STATE-LEVEL DETERMINANTS OF EB-5 INVESTMENT:
A CROSS-SECTIONAL ANALYSIS

by

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A dissertation submitted to the Faculty of the University of Delaware in partial fulfillment of the requirements for the degree of Doctor of Philosophy in Urban Affairs and Public Policy

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ABSTRACT

The EB-5 Immigrant Investor Program was established by Congress in 1990 to spur economic growth through entrepreneurship, immigration, and foreign direct investment. By most accounts this program has not achieved its full potential to create jobs or attract capital to the United States. The EB-5 Immigrant Investor Program reserves 10,000 visas for immigrant investors who make a minimum $500,000 or $1 million job-creating investment in the United States. Immigrants who invest in targeted employment areas, defined as areas with an unemployment rate 150% of the national average, are eligible to make investments at the $500,000 amount. Given the reduced investment amount, the vast majority of EB-5 Immigrant Investors finance projects in targeted employment areas.

In 1993 Congress established the Regional Center Pilot Program. This pilot program allows EB-5 Immigrant Investors to use economic forecasts to estimate the number of jobs created as a result of their investment, therefore creating an alternative avenue for investors to achieve the minimum 10 jobs required to obtain citizenship in the United States. During the federal fiscal years of 2010 and 2011 approximately 90% of EB-5 Immigrant Investors made investments through Regional Centers.

Though the EB-5 Immigrant Investor Program has attracted at least $6.8 billion of investment to the United States since its inception, some states have benefitted from the program more than others. For example, during the federal fiscal
years of 2010 and 2011, EB-5 Immigrant Investors financed Regional Center projects in only 24 states. Using logistic regression, this dissertation explored the relationship between state-level EB-5 Investment during the federal fiscal years of 2010 and 2011 and the independent variables of market size, wage, unions, taxes, immigration, innovation, unemployment, and rural area. The regression determined that immigration was a statistically significant determinant of EB-5 Investment during the federal fiscal years of 2010 and 2011. A recommendation of this dissertation is that policymakers seeking to attract EB-5 Investment should support policies that encourage immigrants to settle within their states, as immigration has been shown to spur economic growth through entrepreneurship, job creation, and international trade. This dissertation also encourages the release of disaggregated data on the EB-5 Immigrant Investor Program by United States Citizenship and Immigration Services (USCIS), as more detailed information on the program can lead to the identification of additional determinants of EB-5 Investment and inspire targeted policy solutions that can help states attract investment and jobs through the EB-5 Immigrant Investor Program.
Chapter 1

INTRODUCTION

The EB-5 Immigrant Investor Program is a federal program designed to promote economic growth by encouraging immigrant entrepreneurs to finance and manage job creating projects throughout the United States. Yet during the federal fiscal years of 2010 and 2011 the vast majority of EB-5 Immigrant Investors financed projects in only 24 states. This dissertation hypothesizes that foreign direct investment theory explains the state-level distribution of EB-5 Investment. The purpose of this dissertation is to identify the state-level determinants of EB-5 Investment in order to understand what leads wealthy investors to finance projects in individual states. A better understanding of what drives state-level EB-5 Investment can lead to the formulation of policies that support increased EB-5 Investment, and ultimately an increase in jobs and investment across the United States.

The EB-5 Immigrant Investor Program, created by Congress in 1990, offers citizenship to immigrants who make a minimum $500,000 or $1,000,000 job-creating investment in the United States. The ultimate goal of the program is to use employment-based visas to further promote economic growth through regional productivity, job creation, and increased foreign direct investment (Bruno & Garcia, 2013). Since its inception this program has had limited success in creating jobs and attracting foreign direct investment across the United States on both the federal and state levels. Of the 10,000 visas allotted annually for the program, less than 4,000 were issued to immigrants making job-creating, visa-eligible investments in 2012.
(United States Citizenship and Immigration Services, 2012). Prior years have seen even less participation in the EB-5 Immigrant Investor Program. For example, between 2002 and 2005, less than 500 visas were issued annually. In fact, according to the Department of Homeland Security’s (DHS) 2011 Yearbook of Immigration Statistics (2012), the EB-5 Immigrant Investor Program did not disburse more than 3,500 visas until 2009 (see Figure 1.1). In addition to the federal problem of low EB-5 disbursement, the program was challenged by the uneven state-level distribution of investment and jobs that are created as a result of the EB-5 Immigrant Investor Program. The immigrants that participated in the EB-5 Immigrant Investor Program during the federal fiscal years of 2010 and 2011 overwhelmingly chose to finance projects in only 24 states. Though the EB-5 Immigrant Investor Program was able to attract an estimated $1.75 billion in investment and create or save an estimated 33,000 jobs in the United States during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a), the inability to reach its maximum potential of 10,000 visas and more evenly disperse investment throughout the United States indicates a shortcoming of this program.
The receipt of a permanent visa is the primary motivation for EB-5 Immigrant Investors. A $1,000,000 investment that creates, or in some circumstances saves, a minimum of ten jobs in the United States allows these investors to obtain permanent U.S. citizenship. Those that invest in targeted employment areas, defined as areas with an unemployment rate 150% the national unemployment rate, are allowed to make investments at a reduced amount of $500,000. Rural targeted employment areas are defined by USCIS (United States Center for Immigration Services) as areas outside of cities, towns or metropolitan statistical areas with a population less than 20,000, whereas urban targeted employment areas are defined as being either metropolitan statistical areas or counties with an unemployment rate 150% of the national average. State governments, and only state governments, have the authority to designate political boundaries other than counties and metropolitan statistical areas as targeted employment areas, such as combinations of census tracts, as long as the
identified targeted employment areas conform to the USCIS requirement of having an unemployment rate 150% of the national average. The reduced investment amount of $500,000 instead of $1,000,000 explains why a majority of EB-5 Immigrant Investors finance projects in targeted employment areas in pursuit of permanent U.S. citizenship.

In addition to investing in targeted employment areas, the majority of EB-5 Immigrant Investors finance projects through Regional Centers. EB-5 Immigrant Investors that make investments through Regional Centers, which are entities approved by USCIS to promote economic growth throughout the United States, are allowed to use job forecasts instead of direct job counts to satisfy the job creation requirements necessary to obtain permanent citizenship through the EB-5 Immigrant Investor Program. Though applications must be ultimately approved by USCIS, virtually anyone in any location can apply to open a Regional Center. The ability to use estimated job forecasts instead of direct job counts to satisfy the USCIS requirement that each investor must create ten jobs in order to receive permanent U.S. citizenship explains why a majority of EB-5 Immigrant Investors finance projects through Regional Centers.

The EB-5 Immigrant Investor Program is a federal economic development initiative that, through its design, encourages investment in Regional Center projects located in the nation’s targeted employment areas. Though there are no overt state-level preferences to EB-5 Investment, during the federal fiscal years of 2010 and 2011 EB-5 Immigrant Investors financed Regional Center projects in only 24 states. Given the prevalence of targeted employment areas in all 50 states, relative ease in opening Regional Centers, and the fact that states often engage in entrepreneurial activities
such as attracting foreign direct investment in order to boost state economies (Eisinger, 1988), this dissertation seeks to offer insight on why only 24 states were able to attract EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011 (see Figure 1.2).

After an examination of entrepreneurship theory, immigration theory, and foreign direct investment theory, this dissertation found that a policy initiative such as the EB-5 Immigrant Investor Program has the potential to successfully promote economic growth throughout the United States. For example, the EB-5 Immigrant Investor Program encourages foreign entrepreneurs to use their skill sets and business acumen to spur innovation and create economic opportunities in the United States in exchange for permanent citizenship. In addition, the attraction of these immigrants and their families can lead to the revitalization of post-industrial cities, as large numbers of immigrants migrate to, and start businesses in, urban cores. Lastly, foreign direct investment that comes to the United States as a result of the EB-5 Immigrant Investor Program can lead to economic growth and job creation by providing additional capital that can be used for economic development projects (Chenery & Strout, 1966).

Despite the EB-5 Immigrant Investor Program’s potential for promoting economic growth, the fact that EB-5 Immigrant Investors financed Regional Center projects in only 24 states during the federal fiscal years of 2010 and 2011 indicates a missed opportunity for 26 states to benefit from this job creating, foreign direct investment attracting economic development initiative. Insight on the state-level distribution of EB-5 Investment can be gained by investigating what leads wealthy investors to invest in individual states within the United States of America. The
academic literature reviewed in this dissertation, particularly state-level foreign direct investment literature, identifies the individual state characteristics of market size, average wage, union participation, tax climate, immigration, innovation, unemployment rate, and rural area as being determinants of state-level foreign direct investment, and potential determinants of EB-5 Investment.

This dissertation argues that there is a correlation between the aforementioned state-level determinants of foreign direct investment and state-level EB-5 Investment. Using a logistic regression, this dissertation tests this hypothesis. The data on the dependent variable used in this analysis, state-level EB-5 Investment during the federal fiscal years of 2010 and 2011, was published by the Association to Invest in the United States (IIUSA), and offers the most current and comprehensive state-level data on EB-5 Investment available at the time of the writing of this dissertation. IIUSA is the preeminent EB-5 Regional Center industry organization. IIUSA members have been responsible for over 95% of total EB-5 Investment since the program’s inception in 1990 (IIUSA, 2013). The IIUSA data set includes investment information for all designated Regional Centers, but does not include the 11.9% of EB-5 Investment made outside of the Regional Center Program during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). The data for the independent variables comes from a number of publicly available sources, including the Bureau of Labor Statistics, the Tax Foundation, the Bureau of Economic Analysis, and the U.S. Department of Agriculture. The data used in this analysis allows for the replication of the findings contained in this dissertation.
Through the analysis it was determined that the econometric model used in this dissertation correctly predicts state-level EB-5 Investment. Of the potential determinants included in the model, *immigration*, defined as the share of all legal permanent residents who settled in the state during the federal fiscal years of 2010 and 2011, was found to be the only statistically significant determinant of EB-5 Investment. Furthermore, this dissertation found that the higher the share of legal permanent residents that settled in particular state, the higher the probability that the particular state attracted EB-5 Investment. In terms of explaining what leads wealthy investors to finance projects in individual states, the findings in this dissertation
indicate that wealthy immigrant investors finance projects in states that are popular settlement locations for newly arriving immigrants. The significance of state-level immigration patterns as a determinant of EB-5 Investment is supported by the theories exploring the relationship between immigration, foreign direct investment and economic development. Immigrants migrate to gateway cities and gateway states that have been successful in the new global economy, as they offer more opportunity for trade, entrepreneurship and an improved quality of life (Lin, 2012). These immigrant entrepreneurs have been known to create binational trade agreements and engage in other economic activity (Lin, 2012), which creates investment opportunities for wealthy investors.

The significance of state-level immigration patterns as a determinant of EB-5 Investment is also supported by the ICF International study (2010), the IIUSA economic impact study (2013) and a U.S. Department of Commerce report on immigration and foreign direct investment (2007). These reports lead this dissertation to suggest that EB-5 Immigrant Investors follow similar settlement patterns as all legal permanent residents. These reports also lead this dissertation to suggest that EB-5 Immigrant Investors invest in states where they ultimately intend on settling. Given that foreign investors value the ability to personally monitor their investments (U.S. Department of Commerce, 2007), this dissertation suggests that EB-5 Immigrant Investors finance Regional Center projects in states where they intend to settle in order to monitor their investments and provide managerial support, if necessary, in order to ensure the receipt of permanent citizenship in the United States.

After the identification of immigration as a determinant of EB-5 Investment, a further review of the literature on state-level immigration policies was conducted in
order to determine appropriate policy solutions states can implement in order to create an atmosphere that is attractive to EB-5 Investment. This dissertation suggests that states support policies that create an environment favorable to immigrant populations, such as ensuring all immigrants have access to benefits such as financial aid, healthcare, and housing subsidies, in order to attract EB-5 Investment. Though wealthy EB-5 Investors may not personally seek these public benefits when making settlement decisions, these benefits can attract immigrant populations in general, which in turn can help create a business climate that attracts EB-5 Investment.

The findings in this dissertation also suggest that there is another explanatory variable of state-level EB-5 Investment that has yet to be identified, as some states that attracted relatively minor amounts of immigrants were able to successfully attract EB-5 Investment during the federal fiscal years of 2010 and 2011. This dissertation hypothesizes that this variable, termed “certainty”, and defined by the number of projected jobs created by the EB-5 Immigrant Investor program per year, by state, is a determinant of EB-5 Investment. Current data limitations prevent the testing of this hypothesis, as information collected from I-526 forms is not released to the public (I-526 forms are the initial petitions submitted by EB-5 Immigrant Investors seeking to obtain permanent citizenship in the United States. These forms contain information on the immigrant investor, information on the location of the investment, information on the type of business receiving the investment, and estimates on the projected number of jobs created as a result of the investment). This dissertation encourages the release of this data in order to further explain the state-level distribution of EB-5 Investment.

After an extensive review of entrepreneurship, immigration, and foreign direct investment literature, it has been determined that there has been no evaluation of EB-5
Investment using similar research methods. This dissertation opens a new line of inquiry for researchers investigating the EB-5 Immigrant Investor Program. Furthermore, this analysis of state-level determinants of EB-5 Investment adds to the paucity of academic literature that empirically examine the determinants of state-level foreign direct investment (Axarloglou & Pournarakis, 2007; Kornecki & Ekanayake, 2012). Given the dearth of information on both state-level foreign direct investment and EB-5 Investment, this dissertation undoubtedly provides a meaningful addition to the literature regarding economic development and foreign direct investment in the United States.

