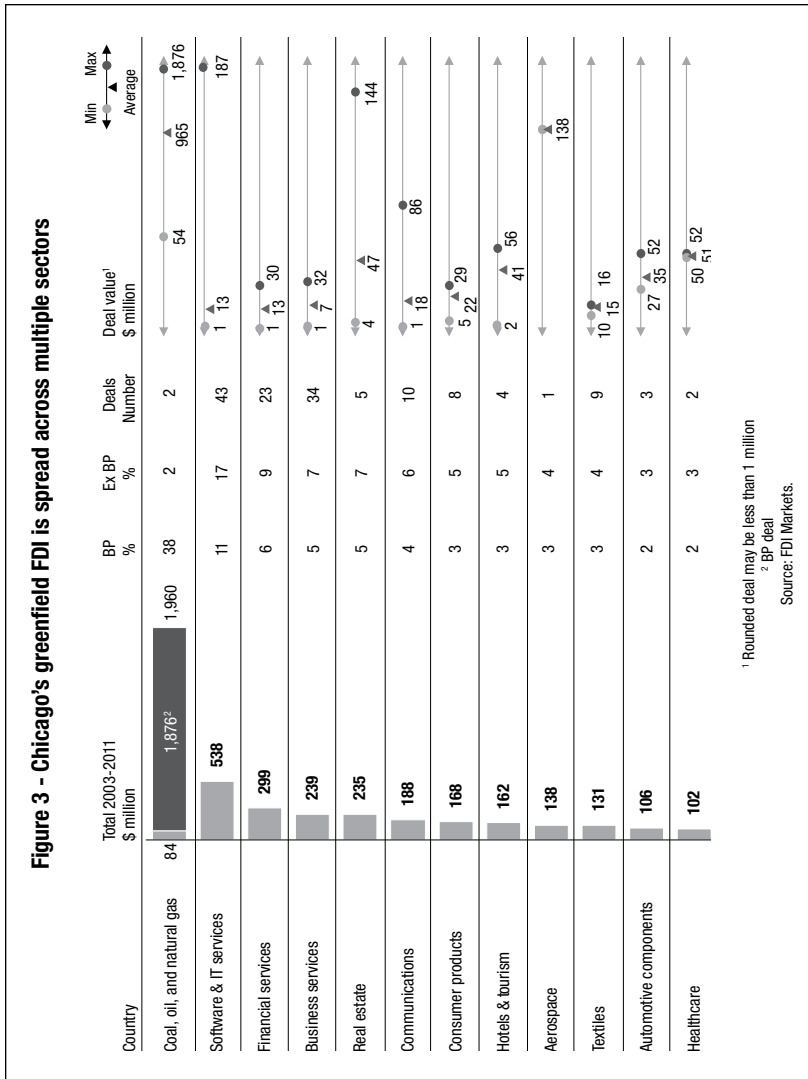
Chicago's FDI advantages

When evaluating potential locations in which to invest, companies make decisions based largely on the economic climate. Depending on the industry, certain characteristics such as access to important markets, infrastructure, the stability of the government, the regulatory environment, ease of travel to and from the city, the talent pool, and quality of life can vary greatly in importance.

Amid increasing competition for FDI among global cities, Chicago has a number of strengths that make it an attractive location for foreign companies seeking to establish or expand their presence in the United States. These distinctive advantages provide the foundation for more proactive efforts to attract foreign companies to the region.

Mature professional and business services. In 2010 Chicago's finance and business services sector accounted for \$110 billion in gross regional product (GRP), making it the region's largest sector by a wide margin. Its strength led the Economic Intelligence Unit's report on the competitiveness of global cities to give Chicago a top rating on financial maturity. In addition, Chicago has a strong cluster of leading professional services firms—from law and real estate to consulting, marketing, and advertising—to support the strategic growth and operation of business.

A major commercial hub. Chicago serves as a center of commerce. It currently accounts for 50 percent of all rail traffic in the United States and has the largest container port in North America. As a result, fully one-quarter of all U.S. freight touches the Chicago region in transit.⁷ Chicago's concentration of businesses and resources has driven growth in a number of agricultural and commodity sectors such as trading and commodity exchanges, food processing, and food sciences. Similarly, its geographic location has fueled the development of the transport and distribution sector, which has more than 1.1 million square feet of logistics facilities in the Chicago region as well as light manufacturing and final assembly.⁸



7. OECD Territorial Reviews, *The Chicago Tri-State Metropolitan Area*, chapter 4, p. 9, March 2012, http://www.oecd.org/document/44/0,3746,en_2649_34413_49820716_1_1_1_1,00.html.

8. Colliers International, 2Q 2012 Reports.

Transport infrastructure. In 2011 O'Hare and Midway international airports served 84 million passengers on more than 1.1 million flights. O'Hare ranked second among U.S. airports for aircraft movements and fourth for total passenger traffic.⁹ The strength of Chicago's air and intermodal systems enables goods and materials to be imported from international markets and transported cost effectively within the United States. This robust infrastructure provides companies with easy access to businesses not only in the Midwest region but also on the East and West coasts.

Quality of life. People who come to Chicago are often impressed by its beauty, architecture, and lakefront setting. Its downtown area offers world-class fine dining, arts and culture, and nightlife, while sports competitions, concerts, and summer festivals take place throughout the region. All of these factors make Chicago a magnet for top talent. Affordable housing, large expat communities, and many different types of schools offer a range of options for executives looking to relocate their families.

Human capital and educational institutions. In Northwestern University and the University of Chicago, the region has two of the top graduate business schools in the country. The University of Illinois at Chicago, DePaul University, Loyola University, DeVry University, and other institutions contribute thousands of educated graduates to the region's talent pool each year. In all, 34 percent of adults in Chicago have a college degree. The city has sought to align community colleges and vocational programs with the needs of the private sector to produce graduates who are ready to enter the workforce.

Venture capital and innovation. Over the past several years, the combination of high-profile, tech-related companies (such as Groupon and GrubHub), a renewed focus on nurturing innovation, and business and technical talent from top area institutions (Booth, Kellogg, the Illinois Institute of Technology) has attracted venture capital for promising businesses. In May of this year, a public-private partnership officially launched 1871, an organization that provides support and mentorship opportunities to start-up companies and entrepreneurs.

9. Jon Hillekevitch, "O'Hare keeps #2 ranking in total flights," *Chicago Tribune*, January 27, 2012, http://articles.chicagotribune.com/2012-01-27/news/ct-met-busiest-airports-0127-20120127_1_faa-data-airports-council-international-o-hare.

Three obstacles to investment

Despite these strong attributes, the region's ability to attract foreign investment is severely hindered by three obstacles: Illinois' fiscal situation and business climate, the region's complex bureaucracy and lack of coordination, and insufficient efforts to promote the Chicago region to foreign companies.

1. Illinois' fiscal situation and business climate

Chicago's strengths are frequently overshadowed by Illinois' dire financial situation. Structural budget deficits, unfunded pension obligations, and a sustained lack of political leadership have created a pervasive uncertainty and pessimism about the state's long-term business prospects. Despite recent announcements about the desire for pension reform, few observers are optimistic that substantial progress will be made in the next several years. In the meantime, the state's backlog of unpaid bills and budget deficit continue to climb. National and international press regularly cite Illinois as a poster child for state budget woes and political dysfunction.¹⁰

The impact of Illinois' financial problems extends to a number of areas that directly affect the region's business climate:

An uncertain tax environment. The inability of Illinois' leaders to get their fiscal house in order has led the business community and general population to expect more tax hikes. Indeed, many executives have voiced concerns that their businesses will have to pay for the state's long-term financial mismanagement. While Illinois' effective tax rate on new investment is just 4.6 percent¹¹—the fifth lowest in the nation—an entrenched, negative perception regarding the state's prospects has given competitors with more stable budgets an advantage in attracting business.

Lack of strategic vision at the state level. Many states have developed the capabilities and strategies to pursue business development opportunities more aggressively. In 2005 Indiana established the Indiana Economic Development Corporation as a public-private partnership and has been methodical about creating an inviting climate for businesses through a range of programs. These efforts have

10. See "Illinois state on 'brink of collapse,'" *Financial Times*, March 5, 2012.

11. Ernst & Young, *Competitiveness of State and Local Business Taxes on New Investment*, April 2011.

extended to FDI. Georgia Governor Nathan Deal recently helped to secure a major Chinese investment in that state. Meanwhile, Illinois has made little progress in developing the vision or capabilities to attract business, and its approach to tax incentives frequently appears to be reactive and without a coherent strategy.

Allocations of funds. The state's debt and pension obligations are siphoning resources and energy away from investments that are vital to the economy's long-term prospects. Illinois simply doesn't have the year-on-year funding to support ambitious investments in infrastructure, education, and research and development—areas that have traditionally provided the state with competitive advantages over its counterparts.

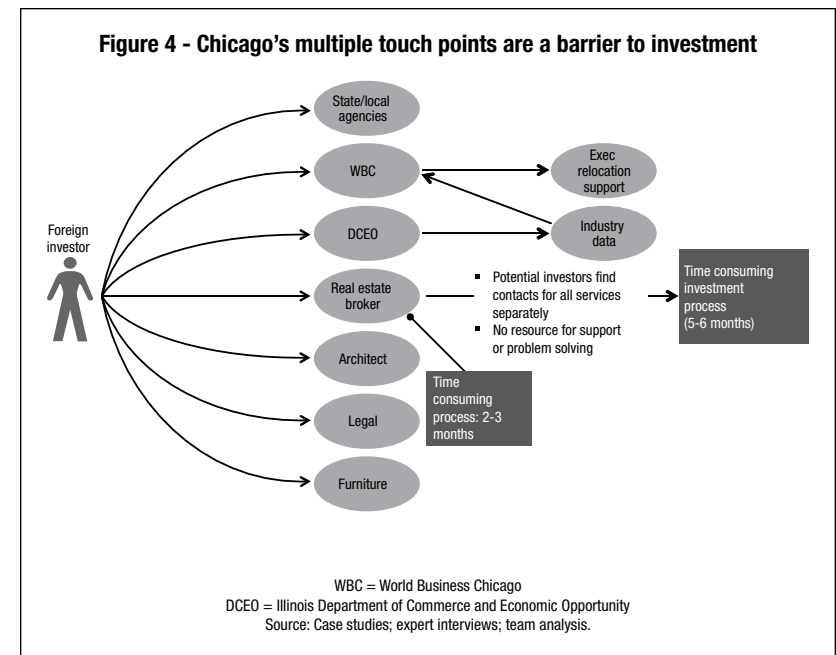
Taken together, these factors have contributed to serious misgivings of Illinois as a business destination. In *Chief Executive* magazine's 2012 survey of the best states to do business, Illinois came in at forty-eighth.¹² Only New York and California were rated worse. The continued inability of the state's leaders to address these factors is effectively constraining growth in capital- and labor-intensive industries such as manufacturing. Recently, Illinois-based companies Baxter and Caterpillar opted to build manufacturing facilities in Georgia due in part to that state's aggressive outreach, more attractive regulatory environment, and tax incentives.

