Foreign investment continues to be a significant driver of the state's economy. By Deborah Nason

The Connecticut economy is slowly, and sometimes painfully, being restructured to meet the needs of the global economy. Many of these changes are captured by large headlines announcing the outsourcing of local manufacturing jobs to offshore locations. But foreign investment dollars continue to pour into Connecticut, often to establish high-tech manufacturing facilities.

Are these investments offsetting the loss of outsourced jobs? Statistics from the past few years say no—not by a long shot. But some say Connecticut has the right stuff to attract more and more foreign direct investment (FDI).

In fact, the Nutmeg State ranks fourth in the U.S. in percentage of workforce employed by its 725 subsidiaries of foreign companies—seven percent of its private sector workforce—according to the Organization for International Investment (OFII). That comes to about 104,900 jobs, 28,600 of which are in the manufacturing sector. Those numbers are growing at an average of 3.8 percent per year, above the national average of 2.3 percent, according to the Connecticut Economic Resource Center (CERC).

A potential 250 more jobs were added in fiscal year 2004/2005, according to the Connecticut Department of Economic and Community Development (DECD). Eight companies—six from Germany and two from the United Kingdom—established a presence in the state during this period, with planned investments of $12 million to $14 million. Four of these firms, including Fibrelite USA in Pawcatuck, were in the manufacturing industry.

Fibrelite is a British-owned company which is the world leader in a very specialized niche—composite manhole covers and their infrastructure systems for the oil and gas industry. Why southeast Connecticut? "They [Fibrelite] allowed me to pick the location, so I picked Pawcatuck, near where I lived," says Jim Goodman, president and area native. He came to the firm from local business Beaudreau Electric, a distribution company which brought Fibrelite into the U.S.

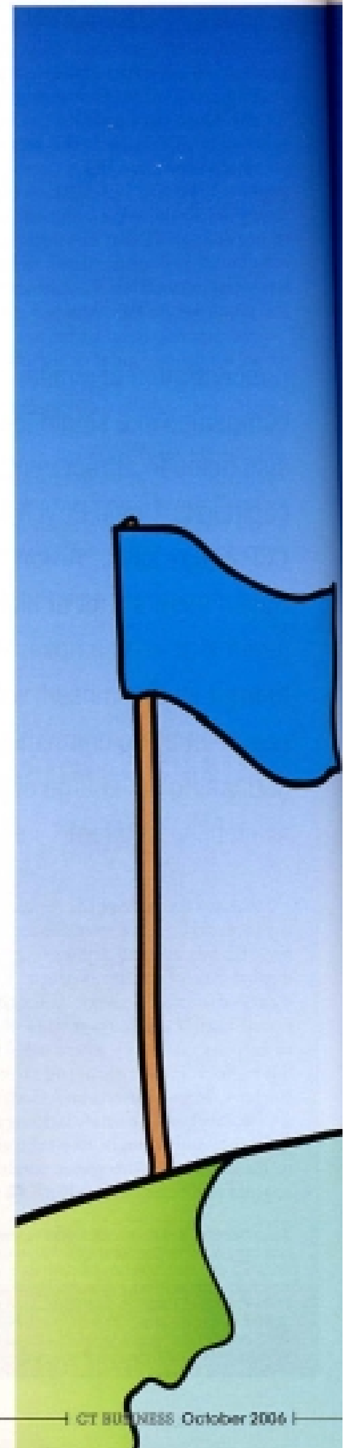
"To date, [Fibrelite] has invested $600,000 in equipment, including a number of large hydraulic presses and foam-making machines," he says. "We have 60,000 square feet of a 300,000-square-foot old mill [the historic Cottrell mill, famous for manufacturing printing presses]. We've hired 25 employees, and [Beaudreau] has hired at least 20 other people [related to Fibrelite operations]." Goodman expects to add another 15 employees to Fibrelite by next year.