The rest of the dissertation is as follows: Chapter 2 offers an overview of the EB-5 Immigrant Investor Program and its legislative intent as a federal policy initiative designed to attract foreign investment and create jobs in the United States. Chapter 2 also summarizes the estimated economic impact of the program to date. Chapter 3 describes why the EB-5 Immigrant Investor Program is expected to promote economic growth throughout the United States while also providing an overview of the economic development literature that explains state-level investment decisions. Chapter 3 also offers hypotheses to explain what led to the uneven distribution of EB-5 Investment during the federal fiscal years of 2010 and 2011. Chapter 4 details the data and research methods used to test the hypotheses explaining state-level EB-5 Investment. Chapter 5 presents the findings of this analysis. Chapter 6 explores why immigration was found to be a statistically significant determinant of EB-5 Investment, and provides an overview of state immigration policy. Chapter 7 offers policy alternatives for states and the federal government to consider in order to increase participation in the EB-5 Immigrant Investor Program. Chapter 8 concludes.
with a summary of this investigation of state-level determinants of EB-5 Investment, while also highlighting this dissertation’s contributions to the study of state-level economic development and foreign direct investment.
Chapter 2

OVERVIEW OF THE EB-5 IMMIGRANT INVESTOR PROGRAM

During the federal fiscal years of 2010 and 2011, the majority of EB-5 Immigrant Investors financed projects in only 24 states (Kay et al., 2013a), indicating a missed opportunity for economic developers across the United States seeking to attract foreign direct investment and boost employment in their communities.

Before exploring the determinants of EB-5 Investment, and why EB-5 Investors financed Regional Center projects in only 24 states, an understanding of the history of the program, along with its legislative intent as directed by United States Congress, is necessary. For nearly 100 years the United States has offered citizenship to immigrants who have potential to boost the United States economy. Current legislation related to economic citizenship, including the EB-5 Immigrant Investor Program, finds its basis in the Immigration and Nationalization Act of 1952, also known as the McCarren-Walter Act. Introduced by Senator Pat McCarren from Nevada and Congressman Francis Walter from Pennsylvania, the Immigration and Nationality Act of 1952 was the first codification of employment-based immigration into United States law (Siskin & Haddal, 2010).

As noted in the Immigration Act of 1952, immigrants, along with their spouses and children, could obtain visas if the U.S. Attorney General determined the immigrant’s education level, skill set or ability could provide a positive benefit to the United States economy. While President Harry S. Truman vetoed this bill due to the exclusionary and prejudiced practices associated with the National Quota System,
which was a discriminatory immigration practice enacted with the passage of the Immigration Act of 1924 that hindered the ability of southern and eastern Europeans to migrate to the United States (Truman, 1952), Congress overrode President Truman’s veto and passed the Immigration and Nationality Act of 1952 on June 27th, 1952. The next major milestone of immigration policy in the United States occurred in 1965 when Congress removed the National Quota System (Johnson, 1965). Other than the removal of the National Quota System there were no other major changes to economic citizenship policy in the United States between 1952 and 1990.

In the early 1980s Congressional representatives debated economic citizenship, its ability to promote economic growth, and whether it was a good policy initiative to support. There were many iterations of a bill that would issue visas to immigrants who invested between $350,000 and $1,000,000 in the United States, yet none of these draft bills became law. During these debates Congressional representatives estimated an economic citizenship program could add 100,000 jobs and $8 billion to the U.S. economy (MacDonald, 1999).

On November 29, 1990, Congress passed Public Law 101-649 (S.358) that amended many aspects of the Immigration and Nationality Act of 1952. The EB-5 Immigrant Investor Program traces its roots back to Public Law 101-649, also known as the Immigration and Naturalization Act of 1990. The Immigration and Naturalization Act of 1990 made an annual total of 675,000 visas available to foreigners seeking citizenship in United States. Of these 675,000 visas, 480,000 are reserved for immediate family members of United States citizens. Diversity visas, which encourage immigrants from underrepresented countries to settle in the United States, total 55,000 of the 675,000 visas made available via the Immigration and
Naturalization Act of 1990. Lastly, 140,000 are employment-based visas, which make applicants’ citizenship applications contingent on an employment requirement.

In order to understand the legislative intent of the EB-5 Immigrant Investor Program, it is integral to place this program in its historical context. The United States was in the midst of a recession during the early 1990s when the Immigration and Naturalization Act was passed. The recession led to an increase in outsourcing and a significant loss of jobs in the manufacturing sector. These economic losses encouraged policymakers to look towards economic citizenship to spur job creation, promote foreign investment, and attract entrepreneurs who could stimulate the economy (Parnell & Bartlett, 2010). Prior to the Immigration and Naturalization Act of 1990 the only avenue foreigners had to participate in economic citizenship was through excess visas available from other immigration programs. According to MacDonald (1999), there were no excess visas between 1952 and 1990. Section 1153 of the United States Code offers further insight on the legislative intent of the program, as a requirement of each individual investment is to create jobs and improve the U.S. economy. After the passage of the Immigration Act of 1990, President Bush made a signing statement lauding Public Law 101-649 for, among other things, working towards increasing immigration of skilled individuals to boost the U.S. economy and “the initiation of new businesses in rural areas and the investment of foreign capital in our economy” (para. 2). Furthermore, as opposed to familiar rhetoric of foreigners taking jobs away from American citizens, when implementing the EB-5 Immigrant Investor Program Congress viewed immigrants as a potential engine to spur economic development and provide jobs for U.S. citizens. The
rationale of Congressional leaders was that foreign direct investment would, among other things, boost exports and shield U.S. workers from the forces of globalization.

There are five categories of employment-based visas. The first category of employment-based visas reserves 40,000 visas for highly talented individuals, such as famous athletes, artists, or businesspersons. The second category of employment-based visas reserves 40,000 visas for people with advanced degrees, and people with special talents or skills. The third category of employment-based visas reserves 40,000 visas for skilled workers and/or persons with a college degree. The fourth category of employment-based visas reserves 10,000 visas for immigrants with ties to the United States, such as those who have worked as interpreters or contractors. Lastly, the fifth category of employment-based visas reserves 10,000 visas for participants in the EB-5 Immigrant Investor Program. With a $1 million job-creating investment in the United States, immigrants can obtain temporary citizenship in the United States for themselves as well as for their spouses and children under the age of 21. EB-5 Immigrant Investors are not required to reside in the state of their investment. These recipients of temporary citizenship are then eligible to apply for a permanent citizenship in approximately 30 months if they can prove ten jobs were created as a result of their investment. These jobs can be for United States citizens, or anyone else legally allowed to work in the United States, as long as the jobs are not for the investor or the investor’s direct family members. A minimum of 3,000 of these visas are reserved for immigrants who invest in job-creating projects in targeted employment areas. Immigrants who invest in targeted employment areas are allowed to invest $500,000 instead of $1 million in order to gain citizenship. After five years the investor is entitled to withdraw their money from the project.
2.1 Targeted Employment Areas

According to the EB-5 Adjudication Policy Memorandum (USCIS, 2013), urban targeted employment areas are defined as counties or metropolitan statistical areas with an unemployment rate 150% the national average. State governments have the sole authority to designate geographic boundaries other than counties or metropolitan statistical areas, such as census tracts, as targeted unemployment areas. Rural targeted employment areas are defined in the EB-5 Adjudications Policy Memorandum (USCIS, 2013) as being “both outside of a metropolitan statistical area and outside of a city or town having a population of 20,000 or more” (p.7). Investors must provide evidence that their investment is located within a targeted employment area in order to be eligible for the reduced investment amount. Targeted employment areas are often determined using data from state economic development agencies or data from the Bureau of Labor Statistics. Some states, such as California, help facilitate EB-5 Investment by making comprehensive listings of all eligible targeted employment areas available to the public (Targeted Employment Area, 2014).

Targeted employment areas are important to the implementation of the EB-5 Immigrant Investor Program because if an investor finances a project in an area with an unemployment rate that is 150% of the national unemployment rate, or in a rural area, they are allowed to invest $500,000 instead of $1 million in order to satisfy the minimum investment requirement needed to obtain permanent citizenship. Any location within a targeted employment area is eligible to attract investments at the $500,000 amount instead of the $1 million amount. According to the USCIS EB-5 Adjudications Policy Memorandum (2013), this provision was specifically designed to
spur investment in economically depressed, underserved areas across the United States. When researching EB-5 Investment opportunities, potential investors are allowed to determine whether their investment qualifies as an investment in a targeted employment area by submitting reputable county-level unemployment data or metropolitan statistical area unemployment data to USCIS. Investors are also allowed to provide evidence of targeted employment area eligibility by submitting a letter issued by a state-level government agency indicating that the project is located in a targeted employment area. These agencies, such as a state economic development office, must be authorized by a senior official of the state to certify targeted employment areas with USCIS. These state agencies then have the sole authority to designate urban areas other than counties and metropolitan statistical areas as targeted employment areas, as long as these areas conform to the USCIS policy of having an unemployment rate 150% the national average. Though state certified targeted employment areas can vary in geographic scope, they still must determine the unemployment rate using reputable sources, such as the U.S. Census Bureau or the Bureau of Labor Statistics. USCIS defers to the judgment of individual states regarding the boundaries of their targeted employment areas, as long as the unemployment rate within the boundaries of the state-defined targeted employment area is 150% of the national average. Given this, states can play an active role in attracting EB-5 Investment by designating political boundaries other than counties and metropolitan statistical areas as targeted employment areas, thereby making economic development projects located in these state-designated targeted employment areas eligible to receive EB-5 Investment at the $500,000 amount, which is preferred by the majority of EB-5 Immigrant Investors. States are not limited in their designation of
geographic or political boundaries of targeted employment areas, and have the ability to combine boundaries of geographic or political units, such as census tracts, as long as the combined area has an unemployment rate 150% national average (Cohen, 2012).

Policy initiatives guided by this research on the state-level determinants of EB-5 Investment are important for states to consider because every single state has clusters of high unemployment that qualify as targeted employment areas. The prevalence of targeted employment areas across the United States was confirmed using a variety of sources, including Bureau of Labor Statistics and the Impact DataSource TEA Map (2014). Impact DataSource is a consulting firm that helps Regional Centers acquire the necessary data for targeted employment area certification. The Impact DataSource TEA Map graphically displays 2013 Bureau of Labor Statistics unemployment rates over metropolitan statistical areas, counties, cities, and census tracts. The Impact DataSource TEA Map confirmed that every single state has at least one location that qualifies as a targeted employment area and is eligible for EB-5 Investment at the lowered $500,000 amount (Impact DataSource, 2014).

2.2 Regional Centers

In 1992 a revision was made to the Immigration and Naturalization Act that paved the way for the creation of Regional Centers. On October 6, 1992, Congress passed the Departments of Labor, Health and Human Services, and Education and Related Agencies Appropriations Act of 1993, which made appropriations for the fiscal year ending in 1993. The enacted bill was 102.H.R. 5677, also known as public law 102-394. Section 610 of this Appropriations Act amended Title 8 of U.S. Code
1153 (which referenced the EB-5 Immigrant Investor Program) by creating the Pilot Immigration Program. This pilot program created Regional Centers, which are public or private entities whose mission is to promote economic growth and job creation in the United States. In order to ensure ample jobs are created for their investors Regional Centers often partner with state, regional and local economic developers (Singer & Galdes, 2014).

These Regional Centers, specifically created to facilitate EB-5 Investment, are grounded in the principles of export-base theory. As organizations dedicated to regional economic growth, their ability to attract foreign direct investment can lead to decreases in input costs of production and increases in per capita output. Both of these lead to an increase in regional exports, facilitate the movement from primary to secondary economic activity (such as agricultural based economic activity to construction based economic activity), or the movement from secondary to tertiary economic activity (such as construction based economic activity to service sector jobs). The advances through economic stages theoretically lead to increased exports and economic growth throughout the region (Thomas, 1964).

Investors participating in Regional Center projects are allowed by USCIS to use econometric forecasting models to estimate the number of jobs created as a result of their investment. Econometric analyses combine principles from statistics with economic theory and are often used to predict economic activity. EB-5 Immigrant Investors using econometric forecasts are also permitted to include both direct and indirect employment in their job estimates in order to satisfy the job creation requirement. Indirect employment consists of occupations such as construction jobs that, though integral to the project, are not directly related to the final economic
development initiative. Alternatively, direct employment consists of people whose jobs are created specifically as a result of the EB-5 Investment, such as factory workers directly employed by the recipient of EB-5 Investment. The use of these forecasts decreased the administrative oversight of job creation required by the investor, and provided an avenue for more certainty in achieving the job creation requirement necessary for permanent citizenship.

The majority of Regional Centers operate in targeted employment areas (Cohen, 2012; Kay et al., 2013a). Investing in targeted employment areas allows investors to obtain permanent citizenship via the EB-5 Immigrant Investor Program with a reduced investment amount of $500,000 instead of $1 million. Greater ease in fulfilling the ten jobs per investment requirement offers a potential explanation of why 90% of participants in the EB-5 Immigrant Investor Program invested through Regional Centers during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a).

According to the IIUSA Economic Impact Report Addendum (2013b), during federal fiscal years of 2010 and 2011 the vast majority of Regional Centers were in California, followed by Florida, Texas, Washington State and New York (Kay et al., 2013b). Eleven states had zero Regional Centers during the time of the IIUSA study: Alaska, Arkansas, Connecticut, Delaware, Minnesota, Missouri, Nebraska, New Mexico, Rhode Island, West Virginia, and Wyoming. While it can be surmised that investors did not finance projects in states without Regional Centers because there were no Regional Centers to help facilitate investment, the lack of Regional Centers in these states could also indicate a lack of confidence on behalf of Regional Center operators and/or investors that the economic conditions in those particular states would lead to the successful receipt of a permanent green card and/or a return of the
capital invested in the project. In addition to the eleven states that did not attract EB-5 Investment due to an absence of Regional Centers, the following fifteen states had Regional Centers during the time of the study yet they still did not attract EB-5 Investment: Arizona, Colorado, Indiana, Kentucky, Maine, Massachusetts, Montana, Nevada, New Hampshire, North Carolina, North Dakota, Oklahoma, Oregon, Tennessee, and Utah (Kay et al., 2013b).

As seen through an examination of its legislative history, the original purpose of the EB-5 Immigrant Investor program, as designated by Congress, was to increase American competitiveness in the global economy by spurring job creation and economic growth through the attraction of EB-5 Immigrant Investors (Fertik, 1994). A goal of the program was that EB-5 Immigrant Investors would move to the United States and improve the communities in which they migrated to and manage companies they invested in. Simultaneously, foreign capital could be used to create U.S. jobs and stimulate economic growth. This legislative intent is confirmed by the USCIS EB-5 Adjudications Policy Memo (2013), which stated that the EB-5 Immigrant Investor Program was created to attract foreign direct investment to the country while also creating jobs in the United States, and in particular, areas suffering from high unemployment. By encouraging immigrant entrepreneurs to invest in the United States, migrate to the United States, and manage companies in the United States, Congress intended for the EB-5 Immigrant Investor Program to provide opportunities for economic growth in both urban and rural communities across the United States. The implementation of the Regional Center program further indicates Congressional intent to promote growth specifically in economically depressed communities nationwide, regardless of state, as there are targeted employment areas in every single
state. The fact that less than half of the United States had projects financed by EB-5 Immigrant Investors, in addition to the fact that only approximately 20% of EB-5 visas were disbursed during the federal fiscal years of 2010 and 2011, indicate a missed opportunity for job creation and economic growth and warrants research on the state-level determinants of EB-5 Investment.