2. The region's complex government bureaucracy and lack of coordination

Foreign-owned and U.S. companies largely look for the same attributes in a region: a business-friendly environment characterized by straightforward processes for establishing operations and agencies that can assist them with tax incentives and relocation. By improving the business climate across the board, foreign businesses will follow.

Unfortunately, foreign executives seeking to enter the Chicago region are faced with a complex landscape of 1,700 distinct units of government that often overlap geographically even at the lowest level. A company must typically go through multiple touch points across government agencies to obtain the necessary business permits, meaning that setting up a business in the Chicago region can take up to four months. Similarly, to secure tax incentives and other

12. J.P. Donlon, "Another triumph for Texas: Best/worst states for business 2012," *Chief Executive*, May 2, 2012, <http://chiefexecutive.net/best-worst-states-for-business-2012>.



assistance, a company has to work with both municipal and state agencies. Since Chicago doesn't have a single agency that can assist foreign executives, these processes can be confusing, time consuming, and costly (see figure 4).

The proliferation of government units also makes it nearly impossible to build consensus and devise a long-term strategy for promoting the region in foreign markets. As a result, municipalities compete with one another for opportunities instead of looking for ways to join forces and undertake a united campaign. While some organizations are effective at providing services reactively, they often miss opportunities to interact with companies early in the site selection process. From a practical standpoint, agencies at the state, regional, county, and city levels lack sufficient coordination and funding, so their ability to build on existing relationships with foreign-owned businesses in the area and establish new ones has been mixed to date.

3. Insufficient efforts to promote the Chicago region to foreign companies

With the exception of Chicago's 2016 Olympic bid and the 2012 NATO summit, opportunities to reach an international audience have been largely ignored. The marketing efforts of organizations affiliated with the city have traditionally targeted domestic audiences. For example, the Chicago Convention & Tourism Bureau, recently renamed Choose Chicago, has allocated the bulk of its promotional budget to luring visitors from within 500 miles of the city. Chicago is therefore not well known in many foreign markets, and much of what it is known for is not good. Rather than being celebrated for its economic strength, ethnic diversity, culture, and top-tier educational institutions, many people associate Chicago with political corruption and Al Capone and think of the region solely as an industrial center.

Other U.S. cities have established a presence in foreign markets and regularly attend trade conferences and other business forums. Chicago's trade missions have largely been isolated events unsupported by an overarching strategy or effective follow-up. The Illinois Department of Commerce and Economic Opportunity (DCEO) has nine trade offices in foreign countries,¹³ but these outposts are primarily focused on increasing exports and opportunities for Illinois businesses.

The Chicago region has more than one hundred nongovernmental organizations and professional groups that include economic development in their missions, but few of these entities have positions dedicated to FDI.¹⁴ Limited resources are dispersed across many entities, and the region lacks the capacity and coordination to increase the overall level of foreign investment. Other global cities have followed a more focused, coordinated approach, as will be discussed in chapter III. Bogota has twenty-two staff committed to FDI efforts, and Frankfurt a total of twenty-five. Toronto has more than twenty-five employees across two organizations that collaborate on business development and FDI strategy.

13. The Illinois Department of Commerce and Economic Opportunity (DCEO) Office of Trade and Investment manages offices in Brussels, Belgium; Mexico City, Mexico; Jerusalem, Israel; New Delhi, India; Shanghai, China; Tokyo, Japan; Toronto, Canada; Wanchai, Hong Kong; and Warsaw, Poland. These offices focus primarily on promoting Illinois businesses and developing export opportunities.

14. Metropolis Strategies, *Restoring Chicago's Momentum: A Regional Agenda for Economic Growth*, September 2011, p. 6.

Chapter III Lessons for Chicago

Despite Chicago's great advantages, the three obstacles outlined in the previous section present significant barriers to attracting foreign investment. While addressing Illinois' financial condition is beyond the region's control, public- and private-sector leaders throughout Illinois must exert pressure on the state's elected officials to confront the fiscal situation head on and implement solutions in the near term.

By focusing on the remaining two areas—reducing bureaucracy and increasing coordination as well as expanding promotional efforts—we believe that the city can significantly improve its business climate. A cooperative, business-friendly attitude on the part of government officials and agencies can compensate for shortcomings in other areas.

In developing strategies to address Chicago's challenges, there are important lessons to be learned from the success of other global cities and from the current patterns of FDI in the United States.

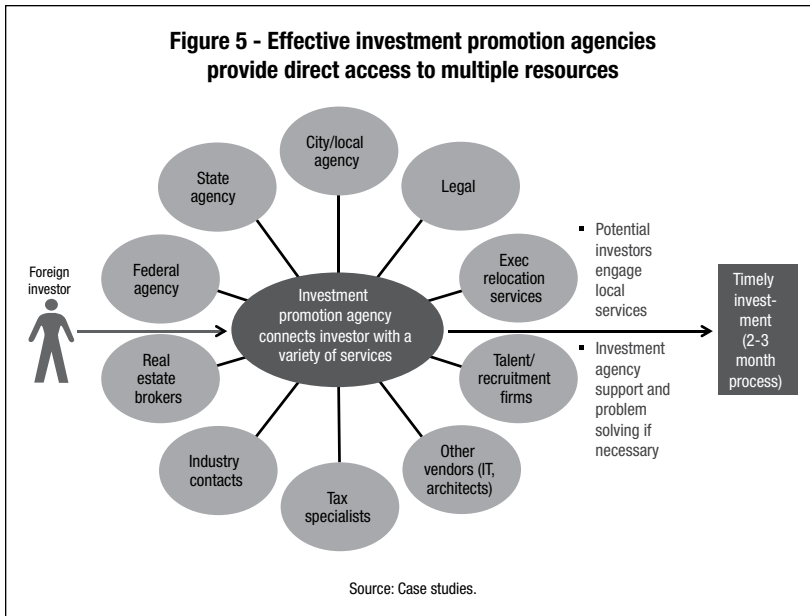
What Chicago can learn from its global peers

A number of global cities have implemented FDI strategies that have made significant contributions to their cities' economic development. The urban centers that we've analyzed include Singapore, the established leader in global FDI; Toronto, Canada, and Dortmund, Germany, two cities with mature investment promotion agencies that provide foreign companies with a range of services; Bogota, Colombia, and Frankfurt, Germany, relative newcomers that have built impressive track records over the past six to seven years; and Portland, Oregon, which has developed a strong high-tech cluster.

The benefits of an effective investment promotion agency

Based on our research and analysis, cities that have been successful in increasing FDI have established a lead investment promotion agency that serves as a one-stop shop for companies.¹⁵ This agency

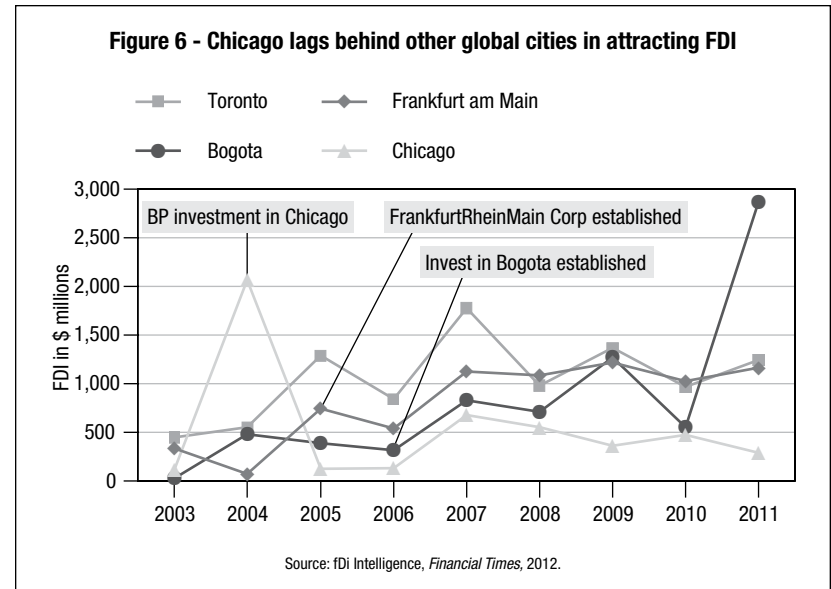
15. The World Bank has created an investment promotion agency handbook that offers cities a template, strategy, and priorities for how to set up their investment promotion agency. For more information, go to <https://www.wbginvestmentclimate.org/toolkits/investment-generation-toolkit/index.cfm>.



provides business services and assistance to help foreign companies and acts as an umbrella organization to coordinate the activities of relevant government agencies and stakeholders. By working with an investment promotion agency, foreign executives and site selection firms can get direct access to resources, significantly reducing the time and energy they must devote to getting information about a region (see figure 5).

High-functioning investment promotion agencies develop a strategy based on research and analysis to determine strengths and opportunities and to target specific industries and countries. They also network with existing companies to attract additional investment and identify businesses with the potential to relocate. Through such efforts these organizations are an important ally in fostering business development.

The Singapore Economic Development Board (EDB), which was founded in 1961, sets the standard for investment promotion. We recognize, however, that Singapore's government and other factors make it a unique example—and therefore not as analogous to Chicago's experience. By contrast, Bogota, Frankfurt, and Toronto share some of Chicago's characteristics. All have established investment promotion agencies in the past fifteen years, and the combination of concrete steps to improve their business climate and more



effective outreach has contributed to impressive gains in FDI for each city since 2003. In comparison, Chicago's performance (with the exception of 2004, an outlier because of the BP investment) has trailed badly, in some years by as much as \$1 billion (see figure 6).

The following case studies examine these three cities to understand what they are doing well and how Chicago can integrate their experiences into its own strategy.

Bogota, Colombia

When Invest in Bogota was formed in 2006, the city of 7.4 million people had a lot to offer foreign companies: a well-educated workforce, access to South American markets, and a business-friendly environment. However, it also had to address a major obstacle: concerns about security resulting from a history of violence by drug cartels. Invest in Bogota was established as a public-private partnership (the board includes the city's mayor as well as business and civic leaders) and works closely with the World Bank to implement its recommendations for investment promotion agencies.

