



PAT McCRORY
Governor

JOHN E. SKVARLA, III
Secretary

MEMORANDUM

To: N.C. General Assembly – Economic Development and Global Engagement Committee-Chairs
N.C. General Assembly – Joint Legislative Oversight Committee on Agriculture and Natural and Economic Commission-Chairs
N.C. General Assembly – Fiscal Research Division of the Legislative Services Commission

From: Karen Johns, Executive Director of Foreign Capital Placement, N.C. Department of Commerce: International Recruiting Coordination Office
Angel Liu, Executive Director of Foreign Capital Sourcing, N.C. Department of Commerce: International Recruiting Coordination Office

Date: September 30, 2016

Re: Annual Report on Expenditures of the International Recruiting Coordination Office – N.C. Gen. Stat. § 143B-432.2 (c)

Pursuant to N.C. Gen. Stat. § 143B-432.2(c) the Department of Commerce is required to provide specific information about activities performed within the International Recruiting Coordination Office.

BACKGROUND

Recently, the National Committee on United States-China Relations (NCUSCR), a private, nonpartisan, American non-profit organization that promotes understanding and cooperation between the United States and Greater China, partnered with the Rhodium Group, an economic research firm that combines policy experience, quantitative economic tools and on-the-ground research to analyze disruptive global trends. These two organizations published a report in April 2016 highlighting information on a relatively new and increasingly important bridge: the rapid growth of Chinese investment in the United States.

According to this report, as slowing growth has transformed China's trade and investment dynamics, with slower increases in Foreign Direct Investment (FDI) into China and decreases in exports and imports, outbound FDI by Chinese companies continues to grow, with a nearly 15% increase and a record high of \$120 billion in 2015. China's FDI in the US also continues to grow, reflecting the ongoing shift of Chinese investment activity from developing to high-income economies. In 2015, Chinese direct investors put over \$15 billion into transactions in the US, a nearly 30% increase compared to the previous year and a new all-time high.



With over \$30 billion already pending in deals and projects, 2016 is likely to be another record year for Chinese FDI in the US.

Mergers and acquisitions (M&A) continue to be the preferred entry mode for Chinese investors in the US market as they seek fast growth. For the second year in a row, Chinese companies completed more than 100 M&A deals in the US, totaling \$13.5 billion.¹ North Carolina's appeal to international markets is well-known and some of the largest acquisitions in the country have taken place in our state – from IBM ThinkPad/Lenovo in 2004 to Smithfield Foods/Shuanghui in 2013 to the Syngenta/ChemChina acquisition currently under way.

Over the last several years, state leaders have noticed a new type of inquiry in emerging markets, like China. Increasingly, representatives of the State of North Carolina have been approached by groups of individual Chinese investors, not just corporations, that are looking for the state's assistance in identifying and sanctioning potential investment opportunities – either through investment in existing operations in the state, or through merger and acquisition opportunities.

Clearly, an “investment catalogue” and multi-faceted approval processes do not exist in a capitalist economy like the United States. So, the state's strategy has not focused on working individuals or groups of individual investors.

In order to address this gap in attracting and encouraging investment and job creation in the North Carolina economy, the General Assembly appropriated \$250,000 in recurring and \$750,000 in nonrecurring funds in FY16-17, establishing the International Recruiting Coordination Office, a new division within the Department of Commerce, to explore opportunities with individual investors. While not solely focused on China, the Office will spend the majority of its time concentrating on emerging markets where M&A activity is the strongest.

This new function within the Office will allow the Department to serve as a conveyor and coordinator of existing North Carolina organizations that work with companies that may be seeking to receive or provide in an infusion of capital, or a merger or acquisition opportunity from international investors. It is anticipated that these organizations may be able to work together to identify potential North Carolina projects and targets of investment, while also sharing information and due diligence about potential international investors.

A diverse network of partners is needed because the interests of potential investors are also very broad in nature including information technology, automotive, aviation, health and life sciences, real estate (hotels and golf courses), movie productions, motorsports and other entertainment services.

In addition, through strong relationships with key government and business leaders in other countries, the Office will host business-focused delegations that express an interest in visiting the state, by assisting them with developing meaningful itineraries, connecting them to those that can assist with travel logistics such as hotels, transportation, translators, etc., and hosting them on behalf of the State of North Carolina for discussions and presentations about doing business in the state.

SERVICES PROVIDED

The enabling legislation that created this new Office within the Department of Commerce required an initial report on the associated activities on October 1, 2016. Below please find the details associated with those activities.

¹ New Neighbors: 2016 Update, Chinese Investment in the United States by Congressional District, A Report by the National Committee on U.S.-China Relations and Rhodium Group, April 2016



Number and country of origin of individuals and delegations entertained or hosted

Between July 1, 2016 and September 30, 2016, the Office hosted one delegation with 10 business and government delegates from China.

Entertainment and hosting activities provided

As the kickoff component of this delegation's visit to North Carolina, the Department of Commerce team hosted the delegation by showing a North Carolina introductory video and by providing a presentation that simultaneously translated and provided an introduction of state's business climate. The delegation from China also presented a video highlighting the region of the country from which the group originated and introduced each member of the delegation and their role and business. The total cost of \$759.82 was spent on their reception with a customary gift exchange and a photo opportunity concluded the meeting. The delegation went on to visit other organizations throughout their two-day visit to the state.

Jobs and foreign investments resulting from and leads generated by entertainment and hosting activities

As of September 30, 2016 no jobs or foreign investment have been generated, but communications are continuing with several member of the delegation, as well as other potential investors considering the state.

Screening Foreign Investments to identify risks to State or national security or both

The Department is currently working to develop safeguards, to ensure state and national security best practices are utilized when working with foreign and domestic entities, individuals and governments.