2.3 Economic Impact Estimates

Though there was missed economic development opportunity for the EB-5 Immigrant Investor Program during the federal fiscal years of 2010 and 2011, it did facilitate economic development during this time period, albeit in only 24 states. The absence of consistent, reliable, disaggregated data on annual job creation totals and investment amounts has led to varying estimates on the program’s impact on the United States economy. Two studies have provided the most comprehensive analysis of the EB-5 Immigrant Investment Program to date: the USCIS commissioned ICF study and the IIUSA commissioned Economic Impact Report.

2.3.1 ICF Study

In 2009 the United States Center for Immigration Services (USCIS) commissioned a study on the economic impact of the EB-5 Immigrant Investor Program. USCIS administers the EB-5 Immigrant Investor Program on behalf of the United States Department of Homeland Security. ICF International, a consulting firm that has extensive history working with government and private sector entities, was selected to conduct the analysis. Using a dataset of approximately 300 I-829 forms submitted by EB-5 Immigrant Investors seeking citizenship between 1992 and 2007, ICF International estimated the economic impact of the EB-5 Immigrant Investor
Program on the United States economy. I-829 forms are documents submitted to USCIS in order to remove an immigrant’s conditional status in the United States and obtain permanent residency. These forms contain the U.S. address of the investor, type of business created, date of initial investment, date the business was established, number of jobs created as a result of the investment, and net income generated by the business after the date of the immigrant’s initial investment.

ICF International found that a majority of the EB-5 Immigrant Investors in their sample migrated from Asia, followed by investors who migrated from Europe. Upon arriving to the United States, the vast majority of EB-5 Immigrant Investors moved to California, followed by those who chose to live in New York. While participants in the EB-5 Immigrant Investor Program have the option to fund a variety of existing ventures in order to obtain permanent citizenship, results of the ICF study indicated that 94% chose to invest in a new business enterprise instead of investing capital in a preexisting business. Furthermore, just over a third of EB-5 Immigrant Investors in the ICF International study chose to finance real estate projects (ICF, 2010). ICF International also found that 56% of investors owned less than 10% of the businesses they invested in. Of the investors financing real estate projects, 84% owned 10% or less. Lastly, 73% of the EB-5 Immigrant Investors in the ICF sample invested in Regional Center projects (ICF, 2010).

Using direct and indirect economic activity as the result of EB-5 Investment, ICF International estimated that the EB-5 Immigrant Investor Program created 12,000 jobs and had a $700 million impact on U.S. GDP between the federal fiscal years of 2001 and 2006. Just over 1,600 total permanent EB-5 visas were issued during this time period. In addition, ICF International estimated a $1.2 million addition to United
States GDP per EB-5 Immigrant Investor (ICF, 2010). In summation, findings from ICF International suggest that the majority of EB-5 Immigrant Investors come from Asia, choose to invest in job-creating new Regional Center real estate projects, and tend to settle in either California or New York State.

2.3.2 IIUSA Economic Impact Report

In 2013 IIUSA released the results of their economic impact report on the EB-5 Immigrant Investor Program. IIUSA is the leading trade organization for EB-5 Immigrant Investor Program stakeholders. The purpose of the IIUSA study was to expand the scope of ICF International’s analysis by using more comprehensive and current data. Unlike the ICF study, IIUSA was able to access its database of affiliated Regional Centers for more descriptive information on investment and job creation. According to IIUSA, during the federal fiscal years of 2010 and 2011, approximately 90% of EB-5 Immigrant Investors made investments through Regional Centers (Kay et al., 2013a). Furthermore, since the inception of the program, it is estimated that over 95% of all EB-5 Investment has flowed through IIUSA affiliated Regional Centers (IIUSA, 2013). The IIUSA dataset includes both federal fiscal years of 2010 and 2011, with 1,322 EB-5 visas issued in 2010 and 2,695 EB-5 visas issued in 2011. Their access to data allows for credible and effective research on the economic impact of the EB-5 Immigrant Investor Program.

The IIUSA report examined data from I-526 forms provided by affiliated Regional Centers. I-526 forms are the initial applications an immigrant submits as they make their first investment. These forms include the business plan of the affiliated Regional Center, which highlights the Regional Center’s strategy for achieving the desired job counts. I-526 forms also include evidence of the
immigrant’s initial capital investment in the Regional Center project. An IMPLAN model containing information on investments by industry and their influence on gross domestic product was then used to estimate the entire economic impact of the EB-5 Immigrant Investor Program. IMPLAN models estimate economic impact and economic multipliers using industry and investment data, and can be used to produce economic projections for local and regional economies. Though requested, the underlying data IIUSA used in the IMPLAN model was not made available to this author.

The IIUSA Economic Impact Report estimated a $2.65 billion contribution to the United States economy and over 33,000 jobs created during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). This estimation included indirect and induced effects of EB-5 Investment. Indirect effects of EB-5 Investment include industries that are related to the investment. For example, if the EB-5 Investment is used to build a hotel, the indirect effects would include the impact on furniture manufactures who supply the hotel furnishings. Induced effects of EB-5 Investment include industries that are not directly related to the investment, but would be influenced by the investment nonetheless. Induced effects of the aforementioned hotel example include the impact the hotel and hotel guests have on local restaurants.

The IIUSA report also estimated the EB-5 Immigrant Investor Program contributed approximately $350 million in federal tax revenue (these tax estimates included both indirect and induced effects of EB-5 Investment). In addition to the federal and state tax revenue raised as a result of EB-5 Investment, the program contributed an estimated $10 million to the United States economy through application fees (Kay et al., 2013a). According to IIUSA, approximately 60% of jobs created as a
result of EB-5 Investment were in the construction sector, while 10% of jobs were created in the food services sector (Kay et al., 2013a). The IIUSA report also examined the EB-5 Immigrant Investor Program’s impact on different business sectors. The report found that over 50% of EB-5 Investment during the federal fiscal years of 2010 and 2011 supported construction, followed by 14% of overall EB-5 Investment supporting wholesale trade (Kay et al., 2013a).

Similar to the ICF International analysis, IIUSA found that a majority of investors chose to invest in Regional Center projects. Most of the investment was in the construction sector, and most jobs created were in the construction sector. These findings complement ICF findings and lead to a conclusion that most EB-5 Investment goes towards new, job creating Regional Center construction projects. When compared to the figures reported by the ICF International study ($700 million, 12,000 jobs, approximately 1,600 permanent visas issued between the federal fiscal years of 2001 and 2006), the significant increase in investment and jobs reported by IIUSA ($2.65 billion, 33,000 jobs, approximately 4,000 conditional visas issued between the federal fiscal years of 2010 and 2011) was attributed to both increased participation in the EB-5 Immigrant Investor Program and different methodologies in estimating the economic impact of EB-5 Investment.

Despite the estimated economic benefits of the EB-5 Immigrant Investor Program, due to the underutilization of the program, many researchers have questioned the effectiveness of the EB-5 Immigrant Investor Program to promote economic growth within the United States. Yet even detractors recognize the program’s inherent potential to promote growth, if only on a marginal level. For example, though North (2012) believes the economic benefits of the program have
been overstated, North estimates approximately $700 million was raised through the program between 2005 and 2011, and approximately $1.5 billion raised over its entire history. It is important to note that these estimates are all derived using different assumptions on actual EB-5 Investment, as USCIS does not release disaggregated data on the EB-5 Immigrant Investor Program, thereby forcing each analysis to utilize different assumptions on the true economic spillovers that result from EB-5 Investment. Still, if even North’s conservative estimates on the economic impact of the EB-5 Immigrant Investors Program are remotely accurate, hundreds of millions of dollars have been invested through this program. Given that the program incentivizes investment in economically depressed communities that already have difficulty attracting jobs and investment, such as targeted employment areas, further empirical investigation of the EB-5 Immigrant Investor Program is warranted in order to understand the determinants of investment and devise policy solutions to attract this job creating form of foreign direct investment to more communities across the United States.

2.4 Underutilization of the EB-5 Immigrant Investor Program

The fact that the majority of construction jobs and economic development initiatives were limited to only 24 states, along with the inability of USCIS to disburse more than 20% of the EB-5 visas during the federal fiscal years of 2010 and 2011, indicates the program is being underutilized and has potential for improvement through both state-level and federal policy initiatives. It is conceivable that state-level initiatives can improve the spatial distribution of EB-5 Investment, especially since there are communities that qualify as targeted employment areas in every state. On the other hand, federal policy initiatives can improve overall participation in the
program. Given the potential economic impact of the EB-5 Immigrant Investor Program, the research question of why some states were able to attract EB-5 Investment while others were not becomes more significant, as policy makers and economic developers in all states desire to attract jobs and grow their local economies.

The United States has a history of recruiting entrepreneurs, business professionals, health care professionals and other foreigner nationals to the country who can help boost the economy. With a minimum investment of $500,000 through the EB-5 Immigrant Investor Program, an immigrant can obtain a green card allowing entrance into the United States and a path to citizenship. Parnell and Bartlett (2010) offer a variety of reasons as to why a prospective EB-5 Immigrant Investor would want to obtain U.S. citizenship. For example, the fact that United States has straightforward laws regarding property rights has been cited as a reason wealthy immigrants would look to migrate to the United States through the EB-5 Immigrant Investor Program. In addition, English language and western culture are familiar to prospective investors, which allows for easier assimilation. The United States’ public education system and favorable business climate for entrepreneurs have also been cited as factors that attract EB-5 Immigrant Investors.

Despite the benefits of becoming a United States citizen, the EB-5 Immigrant Investor Program did not issue all of its available visas during the federal fiscal years of 2010 and 2011, indicating that this job-creating source of capital is being underutilized. This sentiment is shared by the USCIS Ombudsman (2009). In March 2009 the USCIS Ombudsman reviewed the EB-5 Immigrant Investor Program and provided recommendations on how the program could be improved. The Ombudsman found that the program was not achieving its full potential due to factors such as
international competition and unpredictable processing times for I-526 and I-829 forms which ultimately discourage investor participation in the program (USCIS Ombudsman, 2009). Researchers have also speculated on why the program has not been able to reach its potential of 10,000 visas per year, yet none have written on the state-level determinants of investment or explored why some states have been more attractive to EB-5 Investment than others. Using total number of visas issued as one metric for the program’s success, the EB-5 Immigrant Investor Program only operated at approximately 20% capacity during the federal fiscal years of 2010 and 2011. If using the total number of states that were the recipient of EB-5 Investment during 2010-2011 as another metric of success, the EB-5 Immigrant Investor Program benefitted less than half of the United States. Given that this program has been underutilized, there is ample room for improvements that can lead to increased job growth and foreign direct investment as a result of the implementation of policies designed to improve participation in the program on the state and federal levels.

2.5 Internal and External Competition

The federal policy problem of underutilization of the EB-5 Immigrant Investor Program has been explored by a number of researchers (primarily legal scholars), yet none have researched the state-level distribution of EB-5 Investment, and what, if any, state-level determinants explain why some states were able to attract EB-5 Investment during the federal fiscal years of 2010 and 2011 and why others were not. Despite a lack of attention on state-level distribution, numerous theories have been suggested to explain the federal policy problem of overall underutilization of the EB-5 Program. For example, multiple researchers, including Macdonald (1999), indicate international competition and the minimum $500,000 price point has had a significant impact on the
program’s ability to reach its potential of 10,000 visas per year. Other countries, such as the United Kingdom, Australia and Canada, have offered similar programs and are competing for the same group of economically mobile immigrants. Australia, for example, has age and language requirements in addition to financial requirements for economic citizenship, yet it is still able to attract job-creating immigrants. There are European Union countries that participate in economic citizenship as well. For example, 300,000 euros invested in property in Cyprus allows an immigrant to gain citizenship, while a 250,000 euro investment in property in Greece allows immigrants to receive citizenship (Mendonca, 2014). With a minimum investment of $500,000, the EB-5 Immigrant Investor program may be over-priced (MacDonald, 1999), especially when its biggest competitor, Canada, has offered a similar visa for $400,000 Canadian dollars and has achieved significantly more success.

Government analysts in the United States have acknowledged Canada’s economic citizenship initiatives, which served as a model for the EB-5 Immigrant Investor Program, as being more successful in the attraction of immigrants and foreign direct investment. In Canada, investors who had at least $800,000 Canadian dollars in net worth could make an investment to Citizenship and Immigration Canada (CIC) of $400,000 Canadian dollars for a visa. These investors could either buy into an individual business or a government sponsored venture capital firm. There was also an entrepreneurial visa for Canadian investors who had a net worth of $300,000 Canadian dollars. In order to participate in this entrepreneur program, immigrants must invest in and manage a job creating business in Canada. Compared to the ten jobs required by the EB-5 Immigrant Investor Program, the Canadian program had significantly less stringent requirements, as it only required the creation of one job for
a non-family member (Siskin & Haddal, 2010). The Canadian programs were designed to attract entrepreneurs, specifically those with proficiency in technology or manufacturing fields, who Jones (2004) suggests may be able to have the largest impact on the economy as citizens. While the programs appear similar, another significant difference between the Canadian investor program and the EB-5 Immigrant Investor Program was the option of investing in a venture capital fund that is overseen by the government. By having the government involved in investment decisions, Canadian bureaucrats believed that they could have more control over the program and eliminate waste, corruption, and increase the efficiency of the program in reaching its stated goals (Jolly, Knapp, & Kusumastanto, 1998).