As a one-stop shop for foreign companies, Invest in Bogota has gotten high marks for its performance and responsiveness. The organization uses rigorous analysis to identify companies in sectors such as agribusiness, biotechnology, information technology, busi-

Bogota Fast Facts

Population: 7.4 million

Advantages: Well-educated workforce, access to South American markets, business-friendly environment

Main industries: Agrobiotechnology, IT, business process outsourcing, petroleum

ness process outsourcing, and oil and gas. With an annual budget of approximately \$3 million—the city and its chamber of commerce each contribute 50 percent—Invest in Bogota pursues a coordinated strategy and has assembled an ambitious staff with expertise in international business, economic development, and research and analysis.

The results have been impressive. In the years following Invest in Bogota's formation, the city has doubled the number of foreign-owned businesses to 1,361, from 679.¹⁶ The organization's efforts helped to boost the city's average annual FDI from \$400 million for 2004–06 to more than \$1 billion for 2007–11, including \$2.8 billion in 2011 alone. Finally, the combination of improved security on the ground and consistent messaging to emphasize the city's advantages has helped reverse the negative perception of Bogota.

Frankfurt, Germany

The FrankfurtRheinMain Corporation was formed in 2005 as a non-profit to promote the region's sixteen cities, districts, and towns to foreign companies. The organization's operating budget of 4 million euros is financed by the cities and chambers of commerce in the region, which serve as stakeholders. Similar to Chicago, Frankfurt boasts a central location, a strong transport infrastructure, a network of colleges and universities that produce an educated workforce, and large ethnic communities.

Since its inception, FrankfurtRheinMain has focused on small and midsize businesses looking to establish a presence in Europe. In addition to transport and logistics and financial services companies, the region has built a strong IT cluster through sustained outreach to India and South Korea. Of the twenty largest Indian IT companies, seventeen have established a presence in Frankfurt, creating a virtuous cycle of investment.

16. According to the Bogota Chamber of Commerce and the Registro Mercantil.

Frankfurt Fast Facts

Population: 5.5 million

Advantages: Central geographic location, transport and logistics, robust IT infrastructure, strong human capital

Main industries: Financial services, IT, transport, and logistics

FrankfurtRheinMain has placed particular emphasis on providing comprehensive services to facilitate the relocation process. Before its formation, senior executives had to apply to various government agencies in the region to obtain work and resident permits and incorporate their businesses—a process that could take two to three months. The individual agencies didn't communicate with one another, often extending the process to more than three months. FrankfurtRheinMain brought the agencies together and stressed the importance of greater coordination and expedited processes. As a result, foreign companies can now establish their operations in just four weeks.

Toronto, Canada

The Greater Toronto Marketing Alliance (GTMA) was established in 1997 in response to calls from both the private and public sector for more effective promotion of the region. The organization represents twenty-nine different municipalities and has an operating budget of approximately \$1.6 million. Funding comes from the city of Toronto, municipal and regional entities, and private-sector partners, including most of the colleges and universities. The GTMA provides foreign companies with business services and resources to facilitate business formation and collaborates closely with the region's other economic development organizations.¹⁷

Toronto has a number of similarities to Chicago, including a deep talent pool courtesy of its colleges and universities, proximity to major North American markets, and a concentration of financial services and biopharma companies. Recently, Toronto commissioned a study to identify fast-growing business segments that would complement its existing industry concentrations. Based on

17. The GTMA benefits greatly from the work of the Ontario Ministry of Economic Development and Innovation, which has made significant investments in operations and trade offices. Similarly, Invest Toronto, founded by the City of Toronto in 2009, has an annual operating budget of \$2.5 million that supports efforts to attract FDI.

Toronto Fast Facts

Population: 3 million (city of Toronto); 6 million (greater Toronto area)

Advantages: Business-friendly environment, strong colleges and universities, human capital

Main industries: Aerospace, advanced manufacturing, biopharma, financial services, digital interactive media, smart-grid technology

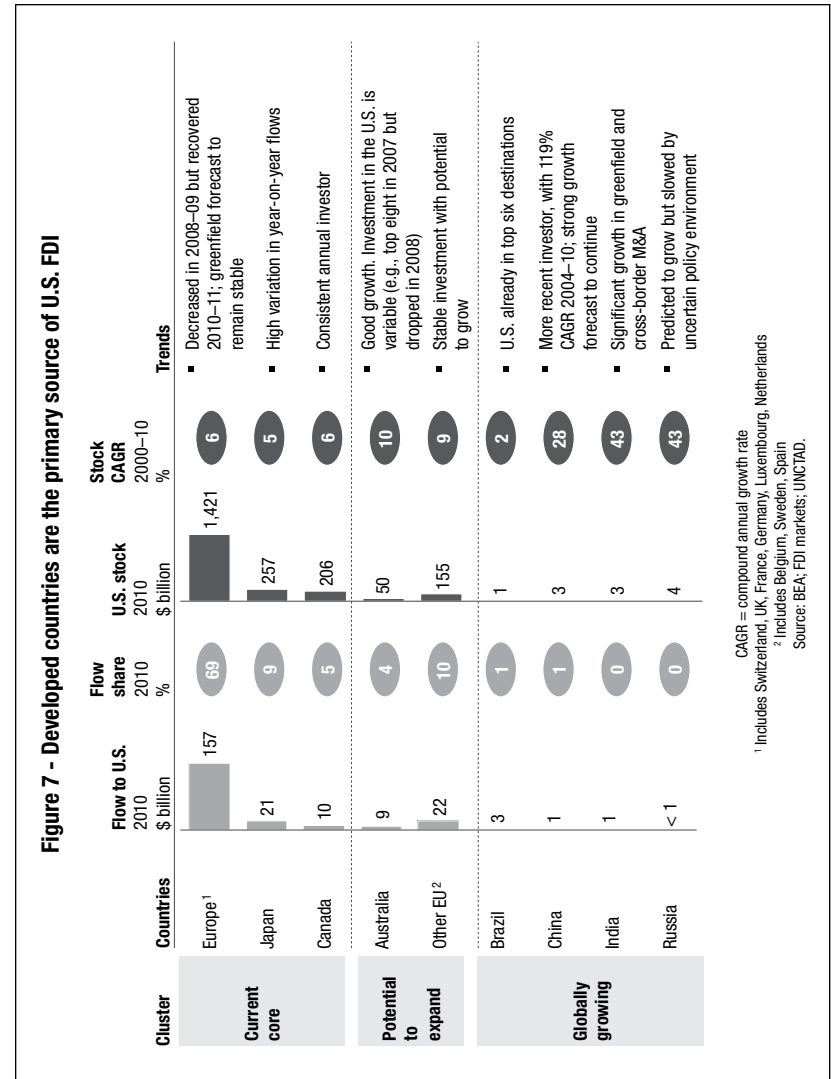
this analysis, the city has targeted digital media, food and beverage processing, and smart grid technology. Toronto has also extended its focus beyond traditional sources of FDI (the European Union and United States) to include Brazil, China, and India.

Since 2003 Toronto has attracted an average of more than \$1 billion in FDI each year—nearly double Chicago's total. In addition, the city has built a concentration of companies in strategic sectors such as advanced manufacturing and biopharmaceuticals. Toronto benefits from efforts by the federal and provincial governments to lower tax rates¹⁸ and from the country's liberal immigration policy, both important advantages, particularly compared with U.S. cities.

What Chicago can learn from the patterns of FDI investment in the United States

In addition to learning from the successes of its global peers, Chicago can also benefit from examining the patterns of FDI in the United States. These patterns point to current weaknesses and potential strategies for pursuing FDI in Chicago. The data gathered for this report, along with the study group's discussions with experts, reveal some notable trends.

Nearly all FDI in the United States—98 percent—comes from developed nations, and 84 percent from just eight countries. These eight countries are Switzerland, the United Kingdom, Luxembourg, Japan, Germany, France, Netherlands, and Canada. The BRIC countries (Brazil, Russia, India, and China) and other emerging markets accounted for just 2 percent of U.S. FDI in 2010 (see figure 7). By focusing initially on developed countries while developing longer-



18. The provincial government's most recent budget froze the combined federal and provincial income tax rates for businesses in Toronto at 26.5 percent.

term strategies for FDI from emerging markets, Chicago can take advantage of global FDI sources as they evolve.

U.S. affiliates of foreign companies—those that have already entered the market—account for 55 to 80 percent of FDI in a given year. Once executives have established operations, they are more familiar with the business and regulatory environments in the United States and are more apt to facilitate subsequent investments. This suggests that targeting existing foreign businesses in the United States should be a top priority when looking for sources of FDI.

Most of the FDI in the United States is located outside of large cities. From 2003 to 2011 the top twenty cities captured 22 percent of all greenfield FDI. The remaining 78 percent was spread over the next 1,720 cities. Manufacturing makes up the largest slice of foreign investment, and smaller cities have been successful at building clusters. Spartanburg, South Carolina, for example, has developed a cluster in auto manufacturing. This suggests that large cities, including Chicago, have more work to do in creating business-friendly environments and promoting their distinct advantages to potential investors.

FDI in large cities is distributed across a number of industries. Large cities tend to have diversified economies and higher labor costs, so foreign investment isn't concentrated in just one industry (see figure 1). By contrast, smaller cities that perform well generally have a dominant industry such as petroleum, manufacturing, or technology. Instead of casting a wide net, cities like Chicago should work to develop clusters in industries in which they have the strongest competitive advantages to serve as dynamic industry centers that can be attractive to foreign companies.

Geography matters. New York City is a main point of entry for European companies into the United States, while Asian companies typically look to the West Coast. As a result, executives view cities in the country's interior as potential locations for a second or third office. Cities that have access to ports or transportation hubs also have natural advantages. Chicago has this natural advantage as an interior transportation hub ideally suited to expanding foreign businesses and can tout this with foreign investors.

Chapter IV

A Regional FDI Initiative for Chicago

In February 2012 World Business Chicago, a nonprofit public-private partnership focused on economic development and chaired by Mayor Emanuel, released *A Plan for Economic Growth and Jobs*. The plan echoes recent research that highlights the need for a coordinated strategy to revive growth and boost economic development.¹⁹ It signals an important commitment among the city's leadership to pursue bold new measures.

