



Hamilton

INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	February 4, 2015
SUBJECT/REPORT NO:	Foreign Direct Investment Economic Development Strategy for the City of Hamilton (PED15014) (City Wide)
WARD(S) AFFECTED:	City Wide
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Information:

The City of Hamilton's Economic Development Strategy 2010–2015 clearly identified the diversification of the economy as a high priority and the importance of Foreign Direct Investment (FDI) in achieving this objective. Virtually all of Hamilton's major municipal competitors have FDI strategies in place and are aggressively pursuing new investments. FDI also tends to comprise a significant amount of manufacturing: a sector that is a high priority for the Provincial and Federal governments and one for which Hamilton is very well-suited to compete. Even though Hamilton has benefited from several large plant locations over the last three years, the majority of new investment and location in North America is attributable to foreign investment from off-shore namely Europe, South America and the far east.

Further to the strategic directions and recommendations that were highlighted in the recent Report compiled by Deloitte regarding "The Current and Future State of Hamilton's Advanced Manufacturing Sector", one of the five strategic directions recommended was to take a closer look at "Investment Attraction". Given that advanced manufacturing activities figure prominently in FDI, it was recommended that the City regularly monitor these opportunities. The monitoring should include such issues as the site selection drivers for various foreign markets, foreign views of Hamilton as a potential location for investment and what investments could potentially be attracted. The results would be used to identify the top target countries, industries and organizations to pursue as part of a formal FDI strategy led by the City of Hamilton.

OUR Vision: To be the best place in Canada to raise a child, promote innovation, engage citizens and provide diverse economic opportunities.

OUR Mission: WE provide quality public service that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Values: Accountability, Cost Consciousness, Equity, Excellence, Honesty, Innovation, Leadership, Respect and Teamwork.

Background:

FDI is defined by the World Bank as “the net inflows of investment to acquire a lasting management interest (ten percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments”.

The World Bank tracks net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors (World Bank, 2014).

From a practical perspective for the City of Hamilton, we have adjusted this definition to include all businesses and organizations from outside of Canada that have an interest in establishing a new enterprise within Canada. We have also chosen to identify those countries with whom Canada has an export relationship. Many traditional economies within North America focus on FDI as an opportunity to transform from traditional manufacturing processes to target new sectors and diversity into new sectors, thereby strengthening the economy and community. Given its many and wide-ranging benefits, FDI attraction has become an important element of an economic development strategy at all levels of government.

Benefits from Foreign Direct Investment include:

- Capital formation maximizes economic potential within the local economy including more jobs, improvements in productivity and economic growth evidenced in Gross Domestic Product;
- Job creation within the local economy enhances the skills and capability domestically, thereby contributing to further growth and opportunity;
- Increased tax revenues are a result of additional businesses and jobs that deliver corporate taxes, income taxes, property taxes and a wide range of additional tax benefits to the local economy;
- Innovation and technology benefits enhance the host country/economy as new ideas, processes and techniques are introduced domestically, again enhancing the long-term potential; and,
- Diversification within the local economy again helps to strengthen and build upon a new business and economic enterprise and deliver additional strength to the economic foundation.

Scope of Work:

The City of Hamilton has since engaged the Deloitte Real Estate team to create a strategy to increase the level of Foreign Direct Investment occurring in Hamilton. Deloitte has worked closely with members of the City of Hamilton's Economic Development Division, our key community stakeholders which we refer to as our "Invest-In Hamilton Partners", key provincial government partners and representatives of the City of Hamilton's business community.