Between the years of 1985 and 2002 the Canadian program raised $6.6 billion dollars in investment compared to the $1 billion investment from 1992-2004 for the United States. The Congressional Research Service, which is an agency affiliated with the Library of Congress that is responsible for providing policy research and analysis services for Congressional members, found inconclusive evidence in their January 2010 report to Congress on Foreign Investor Visas that the two programs compete for the same population of immigrant investors, so a solely numerical comparison between these two programs cannot be used to infer much about the effectiveness of one program over the other. For example, during the 1996-2008 time period, Canada was able to issue over 80,000 immigrant investor visas, whereas the United States was only able to disburse just under 7,500 EB-5 Immigrant Investor Visas (Siskin & Haddal, 2010). Regardless, international competition between economic citizenship programs likely has an impact on the total number of immigrants seeking EB-5 visas. A decrease in the initial investment amount may lead to an
increase in participation, but will not address the distribution of EB-5 Investment across the United States, nor will it directly encourage investment in states that were not the recipient of EB-5 Investment during the federal fiscal years of 2010 and 2011.

Researchers exploring the federal policy problem of overall underutilization of the EB-5 Immigrant Investor Program have also noted that the program faces competition from alternative employment based visa options in the United States as well as competition from employment based citizenship programs in other countries. According to Parnell and Bartlett (2010), prospective immigrants who can find alternative means to gain lawful citizenship within the United States through programs other than the EB-5 Immigrant Investor Program often pursue those avenues first. The Government Accounting Office (2005) also found that the EB-5 Immigrant Investor Program faced competition from both within and outside the United States. The EB-5 Immigrant Investor Program must compete with the four other employment–based visas, which also did not fully disburse all available visas during the federal fiscal years of 2010 and 2011. The EB-5 Immigrant Investor Program must also compete with family based visas. This internal competition might also explain the program’s inability to issue more than 20% of its allotted visas during the federal fiscal years of 2010 and 2011, but it does not explain why EB-5 Investors financed projects in only 24 of 50 states during the federal fiscal years of 2010 and 2011. Though the EB-5 Immigrant Investor program is not the only option for these professionals looking to migrate to the United States, it may be among the most fast and reliable (Parnell & Bartlett, 2010). The other options for immigrants seeking to migrate to the United States fall into categories of immigrant visas and non-immigrant visas. Non-immigrant visas allow for the travel to the United States for reasons such as business,
education or tourism, and have time limitations, whereas immigrant visas allow a foreigner to legally gain permanent residence in the United States. There are 480,000 family based visas offered annually, which allow relatives, spouses and children to enter the United States. Given the competition for these visas, they are consistently disbursed every year, leaving the EB-5 Immigrant Investor Program as a viable option for those who can afford to invest at least $500,000 in a job creating project in the United States. Similar to the international competition, internal competition from various visa programs likely contributes to the overall underutilization of the EB-5 Immigrant Investor Program, but this competition does not explain why the visas are not more evenly distributed throughout the United States.

2.6 Uncertainty

North (2002) suggests uncertainty around creating the required ten jobs and successfully receiving a permanent visa deters potential immigrant investors. The fact that there is uncertainty that the required ten jobs will be created can encourage EB-5 Immigrant Investors to explore competing economic citizenship programs in other countries, especially given that other countries may have relaxed job creation requirements for economic citizenship, if they have requirements at all (North, 2012). The uncertainty in successfully completing the program seems to also have had an impact on its ability to attract investment. In March 2012, the Federation for American Immigration Reform (FAIR) published a report exploring the inability of the EB-5 Immigrant Investor Program to demonstrate what growth, if any, occurred as a result of the implementation of the program. Their conclusion was that the program was risky for foreign investors, and this risk was a reason why the program was unable to provide the promised economic benefits. The FAIR report cited a study by
Kelleher, Matz, and Lee (2010), that found that just over 50% of investors who started the program were able to acquire their permanent green card (Ruark & Moinuddin, 2012). The same study found that between 1992 and 2000, approximately 14,000 applications were submitted, 8,000 were approved for conditional residency, and 3,000 were approved for permanent residency. A common reason for denying permanent citizenship was a substantial change in the EB-5 project without USCIS approval, prompting USCIS to deny the investor’s application for citizenship (Kelleher, Matz, & Lee, 2010). Similarly, Sichter (2010) also suggests that a major problem with the EB-5 Immigrant Investor Program is that investors have no clear guidelines to help them navigate the bureaucracy and ensure they will be successful in reaching their goal of permanent citizenship if problems arise. Uncertainty has a negative impact on investment behavior and the growth of businesses in the private sector (Driver & Moreton, 1992), with entrepreneurs needing to believe a project is feasible before they decide to undertake it (Shapero & Sokol, 1982). If uncertainty can have a negative influence on entrepreneurship, undoubtedly it can have a negative influence on initiatives that encourage entrepreneurship, such as the EB-5 Immigrant Investor Program. Furthermore, uncertainty can influence both the overall participation in the EB-5 Immigrant Investor Program and what states EB-5 Immigrant Investors finance projects in, especially if it is determined that some states offer more job creating opportunities than others.

2.7 Quality of Life and Taxation

Jolly et al. (1998) cite the United States’ position on the international quality of life Human Development Index (second, behind Canada) as another driving reason behind the EB-5 Immigrant Investor Program’s inability to reach the federal goal of
disbursing 10,000 visas annually (the Human Development Index is produced by the United Nations Development Program, and it demonstrates quality of life as measured by life expectancy, average years of schooling for adults over the age of 25, and wealth as measured by Gross National Income per capita based on purchase power parity).

Lastly, both Fertik (1994) and MacDonald (1999) cite tax policy as a deterrent to the disbursement of EB-5 visas. In the United States an investor’s entire income is subject to taxation once they become a U.S. citizen. Competing countries, such as Canada, where only the money made in the host country is subject to taxation, do not equally share this philosophy on tax liability. As such, U.S. citizenship exposes potential wealthy investors to unwanted tax burden and government oversight of finances. Also, participation in the EB-5 Immigrant Investor Program requires the investor to report the source of all capital invested in the project. This requirement exposes investors to tax burden in their home country if they have not fully documented the source and/or amounts of their wealth, further discouraging participation in the EB-5 Immigrant Investor Program by wealthy foreign investors, as the United States has agreements to share tax information with many countries. Unlike quality of life enhancements and efforts to make projects more certain of achieving their goal of job creation that will satisfy the needs of foreign investors, states do not have the power to change unitary taxation. This is strictly in the power of the federal government, not state governments, and is a policy that is unlikely to be modified strictly on account of the EB-5 Immigrant Investor Program, as EB-5 Investment only accounted for between 1 cent and 6 cents for every $100 of inward foreign direct investment in 2011 (North, 2012).
In summation, the $500,000 minimum investment, international competition, requirement to create ten jobs, uncertainty in successfully completing the program and obtaining permanent citizenship, the United States’ place on the international quality of life index, and United States tax policy have all been cited as factors that prevent the EB-5 Immigrant Investor Program from disbursing more visas. While a number of researchers have sought to explain the federal policy problem of the program’s inability to reach its potential of 10,000 visas, none have sought to explain the uneven state-level distribution of EB-5 Investment. Nor have any researchers identified the state-level determinants of EB-5 Investment. This dissertation will use a logistic regression to identify the state-level determinants of EB-5 Investment. The identification of state-level determinants of EB-5 Investment can encourage evidence-based policy formation on the state and federal levels designed to increase participation in the EB-5 Immigrant Investor Program.
Chapter 3

LITERATURE REVIEW

The EB-5 Immigrant Investor Program is an economic development program designed to spur growth through entrepreneurship, immigration, and foreign direct investment. Entrepreneurship literature, immigration literature, and foreign direct investment literature all indicate that the EB-5 Immigrant Investor Program is capable of delivering on its promise to create jobs and attract investment across the United States, and justify the devotion of time, attention and resources to ensuring the program reaches its full potential as an economic development initiative. State-level foreign direct investment and economic development literature also offers insight on the scholarly problem of why wealthy investors favor investing in certain states over others, and establishes hypotheses that explain why some states were able to attract EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011 while others were not. Specifically, a state’s market size, percentage of unionized workforce, average wage, tax climate, innovation climate, unemployment rate, annual share of immigrants who decide to settle in the state, and percentage of rural area were identified as potential variables to explain what led only 24 states to attract EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011.

3.1 Entrepreneurship and Economic Growth

A key way the EB-5 Immigrant Investor Program promotes growth across the United States is through the attraction of immigrant entrepreneurs. When Congress
created the EB-5 Immigrant Investor Program it was expected that immigrant entrepreneurs would promote economic growth by starting companies that could create jobs for U.S. workers. Furthermore, its design encourages investors to focus their entrepreneurial activity in communities that suffer from high unemployment and often a lack of human resources and capital, which is precisely where entrepreneurial theory suggests this activity should occur if communities truly want to experience economic growth. An understanding of entrepreneurs and their role in spurring economic growth offers significant insight on the EB-5 Immigrant Investor Program and its stated goal of promoting growth through the attraction of immigrant entrepreneurs.

According to entrepreneurial theory, immigrant entrepreneurs can be a catalyst for spurring job growth and attracting foreign direct investment to the United States. An entrepreneur is a businessperson who uses existing resources to create an entirely new product. Entrepreneurs are risk taking economic actors in society who create value by acquiring goods freely or cheaply and selling them for more than what it cost to acquire said goods. When successful, their risk taking creates profit for themselves and economic opportunity for the people around them. According to Livesay (1982), simply providing capital, managing an organization, or creating a new product does not make someone an entrepreneur. The entrepreneur is not the inventor, nor is the entrepreneur the bureaucrat, but rather the one who understands how to actually accomplish the goal of bringing value to undervalued assets in an economy (Schumpeter, 1983).

Economic stagnation that develops as a result of market imbalances creates the environment that allows entrepreneurs to profit from their risk taking ventures. This
stagnation occurs when well established economic actors strategize to maintain their existing streams of revenue. Their desire to maintain the status quo leads to the adoption of exclusionary, monopolistic, anti-competitive behavior. This behavior raises the price of goods and services without raising their value. The entrepreneur, keenly aware of the imbalance between the price of the product and the resources required to create it, determines which undervalued material can be used to create new products that increase value for the consumer and themselves. It is also through this process that entrepreneurs eliminate waste and inefficiency in capitalist economic systems while also stimulating economic growth (Kent, 1982).

Livesay (1982) built upon Schumpeter’s theories on the entrepreneur and encouraged researchers to not look at entrepreneurs as static mathematical units, but as people who have emotions, wants, needs and desires. Brockhaus (1982) also examined the human aspect of entrepreneurship, and in particular, the psychology of the entrepreneur. Brockhaus found that entrepreneurs have a need for achievement and accomplishment, and thrive in situations where they can effectively solve problems presented before them. When combined with Livesay’s writings on the human aspect of these economic actors, a better framework to understand entrepreneurs more closely resembles artists practicing an art form, with the entrepreneur’s art form being creating value out of existing circumstances.

Economic development plans are often grounded in the fact that entrepreneurs have the ability to create value using undervalued resources and bring job-creating capital to communities across the United States. According to Schumpeter (2003), capitalism is driven by the introduction of new goods, the creation of new methods of production, the opening of new markets, the invention of new technology, and the
utilization of new methods of industrial organization. These drivers of capitalism lead to innovation, the displacement of existing forms of production, and the creation of new economic opportunities. This process of improvement and dynamic disequilibrium of the existing economic order, defined as “creative destruction” by Schumpeter, is a driver of economic growth and is led by entrepreneurs.

Entrepreneurship can also play a role in national productivity. Carree and Thurik (2003) examined the impact entrepreneurship has on countries and found that entrepreneurial activity, which creates internal competition and innovation, has a positive relationship on economic growth. According to Carree and Thurik, during the 1970s and 1980s, economic activity and economic growth shifted from larger businesses to smaller, more entrepreneurial businesses. This shift was the result of specialization in the industrial process and advances in technology. Technological advancement encouraged decentralization, which led to the creation of small businesses that could specialize in the various aspects of the industrial process. In smaller enterprises, the leaders can devote more time and resources to entrepreneurial activity, and specifically, managing the entire company, while wasting little time and energy managing the bureaucracy. Carree and Thurik associate this shift from larger enterprises to smaller, entrepreneur led businesses with public policy that supports the creation and support of small businesses (Carree & Thurik, 2003). An examination of Storey’s (2003) research on entrepreneurship and small to medium sized businesses offers further insight on policy supporting entrepreneurial activity. These smaller, less established enterprises often cannot find financing for their projects due to an inability of the private sector to accurately determine risk for these new ventures. It is at this stage that government entities can offer incentives and/or financing to help fund
economic growth activities. Audretsch and Acs (2011) also saw small businesses as instrumental to economic growth because of their ability to be flexible during economic fluctuations. For example, small businesses play an important role during recessions because during economic downturns larger firms lay off employees and close operations, leaving many workers unemployed and available for work. Smaller firms can tap into this surplus in the labor force in order to promote productivity and economic growth (Audretsch & Acs, 2011).

According to Schumpeter, it is important to evaluate economic growth by its impact on common, ordinary people, as opposed to those that are well off. To Schumpeter, improving the lives of wealthy individuals who can already obtain goods and services is positive for society, but it does not necessarily lead to economic growth. Even without the benefits that accrue from entrepreneurship and creative destruction, such as lower prices for goods and services, wealthy individuals will still have access to these goods and services offered by well off economic actors who use exclusionary practices to maintain their existing revenue streams. Instead, it is the improvement of the lives of those who are less well off that determines true growth in a society (Schumpeter, 2003). According to this aspect of entrepreneurship theory, if the entrepreneur is responsible for economic growth, their impact is mostly represented by the improvements in the lives of those occupying the lower levels of the economic spectrum. As a policy initiative designed to promote economic growth across the United States, the EB-5 Immigrant Investment Program aligns with this theory of entrepreneurship promoting growth in the lower levels of economic spectrum, given that the majority of EB-5 Investment occurs in areas with high levels of unemployment.
Kent (1982) also wrote on the influence of entrepreneurs on economic growth. Through Kent’s writings it becomes clear that a policy of attracting entrepreneurs to areas with poor infrastructure and high unemployment can be particularly beneficial to impoverished communities because these areas lack human capital and/or other resources that can spur economic growth and job creation. In these communities, those with the skills to attract capital or facilitate growth are often the ones who have enough drive, motivation, will power and education to leave and find better opportunities elsewhere (Kent, 1982), so policies must be devised to stem the flow of human capital away from these communities while simultaneously attracting human capital to locate there. The EB-5 Immigrant Investor Program is one such policy that can help attract human capital to some of America’s most underserved communities. There is reason to believe that this is a goal of the EB-5 Immigrant Investor Program, as its initial design was for immigrant investors to actively manage their investments, and the vast majority of investments occur in areas with high levels of unemployment.