Several strategies outlined in the plan would make Chicago more attractive to all companies, both domestic and international, and can serve as a platform on which to build a strategy for increasing FDI in Chicago:

- Become a leading advanced manufacturing hub
- Increase attractiveness for business services and headquarters
- Become more competitive as a leading transport and logistics hub
- Foster innovation in mature and emerging sectors and support entrepreneurship
- Create an environment that allows businesses to flourish

The following recommendations put forth specific actions the city can take to launch an FDI initiative for Chicago. A successful initiative targeted specifically at foreign-owned companies encompasses the following three critical components: (1) a focused strategy based on Chicago's competitive advantages and targeted outreach; (2) leadership to provide vision, engagement with stakeholders, and momentum for the initiative; and (3) organizational capacity to coordinate outreach and better serve foreign investors. Currently, Chicago falls short in each of these areas, in some by a significant margin. Implementing these recommendations would enable the

19. See Chicago Metropolitan Agency for Planning, *GO TO 2040*; Metropolis Strategies, *Restoring Chicago's Momentum*; and *OECD Territorial Reviews: The Chicago Tri-State Metropolitan Area, United States*.

region to pursue a robust investment promotion strategy and build on successes in the coming years.

Develop and implement a comprehensive FDI strategy

The most successful cities don't cast a wide net but instead take a methodical approach to identifying companies in industries that play to their strengths and support their overarching objectives. Chicago has much work to do to realize the full potential of its current primary sources of FDI, but global trends—growth in key emerging markets and their desire to invest in other countries—will continue to present new and valuable sources of FDI. Therefore, the region should initially seek to attract investment from existing sources while being nimble and responsive enough to shift gears as new opportunities arise.

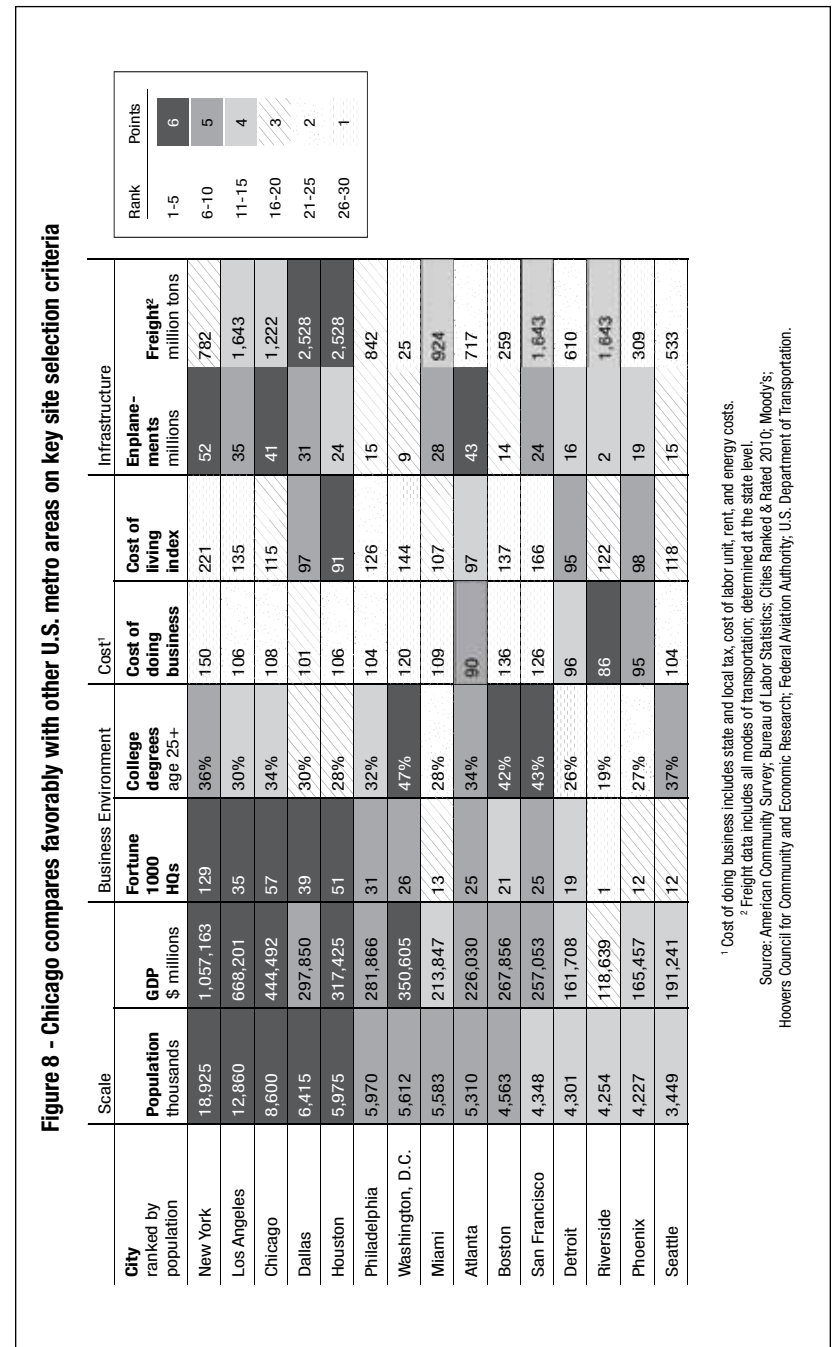
Target existing sources

Work with foreign-owned companies in Chicago

Investments by the U.S. affiliates of foreign-owned companies contributed anywhere from 55 to 80 percent of total FDI in the United States from 2000 to 2008.²⁰ These numbers reinforce that encouraging the expansion of businesses already in the region should be intrinsic to Chicago's strategy. After all, it's more difficult to attract foreign companies with no exposure to Chicago than to support the ones that are already here. Therefore, the city should engage on a consistent basis with the 1,500 foreign companies that have established operations here.

Since many foreign-owned companies use M&A to gain entry to a market, we recommend nurturing all foreign companies with a presence in the region, regardless of the nature of their original investment. By engaging with foreign executives, Chicago can demonstrate that it values these businesses and has a vested interest in their continued success. Organizations such as World Business Chicago already reach out to companies through electronic communications such as newsletters, presentations at luncheons or conferences, and regular contact with top business leaders. These activities should be expanded and include the offer of assistance and support for future expansion.

20. U.S. Bureau of Economic Analysis, *Survey of Current Business*, June 2009.



Target foreign-owned companies with U.S. locations

Many foreign-owned companies choose cities on the coasts for their first point of entry into the United States. As they expand their operations, Chicago should promote its many advantages for foreign companies and their executives, including a full range of financial and business services to support corporate strategy and operations; a highly educated talent pool, courtesy of the region's top business schools; a diverse, cosmopolitan setting with a vibrant downtown that is welcoming to executives from around the world; airports offering direct flights to most major global cities and travel of only a few hours to either U.S. coast; and a much lower cost of living compared with other major U.S. cities such as New York, San Francisco, and Washington, D.C. Chicago also stacks up well against first- and second-tier cities in terms of the cost of doing business (see figure 8).

Chicago is also well positioned to become the primary destination for global companies seeking to establish North American headquarters. The region has a strong reputation as a hub for global operations. It is home to more than 400 major corporate headquarters, the second-highest number among U.S. cities.²¹ This total includes the global headquarters for twenty-nine Fortune 500 companies.

Develop clusters in high-growth sectors

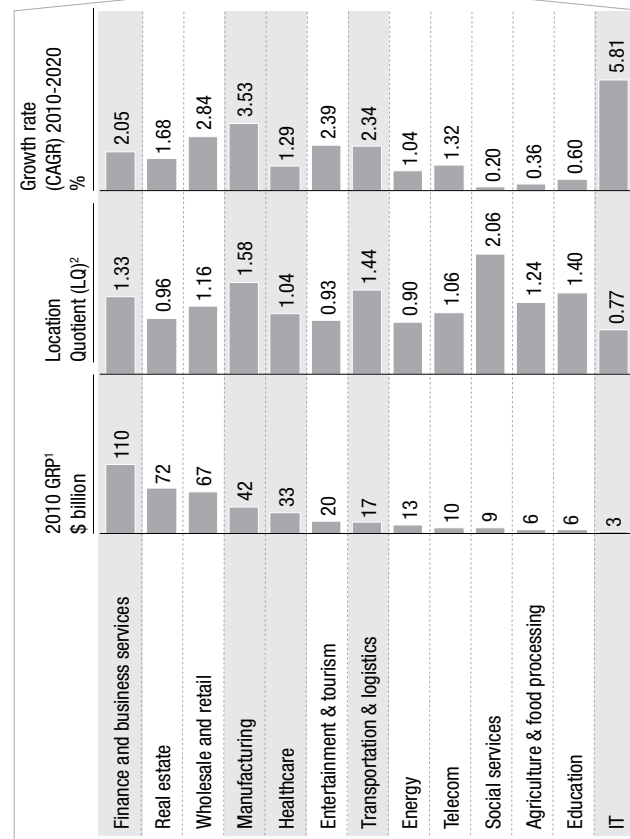
As discussed earlier, rigorous research and analysis to identify industry sectors best suited for foreign investment are crucial to successful investment promotion. This approach recognizes that certain factors—such as access to appropriate talent, markets, and infrastructure—figure prominently in a foreign company's site selection process. The Chicago Council's study group on FDI has identified five sectors that showcase the Chicago region's strengths, are poised for growth over the coming decade, and offer specific advantages for foreign-owned companies (see figure 9).²²

Growth in these five sectors could have a significant impact on the region (see figure 10). Our research indicates that every dollar in investment will result in up to \$2.40 in direct, indirect, and induced

21. Hoover's defines a major corporate headquarters as a nonsubsidiary headquarters for a company with at least 1,000 global employees.

22. These five sectors are consistent with those highlighted in World Business Chicago's *Plan for Economic Development and Jobs*, although information technology replaces wholesale and retail.

Figure 9 - Five sectors have strong growth potential and appeal to foreign investors



GRP = gross regional product; CAGR = compound annual growth rate
¹ Government employment and GRP figures are excluded from this analysis.
² Location quotient refers to Chicago employment concentration vs. U.S. employment concentration
 Source: Bureau of Labor Statistics; Moody's Analytics.

benefits. In addition, every \$1 million invested is projected to create 12 to 26 jobs (depending on the sector) and result in increased employment, economic activity, and tax revenues for the region. In sum, building on the existing strengths of these sectors would raise the overall dynamism of the region and serve as a powerful magnet to drive growth in other sectors such as retail and hospitality.

Finance and business services. With 124 major corporate headquarters, financial and business services is already Chicago's largest sector, accounting for \$110 billion in GRP and employing 315,000 people. More important, leading business consulting, marketing, advertising, accounting, and real estate firms support a wide range of corporate operations. Once foreign companies have set up operations, these firms can support them in strategic development, performance management, and investment and expansion.