"We're growing globally," he remarks. "Since we opened in [Pawcatuck], the U.S. market has grown, as well as the South American and Caribbean markets. We're growing with the oil companies." He adds, "When people see foreign manufacturing companies [in this part of Connecticut], they get blown away," he says.

How do we get more companies to come? "It's all about the price of the product—it's more expensive to manufacture in the U.K. and ship here," he points out.

What's in a name?

The creation of U.S. jobs by FDI has been dubbed "insourcing" (as opposed to offshore outsourcing) by the OFII, which represents the interests of U.S. subsidiaries of companies with overseas headquarters.



But some take issue with the notion.

"How do you characterize a 'foreign' company?" asks Costas Lake, director of DECD's international division. "If you realize that companies like Stop & Shop are owned by [Royal] Ahold [a Dutch company,] you could be looking at 400 companies or 1,000 companies."

"The world economy is so intertwined, whether you call it outsourcing or insourcing, it doesn't really matter," says Vern Chanski, chief business officer for Hobson Associates, an executive/professional search firm based in Cheshire.

Whatever one chooses to call it, foreign investment continues to be a significant driver of Connecticut's economy, whether it comes from initial investment by newcomers or expansions of firms long established in the state.

Like Fibrelite, newcomer Eppendorf Manufacturing is establishing its first presence in the U.S. The German-owned company recently invested $23 million for a 190,000-square-foot facility in Enfield, to manufacture pipette tips and laboratory accessories. Plans are to double the size of the facility in 10 years, and employ up to 135 people. Interestingly, the parent company's annual report refers to a resulting "relocation-induced capacity gap" at one of its European plants.

On the old-timer front, this past June, RBS Greenwich Capital, a subsidiary of the Royal Bank of Scotland, announced an expansion of its Connecticut operations with a new $400 million facility in Stamford. Approximately 1,150 new jobs are expected to be created.

A Connecticut resident since the mid-1980s, Dutch-owned Unilever, manufacturer of foods, home care and personal care products, completed a $23 million, 80,000-square-foot addition to its R&D center in Trumbull in June 2005. About 200 jobs were transferred from New Jersey, which had lost another 900 jobs to Connecticut a year earlier as a result of Unilever's consolidation of its headquarters on the East Coast.

Why Connecticut?

What's bringing so much FDI into our state? "We have a lot of knowledge, we have a lot of money, and we have tremendous markets," says Bill Tracey, associate professor with the department of management and organization at Central Connecticut State University. He says Connecticut is particularly attractive to overseas companies due to its strengths in pharmaceuticals, fuel cell design, biotech and insurance. "As companies develop in other parts of the world, their markets develop and Connecticut has to be there [when they start buying]," he says. "We can meet their needs by providing the know-how." Tracey recently spent a year in Belarus as a Fulbright Scholar, lecturing on comparative international business and entrepreneurship.

"The other thing that Connecticut has is quality of life," he says.

Quality is what brought Fibrelite's American headquarters to Pawtucket, and French-owned Sodexho Inc.'s health care division's headquarters to Simsbury.

"The president of the division lived there," says Sara Cody, spokeswoman for Sodexho, a food and facilities management company. There are currently 70 people employed at the division office, she says, including another 250 managers and 300 frontline workers who work for Sodexho clients in the state.

Many companies cite the quality of Connecticut's workforce and its strategic location as important assets. Says Sabrina Glavan, a spokeswoman for Unilever, "the advantages [of Connecticut] for us are a highly educated and skilled workforce needed for the majority of jobs we have in the state [brand marketing, business management and R&D]. Also [important is] its proximity to the New York metro market, and relatively easy transatlantic access to our European headquarters."

The Nutmeg state has been recognized for the quality of its workforce, which is an important factor in attracting foreign investments. In June 2005, London-based *fDi Magazine*, a publication focused on FDI, rated Connecticut as one of the top four states in the U.S. with the best human resources, saying, "Estimates for 2004 are that 31.5 percent of Connecticut's population holds a university-level degree. The state has 47 university-level educational institutions—a high number given its small size."

