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Far East aims to make splash in Midwest

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MINNEAPOLIS: With an experienced industrial workforce, central transportation links and abundant natural resources, the US Midwest would seem an ideal region for Chinese investors and companies. But while China historically has not quite embraced the American heartland, there are signs that that is starting to change.

"It's definitely a work in progress," said John Rogers, president of the Midwest US-China Association. "It's unfortunate that the Chinese don't know about the Midwest, whose economy is roughly equal to that of Germany."

Compared to the East and West Coasts, states like Minnesota, Iowa and Kansas, saw relatively little of the \$40 billion in foreign direct investment China spread throughout the world last year. One reason is cultural.

"The Chinese have generally felt more comfortable on the coastlines where there are sizable Chinese populations," said Usha C.V. Haley, an Asia programs fellow at Harvard University's John F. Kennedy School of Government and author of "The Chinese Tao of Business."

But the Midwest also has itself to blame. Until now, the states have not made a serious push to attract China's money, experts say.

The region has focused mostly on winning business within China's vast domestic market. Only within the last five years have state trade offices in China started to look at outbound Chinese investment, said John Watson, director of Kansas' International Affairs and Trade Office.

For example, a large contingent of Midwest states, including Missouri, Kansas, Michigan, Wisconsin and Illinois, the most from any US region, plan to attend the first China Overseas Investment Fair in Beijing in November.

The fair is the first trade show of its kind that puts economic development officials in front of Chinese investors looking to expand globally.

Some of these efforts are starting to pay off, thanks in part to increasingly confident Chinese companies — as well as the US recession — which has offered attractive distressed assets to Chinese investors, particularly in the hard-hit Midwest.

Beijing West Heavy Industries recently signed a \$100 million agreement to purchase the brakes and suspension business of bankrupt Delphi Corp. in Detroit, one of the world's largest makers of automobile parts.

And last month, the China SINB Group, a large diversified industrial and real estate holding company, purchased 54 acres of land in Wisconsin, its first major development project in North America.

Chinese companies are also making inroads into high-tech industries such as medical devices, biotechnology, and solar, wind and geothermal energy.

But nothing has come easy for the Midwest, whose factories have struggled to adjust to lower-cost competition from places like China and India.

"Much of the Midwestern malaise reflects the passing of an industrial economy that supported the region for a century," said Richard Longworth, a senior fellow at The Chicago Council on Global Affairs.

"Part of it is the arrival of globalization and 3 billion new workers, most from India and the former communist world, each ready to do the heavy lifting and low-skill assembly line work that once put bread on Midwestern tables.

"Part of it is the dawning of the knowledge economy in a region where a high school diploma used to buy a ticket to the middle-class life."

The region's insular and independent identity also makes it harder to adjust to a global economy, experts say. Former Missouri Governor Bob Holden said Midwest states often work against each other for jobs and industries, a competition that has proved self-destructive to the region.

"The Coasts have been more aggressive in attracting foreign investment," said Holden, who now teaches at Webster University in St. Louis. "Our government institutions need to cooperate instead of compete.

“If you got people in Wisconsin, Kansas and Nebraska all pushing for the same deal, we will be successful. We have to keep building off our infrastructure so we can compete in the global economy.”

Experts say one of the Midwest’s biggest assets is its central location, a network of transportation hubs that allows Chinese companies to better reach customers in the region and across North America.

Earlier this year, the US Department of Commerce awarded a \$1.7 million grant to help the newly formed Midwest China Hub Commission establish a hub at Lambert International Airport in St. Louis for Chinese cargo deliveries.

The hub will act “as an inland port for China to do business with Middle America,” said Steve Johnson, senior vice president of economic development for the Regional Chamber of Growth Association in St. Louis.

“The air freight hub is a means to an end: establish St. Louis as a commercial and business center for Chinese investors and companies to enter the US.”

The project has attracted significant support from both the American and Chinese governments.

Zhou Wenzhong, China’s ambassador to the US, has already visited St. Louis twice, including a stopover last February during the Chinese New Year.

For Chinese companies, location in the US only matters if it better serves their customers, said Ni Pin, president of Wanxiang America Corporation in Elgin, Ill., just outside Chicago.

“You should be close to your market,” Ni said. “You have to adapt yourself to the environment.”

The reason China’s Wanxiang, a parts and equipment maker, chose Illinois for its headquarters was its proximity to its customers in the automobile, construction and agriculture industries.

In particular, Ni explained, Wanxiang hopes to be a bridge for Chinese auto parts makers who need better technology and expertise, and American auto companies trying to access the global labor market.

The China SINB group has not yet disclosed its plans for the 54 acres it purchased in Mt. Pleasant, Wis.

But Jenny Trick, deputy director of the Racine County Economic Development Corporation, said the site is an ideal base of operations for SINB as it sits on a crucial corridor between Chicago and Milwaukee. Plus, Trick said, SINB got an excellent price because the land was in foreclosure.

Illinois also recently unveiled a \$2 million investment package to help Wanxiang build a 35 -megawatt solar panel manufacturing plant in Rockford.

Wanxiang president Ni said the company, which already installs solar panels throughout the Midwest, wants to take further control of the supply chain in the US by making the panels itself.

“We believe we are at the point to move to the next level,” he said.

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