By offering citizenship in exchange for investment, this program seeks to attract immigrants who can both finance and manage entrepreneurial activity across the United States. Entrepreneurs promote economic growth by taking risks and creating value out of undervalued assets. Entrepreneurs also promote growth by starting small businesses, as small businesses can spur economic growth. Furthermore, entrepreneurship can especially lead to growth in economically depressed communities, which is also the primary goal of EB-5 Investment, as the vast majority of EB-5 Immigrant Investors finance projects in targeted employment areas. Given the economic benefits of entrepreneurship, state policy makers should support
policies that create an environment that encourages EB-5 Immigrant Investors to finance projects in their states.

3.2 Immigration and Economic Growth

Another theoretical lens in which to explore EB-5 Immigrant Investor Program’s potential influence on economic growth is through immigration. Historically immigrants have been behind economic growth in western countries such as the United States, Canada, and Australia. According to Gonzalez-Gomez and Giraldez (2011), all Organization for Economic Cooperation and Development (OECD) countries experienced increases in their immigration rates between the years of 1970 and 2008. Just as the EB-5 Immigrant Investor Program can promote economic growth through entrepreneurship, the EB-5 Immigrant Investor Program can also promote growth through immigration, as increases in immigration can lead to increases in consumption, which leads to economic growth. Immigrants also bring a spirit of entrepreneurship and innovation to businesses in the United States, which also lead to economic growth. Lastly, when immigrants move to the United States, they tend to settle in post-industrial cities, which leads to revitalization and economic development initiatives that attract foreign direct investment. An understanding of how immigration spurs economic growth offers insight on the EB-5 Immigrant Investor Program and its stated goal of promoting growth through the attraction of immigrant entrepreneurs.

The EB-5 Immigrant Investor Program was designed to give high net worth immigrants an opportunity to obtain permanent citizenship in the United States, with hopes that this would benefit the United States economy. Gonzalez-Gomez and Giraldez (2011) examined immigration and its impact on the economies of
Switzerland and Germany, noting that an increase in the immigrant population led to growth in consumption. They also found that these immigrants brought new ideas and technology to the production process. Switzerland and Germany are countries that can offer insight on the United States, as they are western nations with advanced economies and have experienced influxes of immigrants. With only 10,000 EB-5 visas available, it is not likely that this program will lead to a significant increase in consumption on a national level when compared to other immigration programs in the United States, as 10,000 of 675,000 total visas represents 1.4% of immigrants who can come to the United States annually.

Hanson (2012) argues that immigration policy can have a positive influence on economic growth by attracting the types of immigrants who can bring innovation to the United States, such as engineers and scientists. As noted in section 3.1 of this dissertation, entrepreneurial activity leads to innovation and economic growth (Carree & Thurik, 2003). The EB-5 Immigrant Investor Program provides an opportunity for all immigrants, including those working in the STEM fields, to obtain permanent citizenship and contribute to economic growth in the United States (the STEM fields include industries in science, technology, engineering, and mathematics). The National Science Foundation’s Survey of Earned Doctorates found that the more foreign students an academic department has, the more publications that department produces. The same study found that foreign born U.S. workers have higher numbers of patents than their American counterparts, and suggest these highly skilled foreign workers pay more in taxes than they receive in public benefits (Hanson, 2012). Highly skilled immigrants are not the only ones who contribute to the economy, with Hanson arguing that low skilled immigrants provide services that allow for higher
skilled Americans to do their jobs without devoting time and attention to activities such as manual labor or childcare, thus freeing them up to perform higher income generating activities (Hanson, 2012).

Borjas (1994) also explored the relationship between immigration and economic growth. Borjas found that other than refugees and illegal immigrants, the people who tend to migrate are the higher skilled, higher income earners in their home countries. Borjas found that immigrants started out with wages lower than native workers, but experienced wage growth faster than native workers. This was explained by the fact that immigrants gain skills as they remain in the United States, such as English proficiency, leading to greater productivity. Wage growth was also explained by the fact that immigrants self-select, and only the most motivated individuals actually migrate to a new country. Those who are motivated to leave their homeland are likely more motivated to work long hours and obtain the skills necessary to thrive in the new country. This is why immigrants contribute more to growth than native-born populations (Borjas, 1994).

Immigrants have also been instrumental in revitalizing post-industrial neighborhoods across the United States. Older, industrial cities, described by Brachman (2012) as “legacy cities”, suffer from high unemployment rates and lack of investment. These legacy cities are often the location of the targeted employment areas, which by definition suffer from underinvestment and high unemployment rates. In 2010 Rick Su published an article which offers more insight as to why economic citizenship, in the form of the EB-5 Immigrant Investor Program, deserves additional attention from social scientists. In Su’s article, immigration is shown to lead to economic development and urban revitalization in American cities because as high
numbers of immigrants locate to urban cores, they shape local neighborhoods through their entrepreneurial activity. Su also found that immigrants choose where they migrate to based on factors such as the number of immigrants of the same ethnicity already located in the area, and/or access to social services.

Lin (2012) also wrote on the immigrant’s role in shaping the urban, post-industrial environment. In “Globalization and the Revalorizing of Ethnic Places In Immigration Gateway Cities,” Lin described gateway cities as municipalities that have been able to attract labor and capital despite deindustrialization. This is important to the exploration of state-level determinants of EB-5 Investment, as gateway cities are the places that attract jobs and investment to a state. The ability to attract labor and capital only bolsters the attractiveness of a location to EB-5 Immigrant Investors, as these areas are stronger economic markets that have a higher probability of both successfully achieving the jobs required for a visa and providing a positive return on the EB-5 Investment. Gateway cities have been able to succeed in attracting immigrants by offering amenities and economic opportunity. In turn, these immigrants revitalize their new communities by bringing commercial activity through industries such as industrial warehousing and retail sales (Lin, 2012). They also spur growth through maintaining economic relationships with their friends and family in the home country, boosting local economies in both countries. In response to this increase in economic activity, trade centers, ports, and airports are often supported and built by local elected officials to encourage further economic growth (Lin, 2012). New York City, Houston, Miami, Los Angeles, Boston, Dallas, and San Francisco were all highlighted by Lin as being gateway cities. Unsurprisingly, EB-5 Regional Centers have been established in all of these cities.
Theories on immigration and economic development suggest that by encouraging immigrants to settle in the United States, the EB-5 Immigrant Investor program can stimulate economic growth. Immigrants bring new ideas and innovations to the United States. Immigrants also tend to spur revitalization in post-industrial cities, where their entrepreneurial spirit can lead to business development and increases in foreign investment as a result of binational trade. The demonstrated potential of immigrant populations to spur economic growth further suggest that the EB-5 Immigrant Investment Program is a sound economic development initiative capable of promoting economic growth within the United States.

3.3 Foreign Direct Investment and Economic Growth

The final theoretical lens to view the EB-5 Immigrant Investor Program is through foreign direct investment. According to multiple researchers, including McCulloch (1993), infusions of capital via foreign direct investment can lead to economic growth and job growth. Foreign direct investment can lead to economic growth by supplementing savings in individual communities, which can then lead to economic development and employment. Foreign direct investment can also spur economic growth through the creation and financing of new projects. Lastly, research has shown causal relationships between foreign direct investment and gross domestic product, wages, and employment. It is primarily because of these reasons, and the fact that EB-5 Investment is a subset of foreign direct investment, that states should be interested in creating the best possible climate to attract EB-5 Investment.

As seen in the writings of Porter (1990), along with promotion of entrepreneurship, the attraction of foreign investment can spur economic growth and national competitiveness. A key motivation for the creation of the EB-5 Immigrant
Investor Program was improving the United States’ economy in the face of international competition and globalization by attracting entrepreneurs and foreign direct investment. Michael Porter’s 1990 article offers insight on what makes a nation competitive, and what policy makers can do to help a country gain or maintain its competitive advantage. In 1990 Porter published the results from his study of ten economically powerful, economically competitive nations. These nations were chosen because they were responsible for approximately 50% of the world’s exports in 1985 (Porter, 1990). According to Porter’s study, a nation’s competitive advantage is manifested by its leadership in profitability, exports, foreign investment and innovation. A nation’s competitiveness can be measured in a variety of ways, such as exchange rates, trade balances, general productivity, and the types of jobs its citizens have. A way for a country to become more productive is by attracting foreign direct investment and participating in international trade.

Forbes (2010) sought to explain why foreigners invest in the United States. Between 2003 and 2007 gross capital inflows into the United States totaled $7.8 trillion; $2.1 trillion came in 2007 alone. Though returns from investments made in the United States tend to be lower than investments made in other countries, foreigners still invest $5 billion daily in the United States (Forbes, 2010). Forbes found that the strength of financial markets in the United States was an incentive to foreign investors, as those from countries with less developed financial markets were more likely to invest in the United States than other foreign investors (Forbes, 2010). Other reasons foreigners chose to invest in the United States included “strong corporate governance, accounting standards, and institutions” (p.16), which, according to Forbes, increase the value of investments made in the United States. Forbes also noted that financial return
might not be the only motivation for foreign investors, as they may be looking for a more “liquid and efficient” (p.1) financial sector to place their money (Forbes, 2010).

As noted by numerous researchers, including Chenery and Strout (1966), McCulloch (1993), Asheghan et al. (2004), Goss et al. (2007), Kornecki and Borodulin (2006), Axarloglou and Pournarakis (2007), and Ajaga and Nunnenkamp (2008), an increase in foreign investment can lead to employment and economic growth in the United States. According to Chenery and Strout (1966), foreign direct investment can bring jobs to impoverished communities by supplementing insufficient amounts of savings, technology, and mismatched skill sets necessary for economic development projects. McCulloch (1993) also discusses employment and how it is impacted by foreign direct investment. When foreign direct investment is used for the creation or financing of new projects, such as those detailed in the EB-5 Immigrant Investor program, it is often used for capital improvements in a region’s infrastructure. Capital improvements in turn can help the area increase exports, as new infrastructure, such as roads, can encourage the opening of new businesses and further promote trade and employment (Bartik, 1985). McCulloch also notes that while foreign direct investment can have a positive influence on economies, research indicates that the magnitude of impact of foreign direct investment is debatable on a national level due to the fact that any increase in jobs in one particular region may be offset by job losses in other regions across the country. In addition, these investments do not fully take into account what local producers would have done in the absence of an infusion of foreign capital (McCulloch, 1993).

Asheghan, Goss and Axarloglou (2004) used an econometric analysis to investigate the relationship between economic growth and foreign direct investment.
In 2004 Asheghian et al. explored the relationship between foreign direct investment and economic growth in the United States. Using a Cobb-Douglas production function and data from the Bureau of Economic Analysis and the Bureau of Labor Statistics, Asheghian et al. utilized time series data between 1960-2000, with 40 years of observations for the growth rate of gross domestic product, total factor productivity, direct investment, and foreign direct investment. They found a causal relationship between foreign direct investment and both gross domestic product and total factor productivity, leading them to conclude that foreign direct investment leads to economic growth in the United States (Asheghian et al., 2004). If foreign direct investment empirically leads to economic growth in the United States, EB-5 Investment should as well, given that EB-5 Investment is a subset of foreign direct investment.

With data from the Bureau of Economic Analysis, Community Population Survey, and the Bureau of Labor Statistics, Goss, Wingender and Torau (2007) also studied the relationship between foreign capital and United States productivity. A purpose of their analysis was to separate growth related to foreign direct investment from growth related to domestic investment. According to Goss et al., foreign direct investment and gross domestic product grew at the same pace in the United States during 1988-1999. Goss et al. found foreign direct investment to be a statistically significant variable in promoting productivity growth between 1994-1999, and also found that foreign direct investment varied according to the United States business cycle, with foreign direct investment having a higher impact on the economy during periods of lower output and lower productivity. This finding is similar to Kornecki and Borodulin’s (2006) conclusion that foreign direct investment stock has more of an
impact on gross domestic product growth than domestic capital, as foreign direct investment can increase capital stock, and increases in capital stock can spur economic growth. Specifically, Kornecki and Borodulin found that foreign direct investment accounted for approximately 30% of economic growth in the United States between 1981 and 2007.

In addition to increases in gross domestic product, foreign direct investment can also have an impact on wages and employment. In 2007 Axarloglou and Pournarakis examined the impact of foreign direct investment flows on employment and wages in the United States. The purpose of their study was to explore whether the benefits of foreign direct investment spilled over into the greater community (Axarloglou & Pournarakis, 2007). They expected to find that foreign direct investment would lead to an increase in labor demand, which would in turn lead to an increase in employment and wages. Using panel data from the Department of Commerce and the Bureau of Labor Statistics, Axarloglou and Pournarakis found that in general foreign direct investment did not have a strong impact on local employment and wages, but had a positive impact on all employment and all wages. California, Michigan and New York were noted to have had increases in local employment due to inward foreign direct investment. The industry composition of the individual states was noted as a reason for the differences in the impact of foreign direct investment. While the Asheghian (2004) study found that foreign direct investment can lead to economic output, this study by Axarloglou and Pournarakis (2007) indicates that foreign direct investment may not lead to jobs and increases in wages across all sectors. For example, in industries such as printing and publishing, petroleum, electrical machinery, transportation equipment and instruments, foreign direct
investment was found to lead to an increase in employment, while in other industries, such as apparel, paper, leather, stone/clay/glass industries foreign direct investment was found to decrease local job opportunities. Furthermore, Axarloglou and Pournarakis found that California, Michigan, and New York were found to have gains in employment as a result of foreign direct investment, whereas the relationship between employment and foreign direct investment was not statistically significant for the other states in their sample. Axarloglou and Pournarakis (2007) also found that foreign direct investment had a positive impact on wages in the specific industries of printing and publishing, transportation equipment and instruments, whereas foreign direct investment in leather industries, stone/clay/glass, and electrical machinery depressed local wages (Axarloglou & Pournarakis, 2007).

