

Global Business, Local Benefit

Foreign Contributions
to the New York Economy

NOVEMBER 2017

 **PARTNERSHIP**
for New York City



Overview

New York City has reached historic levels of jobs and economic activity, thanks to its status as a global center of finance, commerce and innovation. In an era of rapid globalization, New York's success would not be possible without the contributions of more than 5,000 foreign companies that have their U.S. headquarters and significant business operations in the city.

Foreign companies currently employ 298,000 New Yorkers and contribute 11 percent of the city's total \$761 billion annual economic output. Foreign direct investment (FDI), which refers to the investment companies make in their foreign business operations, helps diversify the local economy, insulate it against economic downturns and forge relationships that increase opportunities for domestic enterprises abroad.¹

New York has more FDI than any other city in America, but it lags London and some other top-tier international cities. In the past decade, London has attracted \$65.6 billion in FDI inflows, compared to New York's \$30.6 billion. Other global cities have been doubling down on their FDI efforts, with aggressive marketing programs carried out by dedicated agencies that roll out the welcome mat for foreign businesses. This has created unprecedented competition for the jobs and economic activity that FDI generates.

The challenge for New York has increased recently as a result of more restrictive federal immigration policies and "America First" procurement and trade policies. High corporate and personal tax rates and New York's aging transportation infrastructure are other factors that discourage FDI, especially when compared to other major cities around the world.

New York is overly dependent on historic relationships: 78 percent of its FDI comes from Europe and very little from the rapidly growing economies of the developing world. Over the past 10 years, jobs created by foreign businesses in New York City have grown an average of 2 percent annually, which is in line with historical trends, but relatively modest in a rapidly globalizing

world. FDI has remained very concentrated, with over 90 percent going to Manhattan and over 60 percent in the retail sector.

One notable change in FDI flows to New York over the past decade has been in the tech sector, which has increased an average of 25 percent annually and is on a trajectory for significant future growth. Tech companies are attracted to New York's burgeoning innovation economy and strong market of early adopters of new technology in the financial, media and health sectors.

New challenges and opportunities prompted the Partnership for New York City to revisit and update its study of FDI impact on the local economy that was initially published in 2008. For this new report, the Partnership has joined with global consulting firm A.T. Kearney to conduct interviews, research and analysis in order to assess the current status and future trends for FDI in New York.

For this study analysis was limited to the economic activity generated by FDI—jobs created and contributions to Gross Domestic Product (GDP)—and analyzed FDI stock (assets owned by foreign entities as a result of historic investment) as well as greenfield investment (also referred to as FDI inflows, meaning new investments or reinvestments). Merger and acquisition, real estate and construction activity was excluded from the analysis because it creates large swings in inward foreign investment without necessarily creating new permanent jobs. This work is intended to inform public policy and encourage support for initiatives that attract and sustain foreign business activity in the city and state.

New York has always been America's gateway for international talent and business investment, which has defined the city's diverse and resilient character. This study suggests that New York has a significant opportunity to increase economic activity through a strategic focus on attracting and retaining foreign companies, particularly in the tech sector.

¹ For the purposes of this study FDI does not include real estate or M&A activity, as they create little economic yield and/or jobs.

FDI Contributions to Jobs and the Economy

FDI represents 11 percent of the city's GDP, about \$81 billion.

Inflows of foreign direct investment in the city has grown steadily from \$1.2 billion in 2007 to \$4.2 billion in 2016, an average annual growth rate of 15 percent. During the same period, the number of New Yorkers employed by foreign businesses grew by an average of 2 percent annually.

Today, foreign companies directly employ 298,000 workers in the city—7 percent of total employment—and support an additional 775,000 jobs through multiplier effects.

In the rest of New York state, FDI accounts for 4 percent of the workforce and contributes 6 percent

to GDP. FDI-dependent employment in the state has grown at an average of 1 percent annually outside of New York City since 2007. This includes a period of decline followed by 4 percent average annual growth since 2010. FDI inflows to the state, primarily in manufacturing, reflect the success of Empire State Development's Global NY program, which involves outreach, incentives and procurement opportunities for foreign companies that invest locally. Approximately 2 million jobs are supported by FDI directly or indirectly across the city and state.

Foreign Companies in New York City



Employ

1 in 15 workers

and contribute

\$1 of every **\$9**

of the city's GDP.