The magazine also recognized Connecticut as one of the states with the best IT and telecom infrastructure nationwide. "Connecticut rings in with 677.9

Right: Jim Goodman, president of British-owned Fibrelite USA in Pawcatuck, Conn., says the company has, to date, invested $600,000 in equipment, including a number of large hydraulic presses and foam-making machines. *Below:* British-owned Fibrelite, the world leader in composite manhole covers and their infrastructure systems for the oil and gas industry, is growing globally and expects to add to its employee base in Pawcatuck in Connecticut.

PHOTO COURTESY OF FIBRELITE

telephone lines per 1,000 people. About 76 percent of the population owns a mobile phone and 94.6 percent of the population receives broadband/DSL Internet communications."

Connecticut is often thought of as an expensive place to conduct business, but it depends on one's perspective. "Manufacturing in the U.S. is cheaper than in Germany, especially the social cost," says Lake.

FDI Downside

Some say FDI is not always a good thing. Robert E. Scott is senior economist with the Economic Policy Institute, a Washington, D.C. think-tank. "The problem, in a nutshell, is that these firms are saying they're employing a lot of people, but they're buying up companies and hollowing them out," he says.

"Over the preceding decade, they have eliminated about 3.4 million jobs," he adds. "They are basically buying the name and the distribution channels."

Chanski of Hobson Associates has observed this too. "I have seen entire factories created and shipped to China," though not, he says, in Connecticut.

The Economic Policy Institute appears to be the only dominant "con" voice in a sea of "pro" FDI voices. Why is that? "Because financial reporting is dominated by Wall Street, who likes these buyouts," claims Scott.

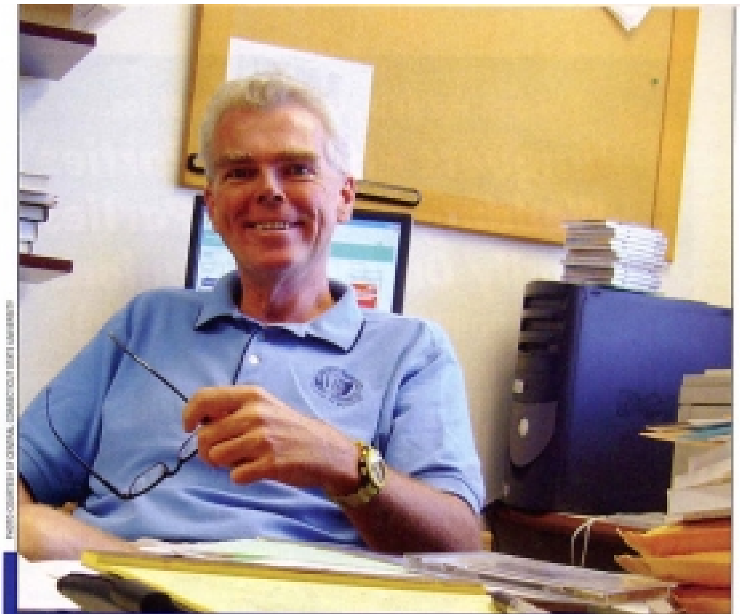
He says more FDI is on its way due to changing investment patterns. "Between 2000 and 2005, most of the foreign capital investments came from governments—central banks buying U.S. Treasury bills and other government securities. But in the last year, there has been a sharp increase in investment in purchases of private stocks, which may lead to increases in multi-national buyouts."

Chanski adds another perspective. "There's always culture change," he says. "Each indigenous group has its hot buttons. Foreign companies need to be sensitive of the people working [in U.S. subsidiaries]. The underlying issue is not economics, it's culture. If people don't like the new culture, they leave." He says the point is to "look at your own DNA, figure out what you're good at, and do it."