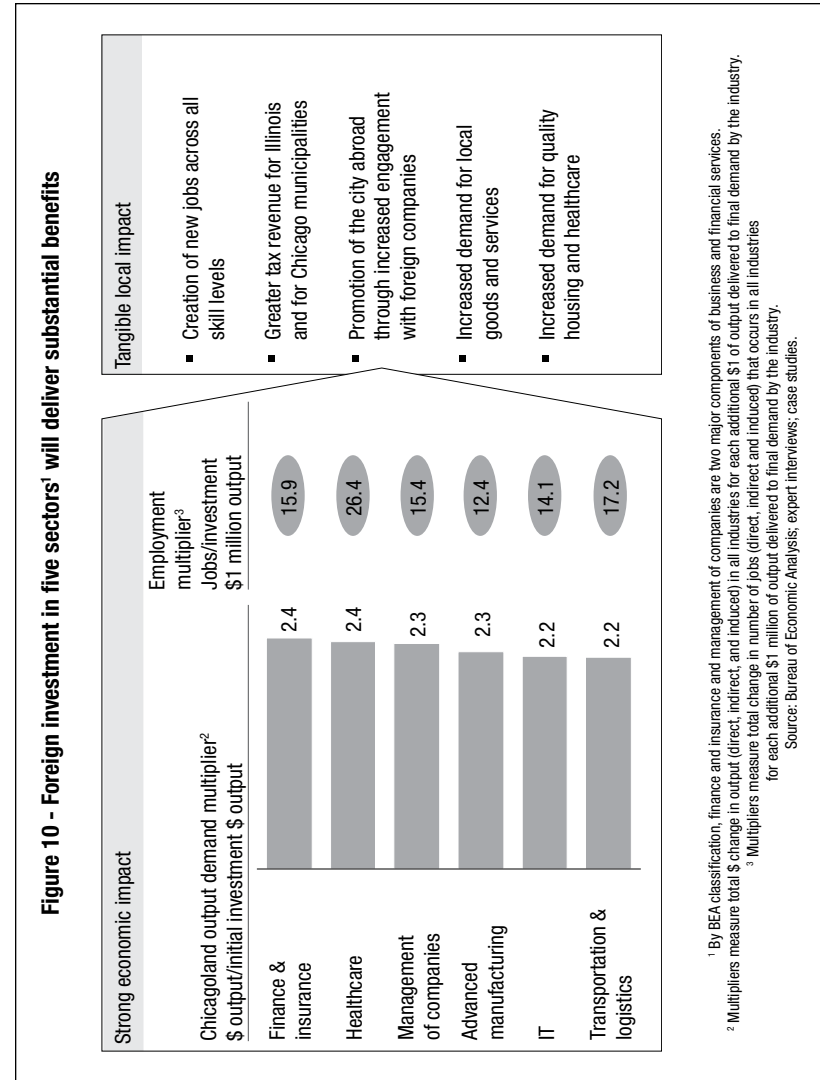
Advanced manufacturing.²³ The city already has a strong manufacturing base—its 400,000 jobs account for 10 percent of employment in the region. Advanced manufacturing's emphasis on technology and innovation are a good fit for the region's highly educated talent pool and strength in science-based R&D. Chicago has several sectors, including pharmaceuticals, navigational instruments, and engine manufacturing, that are forecast to grow significantly by 2020. Area companies are partnering with educational institutions to design curricula that will train the workforce to fill these positions.

Healthcare. Chicago's healthcare sector²⁴ employs approximately 500,000 people and ranks third among U.S. metro areas, accounting for more than \$30 billion in annual GRP. Over the past five years, healthcare employment has grown by 12 percent. Healthcare manufacturing for medical devices and pharmaceuticals contributes an additional \$2.9 billion each year. Complementary sectors such as health insurance, e-health solutions, and life sciences combine with medical research institutions to form a virtuous circle of growth and innovation.

Transportation and logistics. The region's geographic location and history as a nexus of commerce provide it with an enormous com-

23. According to the U.S. Department of Labor, advanced manufacturing involves "implementing process improvements, increasing quality controls, and installing advanced robotics and other intelligent production systems."

24. The healthcare sector includes hospitals, outpatient care, clinics, ambulatory services.



petitive advantage. The nation's transport infrastructure converges on Chicago—six of seven class 1 railroad companies operate in the region. Its world-class airports and intermodal shipping offer direct routes to import freight from abroad and move it efficiently throughout the country. Chicago's proximity to a large Midwest customer base and a high concentration of distribution centers and warehouses offers additional advantages to transport and logistics companies.

Information technology. Chicago's IT sector, though relatively small when compared with other sectors, has the potential to experience robust growth. Its IT workforce of more than 25,000 ranks fourth in the country among metro areas, and Chicago's educational institutions, a renewed focus on innovation, and high-profile tech companies provide the building blocks for expansion. In addition, the emergence of technology as the backbone for commerce and the high concentration of professional and business services firms puts the GDP of Chicago's IT sector on track to grow at a compound annual rate of nearly 6 percent.

With the targets identified, Chicago should use the experience of other cities, particularly those such as Bogota and Frankfurt, to establish realistic targets and track progress. Since what gets measured gets done, these targets and the region's performance against them should be reported to stakeholders on a regular basis.

Focus on high-potential sources by country and industry

Initially, Chicago should focus its efforts on high-potential sources of FDI—by country and by industry—and direct resources to these areas. As noted earlier, 83 percent of Chicago's FDI comes from ten countries. The concentration of businesses from top investing countries can act as a magnet for new companies. These foreign executives are already familiar with Chicago's strengths, and expat communities can ease relocation for new arrivals. In addition, the experiences of foreign businesses lend credibility to the region's outreach efforts.

Engagement should focus both on foreign companies that are already in Chicago and the United States as well as businesses that have yet to enter the United States. On the former, Chicago should target companies with locations on either coast that are considering expansion. On the latter, Choose Chicago and DCEO already have

trade and promotion offices in seven of the ten countries, providing a base from which to work.

These organizations should share resources and intelligence with the region's efforts to make inroads in the targeted countries.

Target long-term, high-potential sources

Strengthen and expand relationships with China

Although China currently accounts for a small percentage of FDI on a national level (and just \$225 million invested in Chicago over the past decade), it represents a huge growth opportunity. Chinese companies and the government are actively seeking to invest in other countries, so its FDI outflows of \$60.1 billion in 2010 should increase significantly.²⁵ Developments within China will fuel this investment boom. Chinese government officials have recognized the need to develop a social safety net to free up large stores of investment capital currently residing in savings accounts.

So while many Chinese executives are eager to invest in the United States, they do not have the knowledge of U.S. government and regulations to move forward. Much like the experience of U.S. companies in China twenty years ago, they lack the direct connections to facilitate investment.

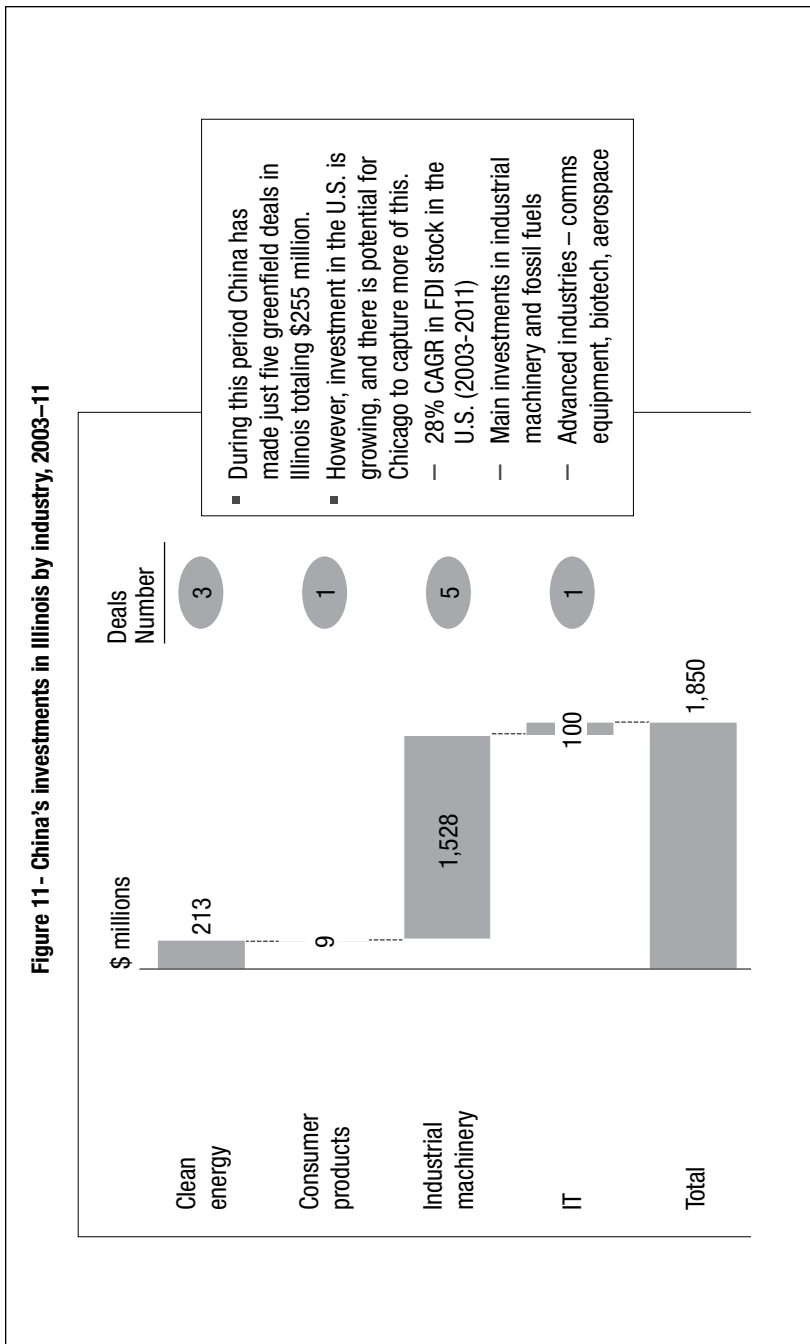
Chicago is in a unique position to capitalize on this opportunity. Mayor Daley's early outreach to China through trade missions and the Sister Cities program has established connections that should be carefully nurtured. When President Hu Jintao visited the United States in 2011, he scheduled a two-day visit to Chicago—an indication of the mutual interest in forging a stronger working relationship.²⁶ World Business Chicago should seek to develop services and communications tailored to the needs of Chinese executives.

China's investment in Illinois to date has been concentrated in just a few sectors. Most is in industrial machinery, with smaller amounts in clean energy, IT, and consumer products (see figure 11).

Chicago's cluster of business and financial services, particularly insurance and professional services firms, could not only support

25. Organisation for Economic Co-operation and Development, *FDI in Figures*, January 2012, <http://www.oecd.org/dataoecd/60/43/48462282.pdf>.