* FDI dependent workers tend to be in industries with above average productivity.

Foreign Companies in New York State**



Employ

1 in 22 workers

and contribute

\$1 of every **\$17**

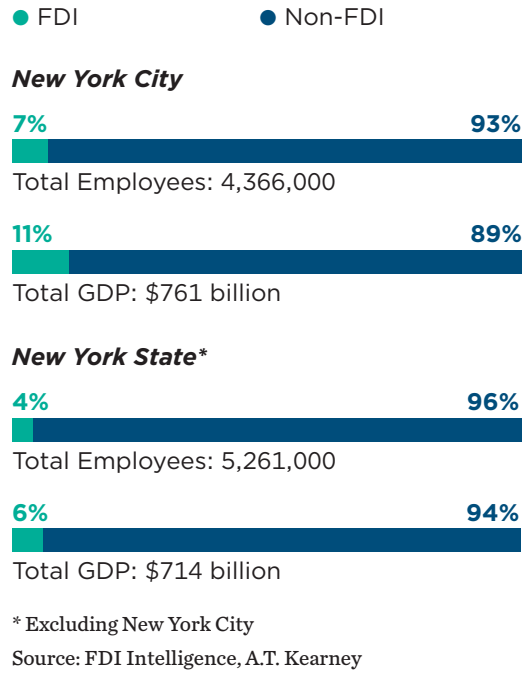
of the state's GDP.

** Excluding New York City

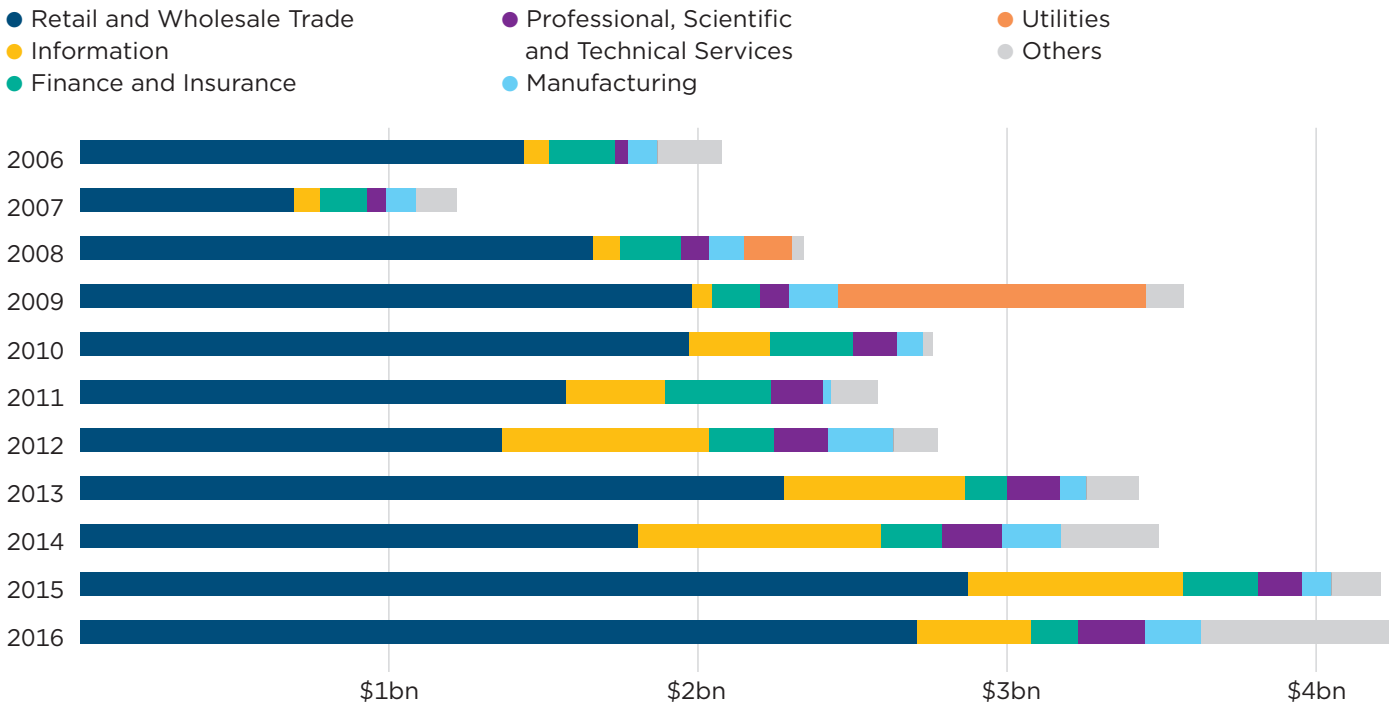
Foreign direct investment in New York is dominated by Europe, with France, the U.K. and Italy making up the top three sources of investment. Manhattan attracts almost all of the FDI investment in New York City—92 percent over the last decade. Sector focus of these investments has been dominated by retail, which has grown an average of 7 percent annually for the past 10 years. This includes high-end luxury, such as LVMH, as well as mass-market retailers like H&M and Zara.