Other authors, such as Ajaga and Nunnenkamp (2008), also conducted research on the relationship between state-level foreign direct investment and employment. Using Bureau of Economic Analysis and Bureau of Labor Statistics statewide data from 1997-2001, they found that foreign direct investment had a positive influence on both employment and gross state product. Their analysis explored foreign direct investment as measured by gross property, plant and equipment owned by foreign entities, and by foreign direct investment related employment by foreign entities. Ajaga and Nunnenkamp studied the relationship of these measures of foreign direct investment to both employment in all sectors in the United States and employment in only the manufacturing sector in the United States (Ajaga & Nunnenkamp, 2008). They found that foreign direct investment tends to be attracted to states with larger, more robust economies as determined by gross state product and overall labor availability (Ajaga & Nunnenkamp, 2008).
The EB-5 Immigrant Investor Program seeks to promote economic growth by attracting foreign direct investment to the United States, and in particular, targeted unemployment areas. Research has shown that foreign direct investment foreign direct investment can lead to economic growth as measured by gross state product and overall employment. The fact that foreign direct investment has been found to be a significant determinant of job growth and economic productivity on the state level indicates that the EB-5 Immigrant Investor Program, as a small subset of foreign direct investment, has potential to spur job creation and economic growth on the state-level if states create a climate that attracts EB-5 Investment.

As a policy initiative, the EB-5 Immigrant Investor Program is theoretically capable of promoting economic growth by encouraging entrepreneurship, immigration, and foreign direct investment. Yet only 24 states were the location of EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011. With so many purported benefits, more states should have attracted EB-5 Investment, especially when every single state has locations that qualify as targeted employment areas. In order to determine why some states were able to attract EB-5 Regional Center Investment while others were not, this dissertation seeks to explain what leads EB-5 Investors to favor particular states when making investments. As EB-5 Investment is a small subset of foreign direct investment, state-level foreign direct investment and economic development literature were used to offer potential explanations of why EB-5 Regional Center Investment occurred in only 24 states during the federal fiscal years of 2010 and 2011.
3.4 State-level Determinants of EB-5 Investment

The underlying argument of this dissertation is that there are state-level determinants of EB-5 Investment. Given that EB-5 Investment is a subset of foreign direct investment, foreign direct investment theory serves as the conceptual framework of this dissertation. Foreign direct investment theory can be used to identify the determinants of EB-5 Investment in the United States and help explain why EB-5 Immigrant Investors financed Regional Center projects in only 24 states during the federal fiscal years of 2010 and 2011. A number of studies informed the selection of determinants of state-level EB-5 Investment, including Coughlin, Terza and Arromdee’s (1991) state-level analysis of foreign investment in manufacturing (1991), Woodward’s (1992) state and local analysis of Japanese investment in manufacturing, Luger and Shetty’s (1985) state-level analysis on investment location decisions by foreign firms investing in new plant startups, and Friedman, Gerlowski and Silberman’s (1992) state-level analysis on the location decisions of foreign multinational corporations establishing manufacturing plants. These studies identified market size, taxes, wage, unions, and unemployment rate as statistically significant determinants of foreign direct investment. As statistically significant determinants of foreign direct investment, operational measures representing these determinants were included in this analysis of state-level determinants of EB-5 Investment. Immigration has also been found to be a significant determinant of foreign direct investment (Borjas, 1994; Brachman, 2012; Hanson, 2012). Findings in the IIUSA Economic Impact Report (Kay et al., 2013a), and the ICF International study (2010), indicate a potential relationship between EB-5 Immigrant Investor settlement patterns and EB-5 Investment. Immigrant settlement patterns were included in this analysis of state-level EB-5 Investment in order to explore this relationship.
Variables inspired by economic development literature and EB-5 literature were also included in this analysis of state-level determinants of EB-5 Investment. Along with incentives to finance EB-5 projects in locations with high unemployment, the EB-5 Immigrant Investor Program also incentivizes investment in rural areas. State economic development agencies have supported initiatives to spur economic growth in rural areas with EB-5 Investment, and in particular they have supported initiatives to develop rural farmland. Given the focus on developing rural farmland by states such as Iowa, Michigan, Indiana, and Ohio with EB-5 Investment (Blank, 2010), an operational measure representing rural area was also included in this state-level analysis of EB-5 Investment. Innovation has been shown to be a driver of economic development (Hall, 2007a). The EB-5 Immigrant Investor Program is an innovative economic development policy initiative designed to spur economic growth across the United States. Indices representing state-level adoption of innovative policies (Boehmke & Skinner, 2012) and state-level innovation capacity (Hall, 2007b) were also included in this analysis to investigate the relationship between state-level innovation and EB-5 Investment.

The economic development literature related to state-level foreign direct investment, academic literature on innovation, and EB-5 Immigrant Investor Program literature suggest that the following explain why only 24 states were able to attract EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011: market size, average wage, union participation, tax climate, immigration, policy innovation, economic innovation, unemployment, and rural area. Market size was hypothesized to be positively correlated with state-level EB-5 Investment, with states with larger markets having a higher probability of attracting EB-5 Investment than
states with smaller markets. Average wage was hypothesized to be negatively correlated with state-level EB-5 Investment, with states with higher average wage having a lower probability of attracting EB-5 Investment than states with a lower average wage. The size of a state’s unionized workforce was hypothesized to have a positive correlation with state-level EB-5 Investment, with states having a larger percentage of unionized workers having a higher probability of attracting EB-5 Investment than states with a lower percentage of unionized workers. Taxes were hypothesized to have a negative correlation with state-level EB-5 Investment, with states with high tax climate having a lower probability of attracting EB-5 Investment than states with a lower tax climate. The share of immigrants who chose to settle in a particular state was hypothesized to be positively correlated with state-level EB-5 Investment, with states that were able to attract larger percentages of immigrants having a higher probability of attracting EB-5 Investment than states that attracted lower percentages of immigrants. Innovation was hypothesized to have a positive correlation with state-level EB-5 Investment, with states with high levels of innovation having a higher probability of attracting EB-5 Investment than states with lower levels of innovation. Unemployment was hypothesized to be positively correlated with state-level EB-5 Investment, with states with higher unemployment rates having a higher probability of attracting EB-5 Investment than states with lower unemployment rates. Lastly, rural area was hypothesized to be negatively correlated with state-level EB-5 Investment, with states with more farms having a lower probability of attracting EB-5 Investment.

**Market Size.** In 2001 Chakrabarti conducted a sensitivity analysis on eight determinants of country level foreign direct investment that appeared repeatedly in the
literature regarding foreign direct investment inflows. Given the variety of research methods and independent variables used in foreign direct investment studies, an attempt was made to synthesize what was most prevalent in order to offer guidance to future researchers. The variables of market size, labor cost, trade barriers, growth rate, openness, trade deficit, exchange rate and taxes were examined by Chakrabarti. Of the variables examined, market size, defined as per capita gross domestic product per country, was found to be a consistent determinant of foreign direct investment (Chakrabarti, 2001).

Billington (1999) also found market size to be a statistically significant determinant of foreign direct investment on the national level, using gross domestic product as a proxy for market size. The premise of Billington’s work was to help policymakers understand what attracts foreign direct investment to countries and regions so policy can be crafted to spur foreign direct investment and job creation. Billington found that on a national level, market size, unemployment, imports, tax policy and interest rates were statistically significant determinants of foreign direct investment. In the regional model, unemployment, population density and unit labor costs were found to be statistically significant determinants foreign direct investment.

Similar to Billington (1999), the purpose of the research conducted by Friedman, Gerlowski and Silberman (1992) was to inform policymakers who guide state-level economic development initiatives. Friedman, Gerlowski and Silberman examined the relationship between state-level foreign investment by multinational corporations and operational measures representing access to markets, labor market conditions, and taxes. Using a logit model and data from the International Trade Association on new manufacturing plants between 1977 and 1988, Friedman,
Gerlowski and Silberman found that on the state-level, proximity to markets was a statistically significant determinant, noting that large markets can attract foreign direct investment because larger markets "offer well developed infrastructure, transportation facilities, agglomeration economies, and access to important customer markets" (p.415).

Using Department of Commerce data on new industrial plants in the drug manufacturing industry, industrial machinery industry, and motor vehicle production industry between 1979 and 1983, Luger and Shetty (1985) also explored the relationship between foreign direct investment and state initiatives designed to attract foreign direct investment, agglomeration economies, urbanization economies, and labor market conditions (Luger & Shetty, 1985). Luger and Shetty (1985) identified two key ways states attract foreign direct investment, the first being through directly courting potential investors through international trips and marketing, and the second through providing financial incentives to businesses to encourage investment. They found that agglomeration economies (measured by the total number of man-hours in an industry) were a statistically significant determinant of new industrial plants.

Lastly, in their study on the relationship between state-level foreign direct investment and employment, Ajaga and Nunnekamp (2008) found that foreign direct investment is attracted to states with large economies, with market size defined as gross state product. Given that a number of studies found market size to be a statistically significant determinant of foreign direct investment, it was hypothesized that a state’s market size would be positively correlated with state-level EB-5 Investment. Given that gross domestic product has been well established as a determinant of foreign direct investment (Chakrabarti, 2001), the fact that sub-national
foreign direct investment analyses can be modeled on national analyses (Billington, 1999), and gross state product can be used to estimate market size similar to gross domestic product (BEA, 2014), gross state product was used in this dissertation as the operational measure for market size.

Unionization. When investigating the relationship between state-level characteristics and state-level foreign direct investment, Coughlin, Terza and Arromdee (1991) assumed profit maximization drove investment decisions of foreign manufacturing firms investing in the United States. Using a conditional logit model, Coughlin et al. found that states with high percentages of unionization were positively correlated with foreign direct investment in manufacturing, which was defined as the number of investment transactions made in manufacturing firms from 1981 to 1983 by foreign firms. These transactions included mergers and acquisitions, and investments in new plants. The relationship between unionization was hypothesized to be positive due to the relationship with unionization and productivity in the manufacturing (Coughlin et al., 1991). Though they initially thought unionization would be negatively correlated with foreign direct investment because of union activity that hinders profit maximization due to rules regulations and restrictions (Coughlin et al. 1991), the positive correlation was explained by the hypothesis that unionization was related to productivity in the manufacturing sector.

Similar to Coughlin et al. (1991), Friedman, Gerlowski and Silberman (1992) found that the percentage of a state’s workforce that is unionized was statistically significant and positively correlated with foreign direct investment, and also hypothesized that manufacturing activity might be captured in the variable. Woodward (1992) also explored the relationship between unionization and foreign
direct investment, but Woodward found that unionization was negatively correlated with foreign investment. Woodward hypothesized that Japanese investors avoided states with workforces that had large numbers of unionized workers, and suggested that investment decisions were not primarily influenced by labor costs, but rather to the managerial style of Japanese firms that value a level of flexibility in the production process that might not be attainable with a unionized workforce.

Lastly, though the research did not directly address foreign direct investment, Bartik’s investigation of the relationship between new manufacturing plants and state-level determinants of economic activity can inform this dissertation’s investigation of the state-level determinants of EB-5 Investment as EB-5 Investment primarily goes toward the establishment of new businesses in the United States. Furthermore, the majority of EB-5 Investment is paired with other forms of capital to successfully finance local economic development projects (ICF, 2010), including domestic capital. In 1985 Bartik used a conditional logit model to explore the relationship between the location of new manufacturing plants and unionization, taxes and other state-level determinants of economic activity. According to Bartik, business leaders examine a variety of state-level characteristics before deciding to open a new plant, with profitability weighing heavily in their decisions (Bartik, 1985). Bartik used sources such as Dun and Bradstreet data, Bureau of Land Management data, and Bureau of Labor Statistics data to explore the determining factors of manufacturing plant locations. State size had a positive impact on manufacturing plant locations, while unionization, represented by a state’s percentage of unionized workers, had a negative impact on the location of new manufacturing. The inclusion of unionization in this dissertation’s exploration of state-level EB-5 Investment helps researchers understand
how a states’ climate towards labor unions is correlated with EB-5 Investment. This dissertation hypothesized that the percentage of a state’s workforce that is unionized would be negatively correlated with state-level EB-5 Investment.

Wage. Labor costs, in the form of wages, were found to be negatively correlated with new business development and foreign direct investment by a number of researchers. In addition, labor-intensive industries, such as construction, were hypothesized to be negatively impacted by high wages. Bartik (1985) found that an increase in wages had a negative impact on manufacturing plants opening in an area. Furthermore, according to Coughlin, Terza and Arromdee (1991), wage rate is a factor that can impact the costs of doing businesses and have a negative impact on foreign direct investment. In their study, Coughlin et al. found that wage rates, measured by the state average wage of production workers in the manufacturing sector, to be statistically significant and negatively correlated with foreign direct investment. Friedman, Gerlowski and Silberman (1992) also found average manufacturing wage to be a statistically significant determinant of foreign investment, and negatively correlated with foreign direct investment. It is worthwhile to note that wage was also cited in Chakrabarti’s (2001) synthesis of potential determinants of foreign direct investment, concluding that wages had either a negative impact, or no impact at all, on foreign direct investment. This dissertation adds to the literature exploring the relationship between labor costs and foreign direct investment, using state manufacturing wages as a proxy, as the relationship between manufacturing wage and foreign direct investment has been explored by researchers including Bartik (1985), Coughlin et al. (1991), and Friedman, Gerlowski and Silberman (1992). This dissertation helps determine whether wage is correlated with EB-5 Investment, and
whether policy should be crafted around labor costs to promote state-level EB-5 investment. As EB-5 Investment is a subset of total U.S. foreign direct investment, this dissertation hypothesized that wage would be negatively correlated with EB-5 Investment.

**Taxes.** According to the academic literature reviewed in this dissertation, the impact of taxes on foreign direct investment is inconclusive. In 1993 Hines, Jr. wrote on the role of taxes in the United States, finding that state taxes have a strong influence on foreign direct investment, with high state tax rates deterring foreign investment (Hines, Jr., 1993). Hines, Jr. defined the state tax rate as the top statutory rate on taxable corporate income in the state after federal deductions.