26. Katherine Skiba and Hal Dardik, "Chinese President Hu Jintao to Visit Chicago," *Chicago Tribune*, January 12, 2011, http://articles.chicagotribune.com/2011-01-12/news/ct-met-china-visit-0113-20110112_1_visit-chinese-president-hu-jintao-confucius-institute.



Chinese headquarters in the Chicago area but also serve as a resource to Chinese government officials as they develop the financial mechanisms such as health insurance, life insurance, and investment funds to help their population prepare for retirement and old age. China's recent investments in aerospace, communications equipment, and biotech could provide a base for bolstering the region's advanced manufacturing sector. The Chicago region is home to sixteen Chinese wind power companies, and World Business Chicago should seek to build on this nascent green-energy cluster.

Monitor global trends for new opportunities

With the pace of globalization and the development of industries and technologies, Chicago should track the growth of emerging nations to expand its efforts to new targets. Similarly, legislation and free-trade agreements can alter the business landscape. In the wake of NAFTA's passage, for example, Canada began to target Indian IT and business process outsourcing companies that needed a presence in North America to secure contracts.

As Chicago develops its five core sectors, the region might be able to attract a new crop of companies from emerging countries. The region's renewed focus on boosting international tourism could also prove beneficial. For instance, Brazil is the leading international source of cultural tourism for Chicago, and this awareness of and familiarity with the city could present an opening for economic development efforts. Chicago should work from its list of high-potential countries and be prepared to engage aggressively when the right conditions are detected.

The expansion of companies from Latin and South America could also generate opportunities for Chicago. Traditionally, businesses from these areas have located in Los Angeles, Miami, or cities in Texas due to their proximity and substantial Latino populations. Currently, the Chicago region has 1.8 million Hispanic residents (up from 1.4 million in 2000), the fifth-largest Latino population in the country. In the coming years, this community's continued growth could serve as a magnet for companies seeking to cater to the needs of these consumers.

Provide strong leadership to support the FDI initiative

Chicago's visionary leadership and public-private partnerships have built the institutions, infrastructure, and iconic monuments of a

world-class city and commercial hub. Implementing a comprehensive FDI strategy for Chicago will require similar leadership. To be successful, the region's elected officials and government agencies, each with its own constituency, must coordinate their efforts and resources toward a common goal. This sustained regional commitment and collaboration will be critical to help Chicago successfully reach out to global businesses and secure critical investments for the future.

Make FDI a priority and appoint an FDI leader

We urge Mayor Emanuel to endorse the recommendations of this report and commit his administration's energy and resources to the cause. Increasing FDI is a long-term effort. To be successful, the program must have the sustained support of government at the city, county, regional, and state levels as well as the private sector, city residents, and media.

Promoting the region both in the United States and abroad is a time-consuming endeavor and requires leadership that is fully dedicated to the position. Accordingly, the mayor should appoint an experienced executive to lead the effort. Foreign companies tend to look for representatives who understand the needs of business and who also have strong connections to move the gears of government. The FDI leader should not only have direct access to the mayor but also be able to work collaboratively with the full range of regional stakeholders—government officials, business leaders, academic institutions, and ethnic communities.

The FDI leader would serve as adviser to and representative of the investment promotion agency to develop strategy, strengthen existing international relationships, and promote the region's interests abroad. The Chicago region has a large pool of qualified leaders to consider for this position. He or she would be expected to draw on the networks and connections of the World Business Chicago board of directors and others who have extensive international dealings. The position should be structured to strengthen the capacity of World Business Chicago and serve the needs of the city and its FDI strategy. In recent years, executives have agreed to serve in a public-sector role for an annual salary of \$1, and we recommend a similar arrangement.

Promote investment and collaboration throughout Chicago's seven-county region

To make Chicago a top destination for foreign investment, leaders in the Chicago region must adopt a new mind-set. Indeed, a spirit of partnership and common purpose must imbue all FDI initiatives. Mayor Emanuel must therefore demonstrate a commitment to promoting the region as a whole, not just the City of Chicago. Government leaders throughout the seven-county region must likewise be prepared to cooperate to support FDI efforts. Three realities make regional collaboration a necessity:

- Certain industries that are vital to the economy such as manufacturing and transport and logistics may not locate within the Chicago city limits, but the economic benefits will accrue across the region.
- A unified front when engaging with potential investors will smooth outreach efforts. A parochial perspective—one that pits neighboring municipalities against one another—will only serve to undermine any effort to attract more FDI.
- Most agencies in Chicago and the surrounding municipalities are underfunded and thus limited in what they can accomplish on their own, so greater collaboration is a necessity.

Promotion of the entire Chicago metropolitan region is critical to attracting FDI

Global cities are defined more by a concentration of people and activity than by geography. For example, while 1.1 million jobs are located within the Chicago city limits, the surrounding counties account for more than 2 million. Nearly 600,000 people live in the suburbs but work in the city, rendering traditional geographic boundaries and political jurisdictions less relevant for driving economic development. Indeed, the majority of studies comparing global cities use broader metropolitan areas as their unit of measure.

Moreover, when evaluating potential locations, most foreign companies don't make the distinction between the city proper and the surrounding municipalities that contribute to a region's dynamism. Broadening the city's focus to include the Chicago metro area will facilitate the development of clusters and increase the impact of the recommendations in this report. Industries such as manufacturing and transport and logistics are typically located outside of Chicago city limits, but they make a significant contribution to the region's overall attractiveness for investment.

Everyone in the Chicago metropolitan area stands to benefit from an increase in FDI. Accordingly, the FDI initiative should focus on promoting the region as a whole, not on where businesses choose to locate within the region.

Achieving greater regional cooperation will not be an easy task. Our research found that even the most successful regions struggle to balance the needs of their diverse set of stakeholders. By working together with other elected officials through organizations such as the Metropolitan Mayors Caucus, Mayor Emanuel can communicate the mutual benefits of more foreign investment and work with regional leaders to reduce resistance to participation.

Accelerate the creation of a more business-friendly environment

Elected officials and agencies must demonstrate in their attitude and actions that they are eager to work with foreign businesses to address concerns and facilitate the establishment of operations—in short, that Chicago values businesses and is willing to do what's necessary to support companies. This message should be communicated to not just foreign executives but also government leaders in foreign countries, particularly those with whom Chicago has already established connections.

The current mayoral administration recognizes that an overly burdensome bureaucracy impedes all businesses and has made initial progress in streamlining permitting processes, among other initiatives. This is just the beginning of establishing a more welcoming climate for foreign-owned businesses.

Elected officials should work with the U.S. Transportation Security Administration and U.S. Customs and Border Protection to make the customs process at the airports more accommodating for foreign business leaders. The business community, including executives from Chicago's ethnic groups, could be mobilized to assist foreign executives with relocation challenges such as figuring out where to live, getting a driver's license, and opening a bank account. Recommendations for appropriate services such as banks, realtors, and schools as well as invitations to business clubs and other support would ease the transition and send a positive message about Chicago.²⁷

27. The Chicago area has schools that cater to British, French, and Japanese curricula.

Mobilize individuals as ambassadors for Chicago

The vast majority of the world has little knowledge of Chicago and what it has to offer. The city's position as the economic and cultural capital of the Midwest means little in Dalian, China, or São Paulo, Brazil. Therefore, a critical element of any FDI effort is to reach out more effectively to foreign companies and countries.

Such a task cannot be accomplished by a government agency or single organization, particularly in the era of budget cutbacks and constrained resources. Instead, Chicago's leaders need to educate businesspeople, government officials, nonprofits, and the general population on the urgent need to increase economic development in Chicago. Once these segments understand the objectives and impact of FDI, the city can mobilize individuals to contribute their time, energy, and connections to showcasing the city.

One aspect of instilling this culture is getting more assistance from businesses with international connections. The region has a large number of executives who regularly travel to foreign markets, and this group should participate more actively in promoting the city to foreign companies—whether highlighting Chicago's diverse economy during speaking engagements or simply talking up the city's attributes in less formal settings. By drawing on leaders across industries as well as those from the city's ethnic communities, Chicago could build a more impressive force of ambassadors.²⁸

Communicate Chicago's FDI strategy to stakeholders

Since FDI efforts are long term in nature, it will be necessary to build support among businesses, foundations, media, and the general public. Leaders should take a page from Daniel Burnham in his selling of *The Plan of Chicago* to arrange presentations with the region's business and civic groups to articulate the strategy, clarify the importance of Chicago's international activities, and deliver regular progress reports.

The benefits of regular communication are threefold. First, demonstrating that the campaign is making headway will help sustain

28. One recent example of such an effort was the iBIO ambassador program that ran from 2008 to 2009. Supported by a \$350,000 grant from the Illinois DCEO, the effort tapped twenty-four executives and academic leaders to share the state's strengths in life sciences, biotechnology, and nanotechnology at select international conferences and other forums. Funding supported travel and meeting expenses and booths at conferences.

momentum for future efforts and help build a pervasive culture that promotes the city. Second, as government officials and agencies throughout the region learn of the benefits of the FDI effort, they will be more likely to collaborate and contribute their own resources to the cause. Last, sharing the program's success and the impact of more foreign investment will build widespread public support.

Designate a single organization to coordinate the initiative

Perhaps most important, Chicago must build the organizational capacity to coordinate FDI activities and help develop and implement a focused strategy. Chicago cannot compete with leading global cities or its U.S. counterparts without such capacity to market its advantages more effectively. The focus, then, should be on directing energy and resources to an agency that can serve as the one-stop shop and orchestrator of resources—not just for Chicago but for the entire region.

Establish World Business Chicago as the one-stop shop for foreign investment

Of the many organizations in the Chicago region that count economic development among their priorities, World Business Chicago is best positioned to become the region's lead investment promotion agency. It already conducts research and analysis, handles requests from businesses and relocation firms for assistance, and coordinates local resources. Its staff currently works with local stakeholders to clear a path for foreign executives coming to the city—by resolving bureaucratic logjams, coordinating resources (such as real estate, legal, and other services), and directing potential investors toward state and local incentives.

Augment the organization's capabilities

World Business Chicago's existing staff and resources provide a solid foundation on which to build. To mount a more aggressive FDI campaign, the organization must be augmented in several areas:

Mission. Currently, World Business Chicago is focused on promoting the City of Chicago. Going forward, it should expand its scope to include a regional perspective. Since the organization's board of directors includes executives whose companies are located in both the city

of Chicago and the suburbs, this shift could occur seamlessly. We envision World Business Chicago as a hub of outreach and activity, collaborating with other regional organizations to pursue opportunities.