Technology is the fastest-growing FDI sector, increasing an average of 25 percent annually over the decade. While large spikes of tech investment during this time frame originated from European countries, this has been steadily diversifying. In 2007, tech FDI came from five countries, increasing to 15 countries in 2016, with countries like Israel, China and Australia leading the growth. Fintech, digital media and life sciences are the verticals attracting the most investment—making it likely that resources dedicated to capitalizing on these sectors will spur the greatest economic activity.

Foreign Direct Investment Economic Impact



New York City Inflows by Industry*



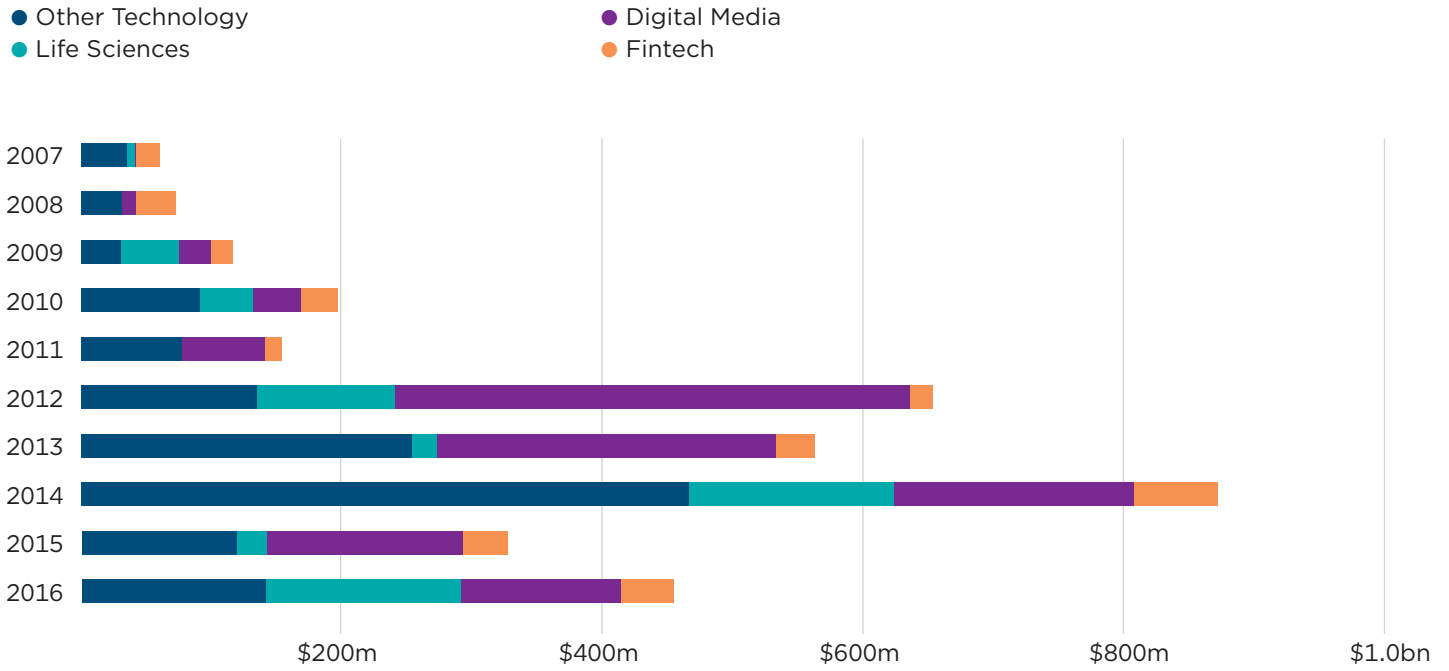
* Industry classified by 2-digit NAICS codes