In their study on foreign direct investment in manufacturing, Coughlin et al. (1991) also explored the relationship between taxes, foreign direct investment and business development. According to Coughlin et al., higher taxes can lead to improved public infrastructure, which in turn can lead to business development and increased investment. Alternatively, they noted that higher taxes can also be a deterrent to investment depending on the makeup of the industry. When conducting their analysis, Coughlin et al. used three measures of taxation: state and local taxes as a percentage of state personal income, state and local taxes per capita, and unitary taxation. The results of their analysis indicated that states that subjected foreign firms to unitary taxation received less foreign direct investment. This corroborates findings by Bobonis and Shatz (2007), who also found that unitary taxation was negatively correlated with foreign investment (defined as foreign owned property, plants and equipment).
Friedman, Gerlowski and Silberman (1992) found that state and local taxes were a statistically significant determinant of foreign direct investment, with state and local taxes deterring foreign direct investment. Friedman et al. hypothesized that executives take into account their personal tax burden and the personal tax burden of their employees when making foreign direct investment decisions. In contrast to Coughlin et al. (1991) and Bobonis and Shatz’s (2007) findings, Friedman et al. found that unitary taxes did not deter foreign direct investment, noting that foreign multinational corporations have the ability to implement strategies to minimize the effect of unitary taxes.

Coughlin et al. (1991) acknowledged the difficulty of identifying how state tax burden influences business development, namely difficulty in identifying the incidence of the tax, acknowledging the possibility that the taxes are financing the provision of goods and services by businesses, and acknowledging the possibility of the use of tax incentives. Luger and Shetty (1985) found inconclusive evidence regarding taxation and foreign direct investment, particularly with the influence state income tax has on foreign investment. Woodward (1992) also found inconclusive results on the relationship between taxation and foreign direct investment, with unitary taxes found to be a statistically significant deterrent to new plant investment. Mofidi and Stone (1990) found state taxes to be both positively and negatively correlated with foreign direct investment, with different tax expenditures having different impacts on a state’s investment potential. Mofidi and Stone noted that higher tax rates can both deter and encourage businesses from investing in an area. For example, even if a state has a high tax burden, if tax expenditures are used to invest in public services, an area can actually become more attractive to foreign direct investment. Mofidi and Stone
found that state taxes have a negative impact on net investment and manufacturing employment when the revenue from taxes was used to fund transfer payments, such as social security or welfare, but had a positive impact on net investment and employment when the revenue from taxes went towards expenditures such as highways, health, and education.

As seen in the literature, the relationship between taxes and foreign investment is inconclusive, especially given the variety of operational measures for state taxes. In addition to the variety of operational measures, Mofidi and Stone (1990) suggest that variation in the analyses of the impact of state taxes on business development and foreign direct investment stem from the fact that state taxes are often examined without regard to what the state tax money is used for. Given the inconclusive relationship between state taxes and foreign investment, and the wide variety of operational measures of taxation, this dissertation utilized the Tax Foundation’s Business Tax Climate Index (which includes measures for corporate tax, individual income tax, sales tax, unemployment tax, and property tax) to determine the relationship between state taxes and EB-5 Investment. Furthermore, this dissertation hypothesized a negative correlation between a state’s tax climate and EB-5 Investment.

Innovation. According to Schumpeter’s entrepreneurial theory, innovation, or the process of replacing old ideas, technologies, or production methods with new ones, leads to an increase in productivity and spurs economic growth (Schumpeter, 2003). State level innovation is important to identifying state level determinants of EB-5 Investment because as Hall (2007b) suggests, states that create a climate that encourages innovation also create a climate that encourages economic development in
the new economy. Hall also offers that we are currently in the “new economy” based on globalization, growth of the service sector (and the decline of the manufacturing sector), and technological advances. The objective of the EB-5 Immigrant Investor Program is to spur economic growth in the new economy, as this economic development policy initiative was implemented to offset job loss as a result of globalization (Parnell and Bartlett, 2010). State-level innovation is also important to identifying the state-level determinants of EB-5 Investment because states that adopt innovative policies are hypothesized to create a climate that supports the use of EB-5 Investment in economic development initiatives, as EB-5 Investment is influenced by state policies regarding targeted employment area designation and the management and/or oversight of Regional Centers by state entities.

Given that EB-5 Investment is an innovative, relatively new form of capital, it is a hypothesis of this dissertation that a state’s level of innovation is positively correlated with EB-5 Investment, with states with higher levels of innovation being more attractive to EB-5 Investment. Both Boehmke and Skinner (2012) and Hall (2007b) sought to measure a state’s level of innovation, with Boehmke and Skinner measuring state innovation as state’s level of adoption of new policies, which captures a factor of the state political climate that leads to the adoption of new and innovative policies. In contrast, Hall measured state innovation using actual determinants of innovation, which captures the conditions that encourage economic development to occur. Both indices represent how conducive a state is to attracting EB-5 Investment.

In 2012, Boehmke and Skinner analyzed innovativeness in the United States in order to determine why some states adopt new laws and policies sooner than other states. A premise of their study was that innovative states would lead the country in
the adoption of new laws and policies. Their current innovation index is an update of Walker’s 1969 study on state innovation. Walker’s research examined the rate in which states adopted various laws related to health, taxes, labor, civil rights, welfare, and other issues. Boehmke and Skinner updated Walker’s study in order to reduce bias in policy selection and to reflect current state-level innovation. Published reports from organizations such as the National Conference of State Legislators, the Cato Institute, and special interest groups helped identify new laws and policies relevant to the current political and social climate to include in the updated analysis. Examples of policies added to Boehmke and Skinner’s updated innovation index include laws regarding breast-feeding, eminent domain, seat belts, and driving under the influence of drugs or alcohol. Among other things, Boehmke and Skinner’s innovation index represents a state’s political climate and ability to adopt new ideas and embrace innovation. California, New York, Illinois, and Massachusetts were found by Boehmke and Skinner to be top innovators, while Mississippi, Alabama and Wyoming were found to be in bottom of innovative states. A hypothesis of this dissertation is that states with higher levels of innovation are positively correlated with EB-5 Investment, so Boehmke and Skinner’s policy index was used as an independent variable to represent a state’s capacity to embrace innovation, and in particular policies that create a climate that attracts EB-5 Investment.

In addition to the Boehmke and Skinner (2012) innovation index, Hall’s (2007b) examination of economic innovation was used in this analysis of the state-level determinants of EB-5 Investment. According to Hall, we are in a “new economy” driven by technological advancement and globalization. In this new economy, innovation is a key driver of economic growth. Furthermore, according to
Hall, there is a positive correlation between a state’s capacity for innovation and overall state economic performance. Hall suggests that a state’s capacity for innovation can be measured using determinants of innovation, with a state’s capacity for innovation being a product of both human factors and financial factors. Human determinants of innovation include the number of scientists and engineers in a given population, while financial determinants of innovation include public spending on higher education or research and development expenditures. Hall suggests that states with a higher capacity for innovation are better situated to promote economic growth in the new economy (Hall, 2007a). The purpose of Hall’s innovation index is to better understand where economic development is likely to occur. A purpose of EB-5 Investment is to spur economic development across the United States. A hypothesis of this dissertation is that states with a capacity to attract innovation will attract EB-5 Investment, as they create the type of environment that will lead to the creation of investment opportunities that create jobs and lead to the receipt of permanent U.S. citizenship by EB-5 Investors. It is for this reason the Hall’s innovation index was used as an independent variable to determine a state’s existing capacity to encourage EB-5 Investment. With both innovation indices, it is hypothesized that states with higher levels of innovation are more inclined to have created an environment that attracts EB-5 Investment. Given that, EB-5 Investment was expected to be positively correlated with state-level of innovation.

Unemployment. According to Kornecki and Ekanayake (2012), economic stability in the United States has been a driving factor in the attraction of foreign direct investment over the past 15 years. Through multiple studies, Kornecki and Ekanayake have analyzed the determinants of foreign direct investment in order to better
understand state-level determinants of foreign direct investment. Their work has identified a number of variables that have positive impacts on foreign direct investment, such as per capita income, per capita expenditure on education, research and development expenditures, and capital expenditures. Alternatively, they have found that variables such as state taxes, unit labor cost, manufacturing density, and unionization have negative impacts on foreign direct investment. In their 2012 study, Kornecki and Ekanayake found that the unemployment rate had a statistically significant, negative impact on foreign direct investment inflow. Though the EB-5 Immigrant Investor Program incentivizes investment in targeted employment areas, Kornecki and Ekanayake (2012) suggest high unemployment rates are negatively correlated with foreign direct investment on the state level. In contrast to Kornecki and Ekanayake, studies by Coughlin (1991) and Friedman, Gerlowski and Silberman (1992) found that the state unemployment rate was a significant determinant of foreign direct investment, with high unemployment rates indicating available labor, which was attractive to the foreign multinational corporations. Findings by Coughlin et al. and Friedman et al. led this dissertation to hypothesize that state-level EB-5 Immigrant Investment would be positively correlated with a state’s unemployment rate.

Immigration. Lewer and Van den Berg (2009) examined the role of immigration in stimulating foreign direct investment, and in turn, economic growth. As noted in section 3.2 of this dissertation, immigrants as entrepreneurs can be a driving factor of investment and economic development. According to Lewer and Van den Berg, the presence of immigrants in a host country can stimulate trade, because immigrants create business networks between themselves in the host country and their counterparts in the home country. Also, trade policy may be influenced by
immigration, because the presence of immigrants can lead to changes in trade patterns (Lewer & Van den Berg, 2009). Lewer and Van den Berg examined data from 16 OECD countries using time series data from 1991 to 2000, with immigration, measured by immigration inflows to the 16 OECD countries, as the explanatory variable and foreign direct investment as the dependent variable. Their study hypothesized that immigration leads to international trade through their social networks, and by having similar languages and cultures between the home country and the host country, immigrants would have an influence on foreign direct investment. Lewer and Van den Berg found that immigration can lead to an increase in incomes for immigrants in the host countries. Most important to this dissertation, Lewer and Van den Berg hypothesized an increase foreign direct investment, in relation to immigration, was the result of the ease of business transactions, given that immigrants shared the same language, culture and business practices as their business partners in the home country. Lewer and Van den Berg also found that immigrant entrepreneurs are responsible for increases in international trade, and those immigrants living in areas where they have strong cultural ties are more likely to lead to increases in foreign direct investment (Lewer & Van den Berg, 2009).

Foad (2012) also examined the relationship between immigration and foreign direct investment in the United States. Using state-level data, Foad concluded that foreign direct investment has a positive correlation with immigration, with immigration derived from the “immigrant agglomeration index,” defined as the level of influence immigrant populations have in a particular state, and measured by size of immigration population in relation to the population of the entire state. Foad found that foreign capital follows the migration patterns of immigrants. For example, if
Chinese immigrants were to settle in one area, Chinese capital would likely follow. Foad also found that higher skilled immigrants attracted more foreign direct investment than lower skilled immigrants (Foad, 2012). Lastly, Foad suggested that the benefits accrued from immigration, and subsequent foreign direct investment, might offset the perceived impact of labor competition from immigrants.

The IIUSA Economic Impact Report (Kay et al., 2013a) and the ICF study (2010) offer further insight into the potential relationship between EB-5 Investment and immigration. An examination of both studies indicate a potential relationship between EB-5 Investment and the states where immigrants ultimately choose to settle. Specifically, nine of the top ten states where EB-5 Investors settled in the ICF Study (2010) also attracted EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a), indicating that the state-level settlement decisions of EB-5 Regional Center Investment might be correlated with state-level EB-5 Investment. Given that the IIUSA Economic Impact Report suggests that EB-5 Immigrant Investors follow the same settlement patterns as all immigrants (Kay 2013a), it is hypothesized that EB-5 Investment is positively correlated with state-level settlement patterns, specifically the share of immigrants who settled in the state as a percentage of all immigrants who settled in the United States during the federal fiscal years of 2010 and 2011.

Rural Area. Though the academic literature suggests that rural area is not a determinant of foreign direct investment or economic development in the “new economy” (Hall, 2007a), the EB-5 Immigrant Investor Program’s design incentivizes investment in rural areas, and state governments have supported rural economic development (Blank, 2010) through the use of EB-5 Investment, which led to an
operational measure for rural area to be included in this analysis of the state-level determinants of EB-5 Investment. When determining the measure for rural area a method similar to “dartboard theory” was implemented. When exploring location decisions of manufacturing, Bartik (1985) utilized land area as a determinant of plant locations. Total land area was used to represent the total number of opportunities for investment, with states with more opportunities for investment having a higher probability of being chosen as an economic development site. This dissertation uses a variation of “dartboard theory,” with the number of farms in a state representing the number of opportunities for states to take advantage of opportunities to direct EB-5 Investment. The number of farms was utilized as a proxy to represent existing economic opportunities that states could target in rural areas, as farms represent economic units in rural areas that can attract foreign direct investment and EB-5 Investment.

Approximately 13% of EB-5 Immigrant Investors in the ICF study (2010) invested in the farm related industries of dairy and cattle milk production, tree nut farming, and all other crop farming, (the highest industry sector was real estate, which accounted for approximately 35% of EB-5 Investment in the ICF study). Though EB-5 Immigrant Investors have incentives to finance projects in rural areas, this dissertation hypothesizes that a state’s rural areas, defined as the number of farms in a state, with the number of farms being used as a proxy to represent economic opportunities in rural areas, have a negative correlation with EB-5 Investment, as rural areas do not possesses the human and financial resources to attract increased investment in the new economy.
The literature examined in this dissertation suggests that the EB-5 Immigrant Investor Program can lead to growth through entrepreneurship, immigration, and foreign direct investment. Entrepreneurs spur growth by exploiting opportunities in the market to create wealth, jobs, and improvements in their communities. Immigrants lead to growth by promoting entrepreneurship and trade, filling labor shortages, and bringing new technologies and ideas to their host countries. Furthermore, high skilled immigrants, like those who presumably have potential to become EB-5 Investors, contribute more to the tax base than they take in social services. Foreign direct investment spurs economic growth through infusions of capital that supplement insufficient savings. This investment can also lead to increases in employment if used to fund capital projects, like many of the EB-5 financed projects. State policymakers have made concerted efforts to attract both foreign direct investment and EB-5 Investment because of these benefits. The following variables have been identified as potentially having an impact on whether a state has EB-5 Investment: market size, unions, taxes, innovation, unemployment, immigration and rural area. Given their prevalence in the literature on state-level determinants of foreign direct investment, proxies for these variables will be used in the following analysis of state-based determinants of EB-5 Investment.
Chapter 4

RESEARCH METHODS

Just as researchers such as Kornecki and Ekanayake (2012), Friedman et al. (1992), Woodward (1992), Luger and Shetty (1985), and Coughlin et al. (1991) have used econometric analysis to investigate the determinants of state-level foreign direct investment, an econometric analysis was used to investigate the determinants of state-level EB-5 Investment with the intention of explaining what leads wealthy investors to invest in particular states and why only 24 states attracted EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011.