Staffing. The agency will need to bolster its business development, relationship building, research, and outreach capabilities. Successful investment promotion agencies often support their FDI strategy by dedicating staff to specific high-value industries or foreign markets. These staff can then develop expertise that makes them valuable resources to key decision makers. Candidates for these positions should have a background in international markets, business development, and data analysis.

Technology. It's standard practice for investment promotion agencies to use customer relationship management (CRM) systems to manage outreach. With this platform, staff can record every interaction with prospective companies and engage regularly with executives already in the region to strengthen relationships. Maintaining a centralized database of contacts will also reduce redundant activities and increase efficiency and interagency coordination.

Secure funding for expanded operations

More funding will be needed to support expanded operations. Currently, World Business Chicago's operations are supported by a grant from the City of Chicago and private donations. We are confident that once World Business Chicago demonstrates its effectiveness in promoting the region, other municipalities within the Chicago region will contribute support and resources so that their interests are well represented. Several additional funding sources should be explored, including Chicago's business clubs, foundations, corporations, and strong network of philanthropists. The region's elected officials should also seek to identify redundant initiatives in organizations that are tasked with economic development. These programs could be consolidated, with some of these cost savings redirected to support the work World Business Chicago is doing on their behalf as part of the regional outreach initiative we are proposing.²⁹

29. The merger of the Chicago Convention & Tourism Bureau with the Chicago Office of Tourism and Culture and resulting cost savings demonstrate the efficacy of this strategy.

Extend the organization's reach through existing channels

To get more from the region's institutions, networks, and resources, World Business Chicago should seek to build and expand relationships in the following areas.

Increase collaboration with agencies to promote Chicago to foreign markets

World Business Chicago should deepen collaboration with existing city, county, and state agencies that promote Chicago to international markets. In particular, Choose Chicago and the Illinois Department of Commerce and Economic Opportunity (DCEO) have established a presence in key foreign countries. By maintaining open lines of communication and improving collaboration with agencies (efforts that have faced challenges in the past, primarily due to lack of staff and resources), the region will gain access to channels to advance its FDI efforts.

Choose Chicago recently expanded its international engagement. In April 2012 it announced the opening of tourism offices in Brazil, Germany, and Japan to complement existing locations in Beijing, London, Mexico City, Shanghai, and Toronto. This initiative represents a valuable opportunity for the region to advance its FDI efforts at little cost by placing promotional materials and contact information in these channels.³⁰

The DCEO has nine trade offices that it uses to promote the state in foreign markets. More important, the DCEO is the state agency that helps companies secure tax incentives and other assistance, so World Business Chicago and the state should work more closely to ease and expedite the process of securing incentives.

Build stronger relationships with site selection firms and other lead generators

Almost every major business investment involves site selection consultants. Foreign executives rely on these companies to gather information on cities and report back with assessments of top candidates. In many cases, an investment promotion agency won't even be aware that a company is considering a city for relocation until

after a decision has been made. Site selection consultants can be a vital link to uncovering opportunities and capitalizing on them.

Our research with these firms revealed that Chicago's efforts at engagement have so far failed to counteract some negative impressions of the city among site selection agents and foreign business executives. The consensus among our sample is that Chicago has an onerous bureaucracy, lacks a proactive investment promotion agency, and is losing small firms and manufacturing companies to neighboring states with more business-friendly environments. In addition, available incentive programs are perceived to be difficult to navigate.

Chicago would benefit by building stronger relationships with site selection firms, real estate brokerage firms, and tax and investment consultants. An ongoing dialogue could assist agents in gathering information, a time-consuming part of their jobs. In addition, World Business Chicago should seek to reshape the narrative—for instance, by offering details on the progress the city has made in streamlining permitting processes and the business services that could facilitate relocation. Last, Chicago should host gatherings of lead generators such as tax and investment consultants on a regular basis to ensure that they are part of the conversation going forward.

Promote Chicago through underused channels

World Business Chicago can capture more value by working with entities that have international connections and a direct path to a foreign audience. Prime opportunities to promote Chicago include:

The Sister Cities program. Chicago's Sister Cities program was created in 1960 and currently includes twenty-eight global cities. In spring 2012 the organization moved into the World Business Chicago offices, paving the way for improved coordination and integration into outreach activities in foreign markets. Assigning Sister Cities a new task of promoting trade, as World Business Chicago has done, should be viewed as a first step toward maximizing the group's impact on FDI efforts as well.

International conventions and trade conferences. Whenever an international executive sets foot in Chicago for business, it provides the region with a chance to turn that individual into an ambassador. World Business Chicago should work with business and convention

30. Fran Spielman, "Chicago to open tourism offices in Brazil, Germany and Japan," *Chicago Sun Times*, April 5, 2012, <http://www.suntimes.com/lifestyles/11730668-423/chicago-makes-moves-to-boost-foreign-tourism.html>.

organizations to include promotional materials for these events and engage with visiting exhibitors and speakers.

Multinational corporations and foreign-owned companies based in Chicago. Companies that have a strong international presence, such as Boeing and McDonald's, could offer local connections and facilities for events aimed at promoting the region. Conversely, foreign executives who are already in Chicago and can speak to its advantages can lend credibility to marketing efforts.

Educational institutions. The region's educational institutions, particularly business schools, draw top students from around the world and keep in regular contact with them. These extensive alumni networks can be used to optimize connections with these individuals, many of whom already have become the next generation of business leaders in their respective countries. Many Chicago-area institutions have degree programs and partnerships in overseas markets, offering an opportunity to build additional ties and spread the word about Chicago.

Cultural institutions. The region is home to museums, theater companies, and other institutions that host international exhibits and performances in Chicago. The Field Museum, the Art Institute of Chicago, Hubbard Street Dance Theater, and the Chicago Symphony Orchestra, among others, have raised their international profile through extensive overseas travel and program offerings in foreign markets, making them natural ambassadors for the region.

International events in the region. Although the NATO summit is the highest-profile international gathering in Chicago in recent memory, the region regularly hosts events (golf tournaments, marathons, and triathlons, among others) that draw international participants and spectators. Chicago should also encourage entities with large numbers of international executives, such as the Young Presidents' Organization, to hold conferences in the region.

Existing trade organizations and alliances. The city's vibrant ethnic communities include groups dedicated to maintaining and expanding connections to foreign countries. These entities, particularly ones aligned with the primary sources of FDI in Chicago, should be provided with messaging and included in welcome activities and official delegations where appropriate.

Chapter V Next Steps

Our study group firmly believes that this report's recommendations will have a significant impact on the amount of foreign investment flowing into the region. Since we advocate designating World Business Chicago as the lead investment promotion agency, its leaders should drive the initiative going forward. The organization's first objective should be to develop a detailed road map and implementation plan that prioritizes the report's recommendations.

The road map should include the following steps:

1. Review private sector candidates and select an individual who has the qualifications to help lead the FDI effort.
2. Reach out to government leaders at the State of Illinois and within the seven-county region to identify opportunities to collaborate and share resources.
3. Review the region's current performance and establish benchmarks to measure progress.
4. Assess World Business Chicago's current staffing levels and capacity by function to determine how many employees to add and what their roles should be.
5. Determine funding required to fulfill the initial phase of operations.
6. Identify sources of funding and construct a contribution model (fee for service, annual dues) for participating municipalities.

World Business Chicago should seek to complete these steps within ninety days and report its progress to the mayor and other stakeholders.

Conclusion

Chicago has much work to do to be seen as a premier destination for foreign-owned businesses. For too long, the region relied on its eminent position among the Midwest region to sustain its economy. The recent economic development plan for the region has raised awareness of the need to be more proactive and aggressive in building on our advantages. Success in attracting more foreign investment to the region will require leadership, vision, more funding, and a disciplined, sustained effort. The recommendations in this report offer a defined path forward.

Study Group Member Biographies

Cochairs

Michael H. Moskow

*Vice Chairman and Senior Fellow on the Global Economy
The Chicago Council on Global Affairs*

Michael H. Moskow is vice chairman and senior fellow on the global economy at The Chicago Council on Global Affairs. From 1994 to 2007 he served as president and chief executive officer of the Federal Reserve Bank of Chicago. During his career Mr. Moskow has worked in private industry for fourteen years, taught economics, and has been confirmed by the Senate for five U.S. government positions. In 1991 President George H.W. Bush appointed Mr. Moskow deputy U.S. trade representative, with the rank of ambassador. Returning to academia in 1993, he joined the faculty of the Northwestern University Kellogg School of Management, where he was professor of strategy and international management at the time of his appointment as president of the Chicago Reserve Bank. He is chairman of the Japan America Society of Chicago, an emeritus trustee of Lafayette College, and former chairman of the Economic Club of Chicago. Since leaving the Federal Reserve, Mr. Moskow joined the boards of directors of Discover Financial Services, Northern Funds, Taylor Capital Group, Commonwealth Edison (a subsidiary of Exelon), and the National Futures Association. Mr. Moskow received his AB in economics from Lafayette College and a PhD in business and applied economics from the University of Pennsylvania.

William A. Osborn

*Former Chairman and Chief Executive Officer
Northern Trust Corporation*

William Osborn joined Northern Trust in 1970 and subsequently held leadership positions in the Commercial Banking and Personal Financial Services Business Units. He was named president and chief operating officer in December 1993. He served as chief executive officer from 1995 to 2007 and chairman from 1995 to 2009. Mr. Osborn is a director of Abbott Laboratories, Caterpillar Inc., General Dynamics Corporation, and Tribune Company. He is chairman of the Chicago Symphony Orchestra Association and the board of trustees of Northwestern University. He serves on the boards of the Kellogg School of Management at Northwestern, the Lyric Opera of Chicago,

Northwestern Memorial HealthCare, New Schools for Chicago, the Museum of Science and Industry, the YMCA of Metropolitan Chicago, and the Terra Foundation of American Art, where he is also a director. Mr. Osborn is a director of The Chicago Council on Global Affairs and the Economic Club of Chicago and previously served as chairman of the United Way of Metropolitan Chicago Inc., the Commercial Club of Chicago, and the Civic Committee of the Commercial Club of Chicago. He is a life trustee of the Chicago Botanic Garden and the Chicago Urban League. Mr. Osborn holds BA and MBA degrees from Northwestern University.

Members

Sally Blount

Dean, Kellogg School of Management, Northwestern University

In 2010 Sally Blount became dean of the Kellogg School of Management at Northwestern University, where she is also the Michael L. Nemmers Professor of Management and Organizations. She is a director of Abbott Laboratories and a member of the Commercial and Economic Clubs of Chicago and the Chicago Network. She currently serves on several advisory boards, including the Aspen Institute's Business and Society Program, the Chicago Innovation Awards, the Indian School of Business, Hong Kong University of Science and Technology Business School, and Fundação Dom Cabral in Brazil.