Excludes construction projects, real estate and other portfolio investments; includes projects that are planned and announced but not yet completed

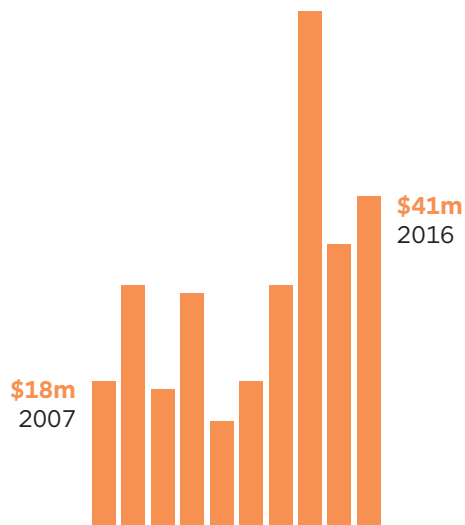
The spike in New York state investment in 2009 is driven almost entirely by a \$1 billion investment by GDF Suez in their Astoria power plant.

Source: FDI Intelligence, A.T. Kearney

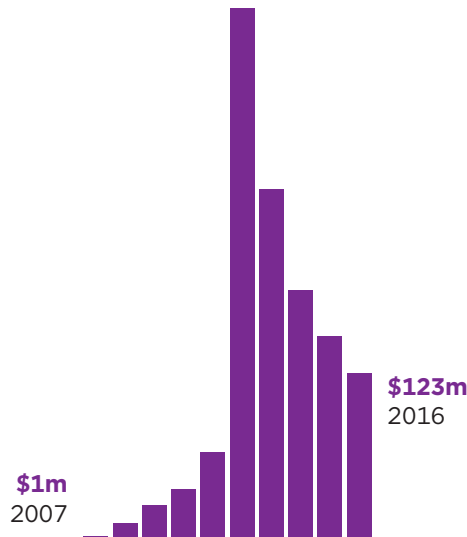
Foreign Technology Company Inflows in New York City with Sub-sector Breakdowns



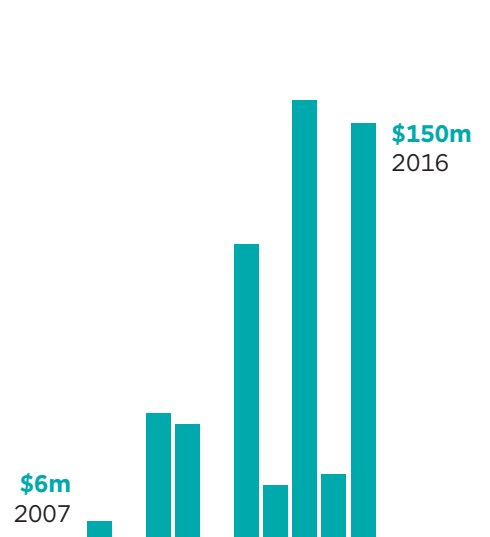
Fintech Inflows



Digital Media Inflows



Life Sciences Inflows



Based on cluster categories from FDI Intelligence
Source: FDI Intelligence, A.T. Kearney

Competing for FDI

New York City receives more FDI than any other U.S. city, but it trails international competitors.

Within the U.S., other regions are gaining ground through proactive outreach and incentive packages. New York City risks becoming a victim of its past success: its reputation has brought an unprecedented level of overall economic activity and jobs, but this has put enormous strain on public services, infrastructure and general livability, issues that concern foreign investors.²

“We are in a global battle for capital, the U.S. needs to work harder for it than before.”

CHIEF LEGAL OFFICER,
GLOBAL INSURANCE COMPANY

FDI Inflows by City



Based on cumulative inflows from 2007–2016

Source: FDI Intelligence, A.T. Kearney

² EIU, The Global Liveability Report 2017

WHAT ATTRACTS FDI TO NEW YORK?

“New York is a have-your-cake-and-eat-it-too city.”

PRESIDENT & CEO, GLOBAL TRADING COMPANY

“New York is the most cosmopolitan city in America.”