CFIUS

Congress is considering legislation to strengthen security in the U.S., which may impact levels of FDI in the country.

Last March, Senator Christopher J. Dodd introduced the *U.S. National Security Protection Act* "to correct problems with the Committee on Foreign Investment in the United States (CFIUS) that have recently come to light following the controversy over



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the DP World deal to obtain the right to operate in several U.S. ports," according to a statement on his Web site.

The act "will help correct current problems by increasing accountability and transparency and by creating a role for the intelligence community in national security decision making," the Web site also states.

Economist Scott is a supporter. "It will slow down foreign investment—it will make companies think twice. It will probably improve our economic security," he says.

Others disagree. In a July opinion piece in the *Wall Street Journal*, Douglas Holtz-Eakin, an economist with the Council on Foreign Relations, a New York and Washington, D.C.-based think tank, wrote "...the Senate has raised the specter of wholesale politicization of investment approvals." He believes the proposed legislation will result in "requiring notices to governors and congressional delegations of proposed purchases in their states; ranking countries by their cooperation in the war on terror and nuclear nonproliferation and basing the severity of security reviews on these published rankings; [and] adding bureaucratic delays for investments that don't raise security concerns."

The OFII acknowledged this point of view in its 2006 survey of CEOs of U.S. subsidiaries of foreign companies. Nonetheless, the survey resulted indicated that 88 percent of respondents plan to increase or maintain their companies' investment levels over the next 12 months.

Big competition looms, however. The survey also found that 39 percent see China as their global company's top priority for future investments, versus 26 percent for the U.S.

In light of this global competitiveness, professor Tracey has some advice for Connecticut:

1. "Make sure [the state's] existing companies know the state is willing to help make [international] linkages."
2. "Identify who are our natural partners. We're not on the Pacific Rim; therefore, we need to look at Europe, especially the growth areas of Eastern Europe and Ireland."

Meanwhile, Chanski has this to say: "We're living in a global society and the sooner we come to accept it and live in it—where it won't be 'us' versus 'them'—the better the world will be."

The following is a partial list of foreign-owned companies in Connecticut.

7-Eleven Inc.
ABB Inc.
Alcatel USA
American Honda Motor Co.
Assa Abloy AB
BAE Systems Inc.
Bayer Corp.
Bodycote - Bird Electron Beam Corp.
Bodycote Thermal Processing
Boehringer Ingelheim Corp.
Eppendorf Manufacturing
Fibrelite USA
GKN Aerospace Services
Hoya Lens Corporation of America
ING Insurance Americas
Manulife Financial
Nestlé USA Inc.
Quebecor World USA
RBS Greenwich Capital
Reed Elsevier
Smiths Aerospace
Smiths Medical
Sodexho Inc.
Stop & Shop Supermarket Companies
Thomson Corporation
Thule Inc.
Trumpf Inc.
Tyco International (US) Inc.
UBS Investment Bank
Unilever United States Inc.
Zurich North American

Deborah Nason is a freelance business journalist whose work has appeared in national and statewide publications such as the *Christian Science Monitor*, *Investment News*, and *Virginia Business Magazine*. She recently relocated to Connecticut after serving as a contributing editor and lead writer for five years for the *Blue Ridge Business Journal* in Roanoke, Va. She has a master's degree in management and human resource development.

Foreign Direct Investment: Statistics from the U.S. Bureau of Economic Analysis

Foreign direct investment (FDI) in the U.S. has plunged in the last few years, from a high of $335.8 billion in 2000, to a low of $54.5 billion in 2002. Projected investment in 2006 is $86.8 billion.

In 2005, FDI was far greater for buying existing U.S. companies ($79.2 billion) than for establishing new U.S. businesses ($7.6 billion).

In 2003, the latest year for which figures are available, almost 105,000 Connecticut employees worked for subsidiaries of foreign companies, with 23,200 working for Dutch-owned companies, 19,400 for British-owned companies, and 15,300 for German-owned companies.