Again, the focus of the study is on inbound FDI from outside Canada including exports, although many of the recommendations can be applied to investment attraction in general. The broad context of this study is based on the key requirements identified by the City's Economic Development Department:

- 1. Ensure that Hamilton is an investment ready community:** The City would like to ensure that it is well-prepared to accommodate new investment through the availability of real estate options within both existing buildings and/or sites available for development with proper infrastructure. The strategy addresses the land supply issue and the other major components of readiness with respect to the City's plan.
- 2. Identify key target sectors and markets:** A Program is proposed to be directed at both domestic and off-shore investments based on target sectors and markets. Targets and major companies are identified for each of the City's target sectors for "easy to follow" implementation by City officials and staff.
- 3. Market Hamilton for investment:** The strategy identifies the key marketing materials and initiatives that are necessary for Hamilton to achieve its objective of increasing foreign direct investment.
- 4. Track, work with and secure the investment:** The strategy assesses at a high level the City's current practices to ensure investment inquiries are monitored and handled in a timely and expeditious manner.
- 5. Provide after-sales service:** The strategy recognizes the importance of managing relationship with existing companies to ensure their assistance in attracting new businesses.

Key Findings:

Without a focused strategy to position its FDI efforts, Hamilton risks losing out on significant economic opportunities. An implementable FDI Strategy and Action Plan will help to maximize the City's economic potential by identifying current gaps in FDI initiatives, current practices that need to be continued or modified and new approaches or programs that should be implemented.

The FDI Strategy and Action Plan also needs to specifically target the industries sectors where Hamilton has a competitive advantage within the Greater Toronto Hamilton Area. These sectors include Life Sciences, Clean Technology, Advanced Manufacturing, Agri-Business and Food Processing, Information Communication Technology and Digital Media. The FDI strategy seeks to further leverage and extend these competitive advantages and position Hamilton to 'get in the game' for FDI attraction.

Recommendations:

In order to position Hamilton for success, Deloitte has recommended a three-step strategy:

1. Recast our Value Proposition

- a. Increase awareness and visibility for Hamilton as an integrated part of the Southern Ontario economy.
- b. Differentiate Hamilton within the broader marketplace as superior location for new business investment.
- c. Facilitate the location decision to make it easy for potential targets to make the investment decision.

2. Maximize Lead Generation

- a. Target the right sectors in the right geographies. Align focus sectors with shifting sector composition and City's competitive advantages.
- b. Focus first on exports from existing firms and then inbound FDI opportunities from outside Canada.
- c. Utilize resources efficiently and effectively.

3. Ensuring Investment Readiness

- a. Ensure a supply of shovel ready lands, particularly for large space users such as distribution, warehousing and large food processing and manufacturing activities.
- b. Take a proactive and integrated approach to tracking and securing investments and facilitating approvals.
- c. Provide strong after sales support to ensure smooth adjustment to the City and leverage additional opportunities.

For the complete analysis and recommendations, along with the details of the "Action Plan", are presented in the report that follows.

Financial Impact:

Based on the strategic directions and action plan recommended by Deloitte in the attached FDI Strategy, there are some elements that may have additional financial implications to the City of Hamilton. Many of the activities may be achievable through

the Economic Development Division's normal Operating Budget, and therefore, will not have any additional impact to the City of Hamilton's Budget.

Conclusion:

Overall volumes of FDI are increasing globally and in Canada, the majority taking the form of mergers and acquisitions. Greenfield FDI investment is less prevalent, but provides the best opportunities for high-profile projects. While the United States will likely continue to be our largest trade partner, the balance of trade is beginning to shift towards emerging economies in Asia, South America, India and others. The composition of trade and FDI has also shifted considerably over the past decade, mainly as a result of the rapid growth in the energy and minerals sector. Nevertheless, Hamilton remains very well positioned to compete for other elements of the FDI profile, including Advanced Manufacturing, Agri-Business and Food Processing industries and "Green Industries" including clean tech and recycling.

The trend towards urbanization and Hamilton's strong competitive advantages translate into a significant opportunity for FDI attraction. A review of the FDI strategies of other competing and successful jurisdictions include a strong focus on retaining and development existing firms, partnerships and collaboration. Also, a focus on key economic development target areas and sectors, marketing a unique value proposition and ensuring sufficient support to deliver on these plans. All of these are key elements to which Hamilton is well suited to compete for further FDI investment.

Appendices/Schedules:

Appendix "A" - Report PED15014 – Foreign Direct Investment Economic Development Strategy for the City of Hamilton.

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