PRESIDENT & CEO, MULTINATIONAL CONGLOMERATE

Talented and Diverse Workforce

New York City is one of the most diverse and socially progressive cities in the world. Companies and their employees are willing to make affordability and lifestyle sacrifices to be here. The workforce is highly skilled and productive, almost 1 million New York City residents have a graduate or professional degree. The city’s 124 universities awarded nearly 19,000 STEM degrees in 2016, up 86 percent from 2007.³ Another important factor is 42 percent of New York’s workforce is foreign born, reflecting the city’s attraction to top global talent.

New York City’s reputation is such that foreign companies send executives to the city for a “tour of duty” to develop their knowledge of business and markets or, in the case of younger workers, to reward and retain them.

Proximity

Many leading global firms are headquartered in New York City, especially in financial and professional services, media, real estate, health care and education sectors. Proximity to these firms—which are major customers, partners and innovators in international markets—is a critical factor for many foreign companies. New York City is also a gateway to the markets of the Americas, especially for European companies that benefit from workday overlap with the Eastern time zone.

Speculation that virtual technology would reduce the importance of face-to-face business relationships has not proved correct and the concentration of diverse talent working side-by-side in the

region remains a competitive advantage for New York that few cities can match.

Trusted Regulatory and Political Environment

Government in New York, as in most of the U.S., is generally stable and professionally run.

The U.K. voting to leave the European Union has created a level of uncertainty about London’s future that is to New York City’s advantage; on the other hand, populist pressure to restrict trade and immigration in the U.S. may discourage foreign companies.

Quality of Life

New York City’s abundant culture is particularly attractive to global businesses; it is easy to find a piece of “home” in the city, whether in its museums and galleries, its concert halls or restaurants. Many businesses see the cultural and entertainment attractions of the city as greatly enhancing its value for both employees and clients. As a result, cultural institutions tend to be a focus of the philanthropic activities of global companies with investments in New York City. In addition, the low crime rate has attracted investment to New York over other American cities.

³ Economic Modeling Specialists International (EMSI) data, analyzed by the Partnership.

WHAT ARE NEW YORK'S CHALLENGES?

“New York is resting on its reputation.”

PARTNER, TOP U.S. LAW FIRM

“Businesses would flock here if they could be assured that New York had a great public education system.”

PRESIDENT & CEO, GLOBAL TRADING COMPANY

Global and National Competition

New York City receives more FDI than any other U.S. city, but it trails international competitors that are more proactive and dedicate more resources to attracting foreign investment. For example, Singapore has a government agency devoted almost entirely to attracting international investment with 22 offices across the world. London, in addition to its well-established outreach agencies, has set up a tech-specific body supporting digital startups launching or expanding into the U.K. These organizations make it easier to open business operations in their cities, providing one-on-one support, making necessary connections and introductions. Some will even provide subsidized office space while a business gets established.

U.S. cities with lower costs are also aggressively courting large companies—offering corporate incentives and quality of life benefits for employees. These cities are developing their transportation, telecommunications infrastructure and talent pools to accommodate the needs of international companies in ways they have not done in the past.

In New York, government offers little in the way of concierge or “welcome wagon” services to help companies establish themselves, connect them to sources of assistance or guide them through the regulatory maze. Foreign businesses expanding into New York often rely on business networks or consultants to provide this help.

Infrastructure

The impact of aging infrastructure on business operations, clients and employees is a critical issue for New York City. In every interview conducted for this study, the condition

of infrastructure (airports, subways, trains and roads) was cited as a major challenge. Expansion of foreign companies is definitely inhibited by concern about whether the transportation infrastructure can support continued population and economic growth.

Public and Private Education

Foreign companies based in the city also cited education as a challenge for their employees. The public education system is difficult to navigate and inconsistent in quality. The private education system is difficult to access, expensive and lacking international curricula/qualifications (e.g., International Baccalaureate). Some are taking matters into their own hands: the French Embassy has started a dual-language program in city schools, and is seeking private contributors to expand these efforts.

Protectionist Federal Policies

Foreign businesses are worried about the impact that protectionist trade, tax and immigration policies in the U.S. may have on their ability to operate profitably. Foreign companies have already been negatively affected by the “Travel Ban” from certain countries and have experienced greater difficulty acquiring visas and work permits, especially H-1B visas. They have had employees stranded overseas and fear that this situation will get worse. For foreign companies in the technology industry, the effect will likely be disproportionate, as they require highly specialized skills and often need to relocate engineers and members of their leadership team. Canada is actively promoting its more permissive immigration policies to attract tech FDI to Toronto and Vancouver, and it continues to offer “startup visas” that act as a strong incentive for talent.