Stephen Chipman

Chief Executive Officer, Grant Thornton LLP

Stephen M. Chipman is the chief executive officer of Grant Thornton LLP, the U.S. member firm of Grant Thornton International Ltd. For thirty years he has been a key member of the Grant Thornton organization, working in Asia, Europe, and the United States. He currently serves as a member of the Center for Audit Quality (CAQ) governing board, The Chicago Council on Global Affairs' board of directors, the Economic Club of Chicago, Ravinia Festival board of trustees, and Half The Sky board of directors.

Douglas Doetsch

Partner, Mayer Brown LLP

Douglas Doetsch serves as head of Mayer Brown's Latin America practice and co-head of the firm's global banking and finance practice. He advises clients on acquisition and other leveraged lending transactions, debt restructurings, real estate transactions, and proj-

ect financings in Latin America and other emerging markets. He is a member of the board of directors of The Chicago Council on Global Affairs, a trustee of the National Museum of Mexican Art, and a member of the Midwest Council of the National Resources Defense Council, among other organizations.

Derek Douglas

Vice President for Civic Engagement, The University of Chicago

In his role as the vice president for civic engagement at the University of Chicago, Derek R.B. Douglas leads the university's local, national, and international urban development and civic engagement efforts. He also guides the university's efforts to partner with the surrounding south-side neighborhoods and the city, region, nation, and globe to advance urban economic development, enhance the quality of life for residents, and enrich the work of university faculty and students through research, education, and direct engagement.

John Edwardson

Chairman of the Board, CDW

John Edwardson serves as chairman of the board of directors of CDW, a leading provider of technology solutions to business, government, education, and health care. He currently serves on the board of directors of FedEx Corporation, Northwestern Memorial Hospital, and the Art Institute of Chicago. He is a life trustee of the Chicago Symphony Orchestra and the Ravinia Festival. He also serves as the chairman of the advisory council of the University of Chicago Booth School of Business.

John S. Gates Jr.

Chairman, Regional Transportation Authority of Chicago, and Chairman and Chief Executive Officer, PortaeCo, LLC

John Gates chairs the Regional Transportation Authority of Chicago, which owns, oversees, and integrates CTA, METRA, and PACE throughout the six-county metropolitan Chicago region. Prior to that he chaired the reform board of the Metropolitan Pier and Exposition Authority of Chicago and was founder, cochair, and chief executive officer of CenterPoint Properties Trust. He is an active member of the board of directors of Metropolitan Planning Council (past chairman), Children's Memorial Hospital, Trinity College (Hartford), and the University of Chicago Harris School of Public Policy.

David Greising (*observer*)*Special Advisor to the Board, World Business Chicago*

David Greising is special advisor to the board at World Business Chicago. Previously, he was managing editor and business manager of the Chicago News Cooperative. He previously worked at the Chicago Tribune, where he worked as columnist and chief business correspondent. The author of three business books, he also has contributed to Chicago Public Radio's morning news magazine program and to WTTW, Chicago's Public Broadcasting Service affiliate.

Daniel Hamburger*President and Chief Executive Officer, DeVry Education Group*

Daniel Hamburger is president and chief executive officer of DeVry Education Group, a global parent of DeVry University, Chamberlain College of Nursing, Ross University School of Medicine, DeVry Brasil, Becker Professional Education, and several others. He serves on the boards of DeVry, America's Promise Alliance, the Chicago Workforce Investment Council, and World Business Chicago. He is a member of the Economic Club of Chicago, the Commercial Club of Chicago, G100, Young Presidents Organization, and CEOs Against Cancer.

Steve Koch*Vice Chairman, Credit Suisse*

Steve Koch is a vice chairman and cochairman of Credit Suisse's Mergers and Acquisitions Group. He is also a cochair of the Green Ribbon Committee of the Chicago Climate Action Plan, the chair of the Sinai Health System, the vice chair of the Greater Chicago Food Depository, and a life trustee of Francis W. Parker School. He is a presidential appointee to the Recovery Independent Advisory Panel of the Recovery Accountability and Transparency Board.

Lewis Manilow*Former Chairman, Advisory Commission on Public Diplomacy and of the Middle East Committee of the National Democratic Institute*

Lewis Manilow serves on the board and executive committee of The Chicago Council on Global Affairs. He served on the visiting committee of the University of Chicago's Harris School of Public Policy, the executive committee of the Chicago Community Trust, the Metropolitan Planning Council, and the Northeastern Planning Commission. He also moderated a radio show on WBEC titled Tomorrow's Chicago.

James McClung*Chairman and Chief Executive Officer, Lismore International*

James McClung is the chairman and chief executive officer of Lismore International. He has held executive management level positions both domestically and globally at FMC Corporation, a multi-national chemical, machinery and defense manufacturer, where he was senior vice president and executive officer. In addition to advising several start-up companies, he serves on public and private corporate boards in machinery, chemicals, consumer and service businesses.

Sheila Penrose*Chairman, Jones Lang LaSalle*

Sheila Penrose is chairman of Jones Lang LaSalle and a director of McDonald's and DataCard Group, having formerly served on the boards of Nalco Chemical and eFunds Corp. Previously, she was executive advisor to Boston Consulting Group and president of Corporate and Institutional Services at Northern Trust Corporation. Earlier in her career Sheila served as economic advisor to the British Treasury. She cofounded and cochairs Corporate Leadership Center, which augments and accelerates the leadership of high-potential executives and their organizations.

Jose Luis Prado*President, Quaker Foods and Snacks North America and Global Baking Center of Excellence, PepsiCo*

Jose Luis Prado is president of Quaker Foods and Snacks North America of PepsiCo, responsible for the continued growth of Quaker-branded products globally. He also leads PepsiCo's global Baking Center of Excellence, which develops and supports baked projects companywide. Before joining PepsiCo in 1984, Prado worked for Grupo Desc in Mexico, a subsidiary of Monsanto.

Michael Sacks (*ex-officio*)*Chief Executive Officer, Grosvenor Capital Management, and Vice Chairman, World Business Chicago*

Michael J. Sacks is the chief executive officer of Grosvenor Capital Management, L.P., which manages over \$20 billion for a globally diverse client base. In 2011 he became the vice chairman of World Business Chicago and was charged with attracting new business to Chicago and ramping up public-private partnerships across the city. In addition to his work at Grosvenor and World Business Chicago, he

is active in various philanthropic and community activities and is currently a member of the Illinois bar.

Gordon Segal

Cofounder, Former Chairman and Chief Executive Officer, Crate & Barrel

Gordon Segal is cofounder, former chairman, and CEO of Crate and Barrel, a multichannel home furnishings retail chain employing more than 8,000 associates worldwide. The Crate and Barrel family of brands has 112 brick-and-mortar locations throughout North America and franchise locations in Dubai. In 2007 he was inducted into the World Retail Congress' World Retail Hall of Fame. Other awards include the Retailing Hall of Fame at Texas A&M, House Beautiful Magazine's Giant of Design Designation, and induction into the Furniture Hall of Fame.

Carl Stern

Vice Chairman, Investment Banking Division, Goldman Sachs

Prior to joining Goldman Sachs, Carl Stern served as chairman of the Boston Consulting Group and as a director of Fiserv Inc. He serves as a director of the Initiative for a Competitive Inner City and the World Food Program–USA. He also serves as a trustee of the Chicago Symphony Orchestra and of Rush University Medical Center.

Keith Williams

President and Chief Executive Officer, UL LLC

Keith Williams became the tenth president of UL LLC in 2005. He had a long distinguished career at General Electric Company, holding assignments in global business management, global logistics, marketing, and sales. In 1997 he became president of the Asia-Pacific operation for Medtronic Inc. In addition to his work at UL LLC, he has served as secretary-treasurer of the U.S.-China Business Council and is currently a director of the National Fire Protection Association and a trustee of Opera Memphis.

Linda Wolf

Retired Chairman and Chief Executive Officer, Leo Burnett Worldwide

Linda Wolf retired in April 2005 after a twenty-seven year career with the global advertising agency. She is a director of Wal-Mart Stores, Inc. and InnerWorkings Inc. as well as a trustee of Janus Funds. She is also

a member of the board of trustees of the Field Museum, Children's Memorial Hospital, The Chicago Council on Global Affairs, and the Rehabilitation Institute of Chicago.

Study consultant

Scott Leff

Founder, Leff Communications

Scott Leff is the founder of Leff Communications, which works with a range of organizations from large corporations and start-ups to non-profits on content development and marketing communications. Prior to forming Leff Communications, Scott served as the director of publications for Chicago 2016, the city's Olympic bid committee as well as the lead writer and editor for its domestic and international presentations. He joined Chicago 2016 from McKinsey & Company, where he was the managing editor of *The McKinsey Quarterly*.

Interviews Conducted for the Study

Rita Athas

*CEO
World Business Chicago*

Tom Bartkoski

*Director of International Business Development
World Business Chicago*

Chris Curtis

*Executive Vice President
Schneider Electric*

Gillian Darlow

*Principal
Civic Consulting Alliance*

Neil Doyle

*Managing Director, Central Region
DCT Industrial Trust*

Barbara Goodman

*Senior Vice President
PROPEL, iBIO Institute*

John Gutshaw

*Principal
WDGC Consulting*

Emily Harris

*Vice President
Metropolis Strategies*

Miguel Leaman

*Trade Commissioner
ProMexico*

Stepf Linhard

*U.S. Representative
FrankfurtRheinMain*

Eric Lo

*Deputy Director of Sales
China Telecom*

Massimo Marabotti

*General Manager
North America, Var.v.it*

Steven McCormick

*CEO
LALA USA*

Terrie O'Leary

*Executive Vice President
Operations, Invest Toronto*

Carlos Orta

*President and CEO
Hispanic Association of Corporate Responsibility*

Gerald Pisarzowski

*Vice President, Business Development
Greater Toronto Marketing Alliance*

Adam Pollet

*Deputy Director, Office of Trade and Investment
Illinois Department of Commerce and Economic Opportunity*

Lance Pressl

*Former President
Chicagoland Chamber of Commerce Foundation*

Timothy Quayle

*Program Manager
Metropolis Strategies*

Orlando Saez

*Deputy Director, Entrepreneurship, Innovation, and Technology
Illinois Department of Commerce and Economic Opportunity*

Chris Schastok

Senior Associate
Jones Lang LaSalle

Tim Schramm

National Director, Credits and Incentives
Grant Thornton

Adriana Suarez

Executive Director
Invest in Bogota

Glenn Tilton

Chairman of the Midwest
JPMorgan Chase

Patricia Woertz

Chairman, President, and CEO
Archer Daniels Midland Company

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Suite 1100
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