A.T. Kearney provided projections of the potential impact of various proposed federal actions on FDI.

Baseline FDI Projections —

Based on current macroeconomic trends and the broader policy environment, it is projected that FDI in New York City and the rest of the state will grow 4 percent and 9 percent, respectively, over the next five years. This projection takes into account the current FDI industry mix, historic trends and wider national FDI forecasts.

Corporate Tax Reform Forecast —

A cut of corporate taxes from 35 percent to 20 percent would provide a boost to FDI by closely mirroring comparable corporate tax rates abroad and making the U.S. more competitive. Anticipated GDP growth following a cut in corporate tax rates would also increase FDI growth beyond baseline projections. These increases would vary across different industries, depending on the average tax rates paid before reduction, with the manufacturing, consumer goods and financial services industries expected to benefit the most.

Trade Conflict Forecast —

Increased trade protectionism, here mapped as an end to NAFTA and new tariffs on China, would lead to a one time “tariff jumping” boost to FDI as investors attempt to enter the U.S. before tariffs are enforced. Ultimately, however, restrictions of trade will result in slower long-term growth of FDI. The slowdown would be a combined result of lower GDP growth and reductions from targeted countries (Canada, Mexico and China), and would have a disproportionate impact on areas of New York state outside of the city, as much of the trade treaty covers manufacturing which forms a larger portion of these regions’ FDI makeup.

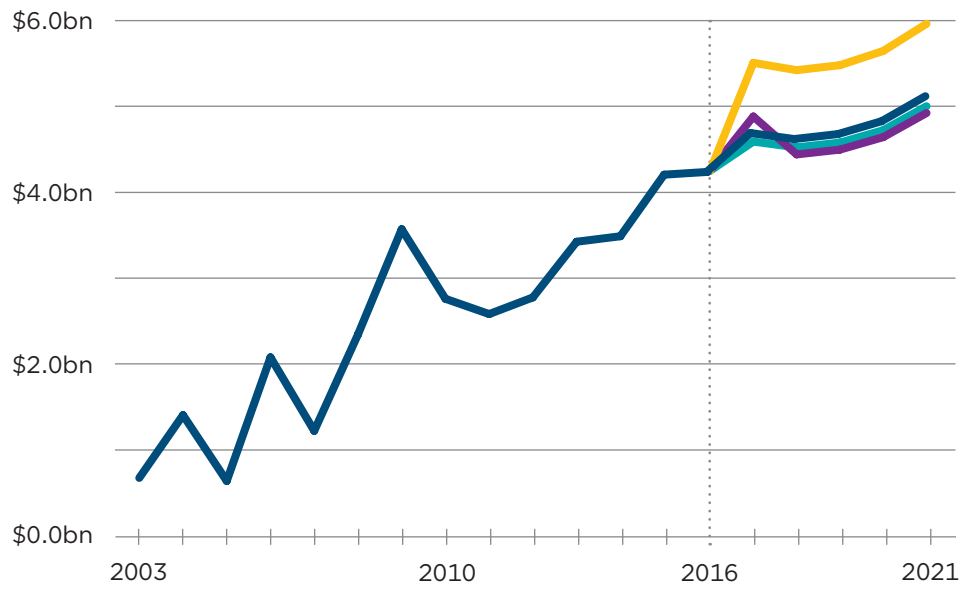
Immigration Restriction Forecast —

A sustained tightening of immigration, including the travel ban and more restrictions on high- and low-skilled workers, would reduce FDI below baseline projections. The impact would vary by industry with technology, hospitality and agriculture bearing the brunt of losses.

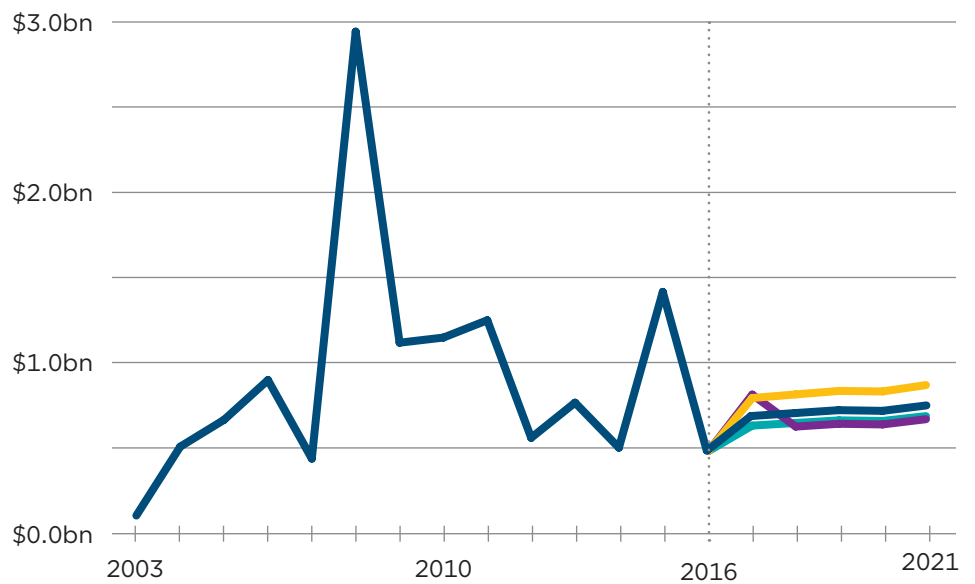
IMPACT OF FEDERAL POLICY CHANGES TO NEW YORK'S FDI

- Baseline FDI and Forecast
- Corporate Tax Reduction Forecast
- Trade Conflict Forecast
- Immigration Restriction Forecast

New York City



New York State*



* Excluding New York City

The spike in New York state investment in 2008 is largely due to the creation of GlobalFoundries that year.

Source: A.T. Kearney Analysis

Sustain and Grow New York’s FDI Value Proposition

If historical trends prevail and there are no major federal policy “shocks”, FDI in New York City will likely grow at a rate of 4 percent over the next five years, creating 211,000 jobs and generating \$20 billion in new economic activity. In the rest of the state, projections show a 9 percent rate of growth, 37,000 jobs and \$2.4 billion added to the upstate economy. Although New York City has a strong value proposition, a reinvigorated effort to attract FDI could lead to jobs and growth that exceed these projections.

There are currently a number of agencies in the city and state that touch on FDI attraction and retention. Foreign international chambers of commerce and trade offices also play a role in supporting FDI initiatives of individual countries. These are not, however, strategically organized or coordinated. They have limited impact and do not begin to compete with the promotional and personalized services that the strongest foreign and domestic competitors offer.

New York City and state have taken some steps to attract new and innovative foreign businesses. But to optimize FDI, New York will need to double down on its outreach and promotional efforts and do so quickly while the economy is strong and attractive to foreign investment.

Messaging is important in this context. The governor, mayor and other public officials have an important role to play in articulating that New York City and state are prepared to extend a warm welcome to foreign investors and job creators—even as the federal government is taking a more threatening tone toward international trade, immigration and foreign investment. A combination of marketing outreach and a light-touch, coordinated concierge strategy from city and state economic development agencies can expand and accelerate FDI beyond the baseline projections.

Establish a Clearinghouse Focused on FDI

New York City and state are not easy for foreign companies, particularly startups, to navigate, as many are unfamiliar with the multiple levels of government and their respective responsibilities. Interviews for this study consistently cited the need for a single point of contact or a clearinghouse that can help foreign companies navigate the challenges of moving to or expanding in New York. Regional and statewide coordination are also important as the combined procurement opportunities, incentive packages and geographic advantages of multiple locations may be more compelling to some foreign companies than what is available only within the five boroughs. Successful coordination of efforts could lead to increased job creation, expansion of New York’s innovation economy, and directing more economic activity to areas of the city and state beyond the Manhattan core.

“We are competing with Silicon Valley, not Jersey City.”

VICE CHAIRMAN, GLOBAL INVESTMENT BANK

Adapt to Market Shifts and Maximize the Potential of Emerging Industries

Retail dominates FDI in New York City, and although both high-end and mass-market retail are growing, wider trends show a decline in brick and mortar retail and a rise in e-commerce. New York City is actively developing the talent, high-speed broadband coverage and real estate options that support growth in tech-enabled

enterprises. It has the depth of educational and professional services required to attract and sustain innovative businesses in a range of industries. The city and state have launched programs to stimulate the growth of the life sciences industry, which is a potential model for incorporating FDI in economic development initiatives since many of the target companies in life sciences are from Europe and Asia. The life sciences initiative capitalizes on diverse assets in various regions of the state and incorporates a strategy to enhance New York's leadership in a rapidly growing, global industry.

Other cities, such as London, have developed a tech-specific accelerator program for international tech entrepreneurs. New York City and state are currently helping B. Amsterdam, the largest tech incubator in Europe, develop a home for global startups in the Brooklyn Navy Yard. Life sciences, fintech, digital health, e-commerce and advanced manufacturing all represent important opportunities for expanding FDI and filling a gap that may result from contraction in the brick and mortar retail sector.

Enhance New York City's Talent Pool

Workforce development, education and immigration policies are rapidly changing and require a coordinated response by the public and private sectors to maintain

the quality and diversity of the labor pool. New York City's great universities are a magnet for global talent and a tremendous resource for local companies locating here. Restrictive immigration policies are making it increasingly difficult to retain foreign graduates as part of the permanent labor pool. Foreign international outsourcing companies are training more Americans to fill tech jobs that were previously moved to India and other lower cost countries. For example, the nonprofit Per Scholas is working with tech giant Cognizant to prepare underemployed local residents for jobs, with assistance from the state and city workforce development programs.

Extend a Positive Message

Much of the political rhetoric around the world today communicates a protectionist, anti-globalization message that has a chilling effect on FDI. Leaders of New York City and state should be at the forefront of advocating for trade, immigration, tax and regulatory policies that encourage global business investment and open doors to international talent. New York can distinguish itself by forcefully advocating for policies that reflect a commitment to diversity and economic growth, which equally benefit domestic and foreign companies and their employees.

Conclusion

Foreign direct investment has been central to New York City's economy since it was established as the center of the new world economy by 17th century Dutch traders. Today, however, New York trails counterparts that are better organized to maximize the size and impact of FDI and generally enjoy the support of their national government in this effort.

During the next five years, New York should be able to exceed FDI growth projections beyond the 248,000 jobs projected for the city and state. This will require a strategy for diversifying the origins and industries that currently dominate FDI, by increased outreach and marketing to business in fast-growing economies that currently have minimal presence here.

A modest, but well-coordinated, clearinghouse for information and services to foreign companies looking to establish or expand business operations would be helpful, particularly for those with few institutional

relationships in New York. This "point of contact" or first stop is common in cities that excel in attracting FDI (e.g., London and Partners, EDB Singapore), and is a crucial part of their strategy. The clearinghouse function can also support reciprocal efforts to help domestic companies expand their reach into markets around the world, recognizing that effective FDI policy is a two-way street. There are hundreds of fast-growing cities in developing nations that are competing for investment, talent and jobs, as well as established cities where national policies and local incentives are more attractive than what New York City currently offers.

The observation of most foreign executives interviewed for this study was that New York City remains their preferred location, but in a changing political and economic climate, it would be a mistake for the city to rest on past laurels. New York City cannot take its status as a global business capital for granted.

RESEARCH TEAM

Partnership for New York City

Jess Bridgman

Director, International Initiatives

Ashley Greenspan

Vice President, Communications

Chris Mitchell

Director, Research

Merrill Pond

Senior Vice President, Research

Cara Willenbrock

Creative Director

CONSULTANT

Gianluca Galletto

President, DG Advisors

Former Director of International Business at
NYCEDC

A.T. Kearney

George Coe

Associate

Johan Gott

Principal

Jim Singer

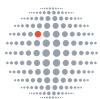
Partner

ABOUT THE STUDY

A two-part study was designed to examine current trends in FDI in New York City and state, FDI's impact on the region and how current levels of investment can be sustained and improved.

Qualitative Analysis: Interviews were conducted with 45 business leaders to understand the perceptions and experiences of foreign companies with operations in New York.

Quantitative Analysis: A.T. Kearney was commissioned to undertake an extensive quantitative analysis of FDI activity over the past 10 years in the city and state.



PARTNERSHIP
for New York City

One Battery Park Plaza, 5th Floor
New York, NY 10004

PFNYC.ORG
@PARTNERSHIP4NYC