In this analysis state-level EB-5 Investment was represented by a binary dependent variable, so logistic regression was the technique used to explore the relationship between the dependent variable of state-level EB-5 Investment and the independent variables of market size, wage, tax climate, unions, innovation, immigration, unemployment rates and rural area. With a binary dependent variable of state-level EB-5 Investment, logistic regression is appropriate to use to estimate the model exploring the determinants of EB-5 Investment (Gujarat, 2011), as logistic regression has seen increased use in the social sciences when conducting research with a categorical dependent variable (Peng, Lee, and Ingersoll, 2002). Results of the analysis will guide policy recommendations to improve state-level participation in an underutilized federal program that can bring jobs and investment to distressed communities nationwide. The following diagram offers a graphic representation of the research design (see Figure 4.1)
State Level Determinants of EB-5 Investment

**Policy Problem:** Why do some states receive EB-5 investment while others do not?

**Research Question:** What are the state-level determinants of EB-5 investment?

**Hypotheses:** The null hypothesis is that the independent variables of market size, wage, unions, taxes, innovation, immigration, unemployment, and rural area will have zero correlation with the dependent variable, state-level EB-5 investment. The alternative hypothesis is that at least one independent variable will be correlated with state-level EB-5 investment. Secondary data will be used to explore the determinants of EB-5 investment. An understanding of the determinants of EB-5 investment can influence state and federal policy and lead to increased investment and economic growth in the United States.

**Policy:** Economic Citizenship in the United States

**Legislative Intent:** Economic growth via EB-5 FDI

- Immigrant Investors
- Immigrant Entrepreneurs
- Regional Center Investments

**Research Logic:**
Cross-sectional study using data from the 50 states during the 2010-2011 time period

**Operationalizations:** A logit model will be utilized to best analyze the data. The dependent variable, as a nominal scale variable in the model, will be composed of states that were the location of EB-5 investment and states that were not.

Figure 4.1: Research Diagram
4.1 Justification for State-level Analysis

This dissertation topic was selected because states, as entrepreneurial entities seeking to promote economic growth (Eisinger, 1988), have considerable power to attract EB-5 Investment. By defining the boundaries of targeted employment areas, states have the ability to make individual locations attractive to EB-5 Immigrant Investment by encouraging EB-5 Immigrant Investors to finance economic development projects at the $500,000 amount instead of the $1 million amount. In addition to state involvement in determining the location of EB-5 Investment, state resources have been combined with EB-5 Investment to finance economic development initiatives across the country. The Brooklyn Navy Yard’s EB-5 project in 2010 offers an example of how state involvement with the EB-5 Immigrant Investor Program, both in the designation of targeted employment areas and in providing resources to support projects, can help attract capital and create jobs in communities across the country. The Brooklyn Navy Yard Development Corporation and the New York City Regional Center were able to raise $60 million in EB-5 Investment for a $141 million redevelopment initiative located in a targeted employment area defined by the New York State Department of Labor. The remaining $81 million came from a combination of city, state, and federal sources. State involvement, along with city and federal involvement, helped the Brooklyn Navy Yard finance an economic development project that was projected to create approximately 1,200 jobs through the utilization of the EB-5 Immigrant Investor Program (New York City Regional Center, 2010)

Furthermore, according to Brachman (2010), economic development strategies are often implemented on the state level. As noted by Kornecki and Ekanayake (2012), foreign direct investment in general can spur economic growth in state
Given that state-level government officials and policy makers have influence over some of the determinants of foreign direct investment, and presumably, EB-5 Investment, such as tax climate, a better understanding of state-level determinants of EB-5 Investment can help with the formulation of policy solutions that can be implemented by government officials who have an interest in attracting jobs and investment to some of America’s most distressed communities.

4.2 Logit Model

This dissertation’s research questions of what leads EB-5 Immigrant Investors to finance projects in particular states, and why only 24 states were able to attract EB-5 Regional Center Investment during the federal fiscal years of 2010 and 2011 can be answered using logistic regression. Given that this dissertation opens a completely new line of research related to the EB-5 Immigrant Investor Program, there has been no established methodology to explore this topic, further validating this dissertation’s implementation of a logit model to identify the state-level determinants of EB-5 Investment. To date, most researchers of the EB-5 Immigrant Investor Program have primarily relied on qualitative methods to analyze the program. It is the opinion of this researcher that as an economic development program, the EB-5 Immigrant Investor Program is best suited to be analyzed using an econometric analysis. Using foreign direct investment theory as a theoretical framework to explore the state-level determinants of EB-5 Investment, it was expected that there would be a relationship between state-level EB-5 Investment and the independent variables of market size, wage, tax climate, unions, innovation, immigration, unemployment rates and rural area. The null hypothesis (H₀) was that the independent variables would have zero correlation with EB-5 Investments. The alternative hypothesis (Hₐ) was that at least
one variable will be correlated with EB-5 Investment. A two-sided test was conducted because the objective of this research was not to determine whether any of the independent variables had a positive or negative influence on EB-5 Investment, only if the variables have any influence on EB-5 Investment at all. The significance level of the model was set at 95%, meaning that there was a five percent chance that the results of the regression would falsely reject the null hypothesis. After conducting the analysis using the logit model formulated for this research question, it was determined that the model reflects EB-5 Investment during the federal fiscal years of 2010 and 2011, and correctly predicts the location of EB-5 Investment. The statistical package of SPSS (version 21) was used to analyze the data.

The following logit model was used to explore EB-5 Investment:

\[ H_0: \]  
\[ EB5 \neq \beta_0 + \beta_1 \text{Market} + \beta_2 \text{Wage} + \beta_3 \text{Union} + \beta_4 \text{Taxes} + \beta_5 \text{InnovationP} + \beta_6 \text{InnovationE} + \beta_7 \text{Immigration} + \beta_8 \text{Unemp} + \beta_9 \text{Rural} + \mu \]

\[ H_A: \]  
\[ EB5 = \beta_0 + \beta_1 \text{Market} + \beta_2 \text{Wage} + \beta_3 \text{Union} + \beta_4 \text{Taxes} + \beta_5 \text{InnovationP} + \beta_6 \text{InnovationE} + \beta_7 \text{Immigration} + \beta_8 \text{Unemp} + \beta_9 \text{Rural} + \mu \]
4.3 Data

Data for all 50 states was used to explore the state-level determinants of EB-5 Investment, so sampling was not necessary to conduct this analysis. In order to explore the state-level determinants of EB-5 Investment it was necessary to use data inspired primarily by foreign direct investment literature, as EB-5 Investment is a subset of foreign direct investment in the United States. The dependent variable was collected from the IIUSA Economic Impact Report (Kay et al., 2013a). Data representing the independent variables was collected from publicly available sources, such as the Bureau of Labor Statistics, the Tax Foundation, the Bureau of Economic
Analysis, and the U.S. Department of Agriculture, as well as from established policy organizations, such as the National Conference of State Legislators and the Tax Foundation, allowing for replication by future researchers. The selection of independent variables was guided by both existing literature on the EB-5 Immigrant Investor Program and state-level foreign direct investment literature. While many of these independent variables have been used by other researchers to investigate the determinants of foreign direct investment, this analysis is the first time they have been compiled to examine the determinants of EB-5 Investment. The statistical package, SPSS (version 21), was used to analyze the data. Using a logistic regression, this analysis offers insight on why EB-5 Immigrant Investors financed projects in only 24 states during the federal fiscal years of 2010 and 2011.

4.3.1 Dependent Variable

State-level EB-5 Regional Center Investment data provided by the IIUSA Economic Impact Report is used in this dissertation as a proxy representing total U.S. EB-5 Investment in this analysis. The IIUSA Economic Impact Report contains the most comprehensive, most recent, state-level data on the EB-5 Immigrant Investment Program available. IIUSA collected the state-level EB-5 Investment data used in this analysis from their Regional Center database which contains investment records for all designated Regional Centers (Kay et al., 2013a). Their dataset is a good representation of total EB-5 Investment in the United States, as approximately 90% of all EB-5 Investment financed Regional Center projects. The state-level total EB-5 Economic Impact estimates published in the IIUSA Economic Impact Report included multiplier effects, and contained combined investment totals for the federal fiscal years of 2010 and 2011. Given this, the state-level EB-5 Economic Impact totals were
transformed into binary data for the purposes of this analysis in order to avoid any bias. The Association for University Business and Economic Research (AUBER) reviewed the IIUSA 2013 Economic Impact Study before its release. In August of 2013 this researcher contacted the AUBER independent reviewers by telephone to ensure the quality and accuracy of the state-level EB-5 Investment data contained in the IIUSA Economic Impact Report, and to ensure the data was appropriate to use for this analysis.

4.3.2 Independent Variables

State receipt of EB-5 Investment during the federal fiscal years of 2010 and 2011 was used as the model’s dependent variable. In order to test the hypotheses explaining the relationship between EB-5 Investment and individual state characteristics, data was collected to represent the independent variables of market size, average wage, union participation, tax climate, innovation, unemployment rate, immigration and rural area.

Market Size. Average gross state product per capita for the federal fiscal years of 2010 and 2011, as compiled by the Bureau of Economic Analysis (BEA, 2013), was used to test the hypothesis of market size being a determinant of EB-5 investment. As a measure of a state’s economic output, gross state product can be used to estimate a state’s market size similar to how gross domestic product can be used to estimate a nation’s market size (BEA, 2014). According to Chakrabarti (2001), gross domestic product per capita has been found by numerous researchers to be positively correlated with foreign direct investment. Given that the populations of the 50 states vary significantly, heteroskedasticity, or unequal variance in the error term, can occur when conducting econometric analyses (Halcoussis, 2005). In order to limit the potential
influence of heteroskedasticity in this econometric analysis, and to build upon well established foreign direct investment research that used a normalized market size variable, gross state product per capita was used to test the hypothesis that market size is positively correlated with EB-5 Investment.

Wage. Bureau of Labor Statistics data was used to test the hypothesis that state wage is negatively correlated with EB-5 Investment. The Bureau of Labor Statistics compiles the average hours and earnings of production employees on manufacturing payrolls, by state (BLS, 2012). The average manufacturing earnings per hour, by state, for the federal fiscal years of 2010 and 2011, served as a proxy for labor costs and was used to test the hypothesis of state wage being negatively correlated with EB-5 Investment.

Unions. The percentage of unionized workers by state was used to test the hypothesis of state unionization being positively correlated with EB-5 Investment. The percentage of unionized workers in the state workforce during the federal fiscal years of 2007-2011, as compiled by the Center for Economic Policy Research using Current Population Survey data, was used in the econometric model (Schmitt & Augier, 2012). The Center for Economic Policy Research (CEPR) is a think tank located in Washington, D.C. CEPR’s purpose is to conduct research that informs the public on current economic policy issues. CEPR researchers used pooled state-level unionized workforce Current Population Survey data in order to better depict the union climate in a particular state (Schmitt, 2010).

Taxes. Average tax climate score for the fiscal years 2010 and 2011 was used to test the hypothesis that a state’s tax burden is negatively associated with EB-5 Investment. The Tax Foundation’s Business Tax Climate Index compiled the average
tax climate score used in this analysis. The Tax Foundation is a think tank located in Washington, D.C., and has a mission to produce independent research on United States tax policy.

The Business Tax Climate Index is composed of five indices (the corporate tax index, the individual income tax index, the sales tax index, the unemployment tax index, and the property tax index) to create a composite score (Padgit, 2010). The Business Tax Climate Index begins on July 1, as opposed to the federal fiscal year which begins on October 1. The Corporate Tax Index measured the impact of taxes on business activity, and is comprised of a state’s corporate tax rate, the state’s total corporate tax base, and tax credits to offset tax burden, gross receipts tax deductions. The Individual Income Tax Index measured the impact of taxes on entrepreneurs, who are often sole proprietors and/or small business owners, while also measuring the impact of taxes on the labor pool. The individual income tax index was comprised of the individual income tax and the individual income tax base. The Sales Tax Index measured the impact of taxes on the purchase of goods and services in a state, and was comprised of state sales tax and the state sales tax base. The Property Tax Index measured the impact of taxes on an individual or businesses’ wealth, and was comprised of state property tax rates. The Unemployment Tax Index measures the impact of unemployment insurance tax on employers, and is comprised of the unemployment insurance tax rate.

Lower scores on the composite Business Tax Climate Index indicate a less favorable tax climate (i.e. higher taxes), with high scores indicating a more favorable tax climate (i.e. lower taxes). The composite score created by these five indices allow for the comparison of overall tax climates in different states, as opposed to studies
which focus on one tax and its relationship to foreign direct investment, such as corporate taxes by Wijeweera et al. (2007) and Hines, Jr. (1993).

Innovation. Two innovation indices were used to test the hypothesis that a state’s level of innovation is positively correlated with EB-5 Investment. Boehmke and Skinner’s updated state policy innovation index (Boehmke & Skinner, 2012) was used to test state policy innovation, and Hall’s innovation capacity and commercial capacity index was used to test state economic innovation. Boehmke and Skinner’s policy innovation index measured a state’s propensity to adopt new, innovative policies, while Hall’s index measured a state’s actual determinants of innovation, such as the number of scientists and engineers in a given population or the amount of public education expenditures.

Immigration. Legal permanent residents are immigrants who have received green cards and settled in the United States. The settlement patterns of immigrants, calculated as the share of all green card recipients who settled in each state during the federal fiscal years of 2010 and 2011, was used to test the hypothesis that immigration is positively correlated with EB-5 Investment. The Department of Homeland Security compiled the statewide legal permanent resident statistics cited in the IIUSA economic impact report (Kay et al., 2013a). The settlement patterns of immigrants during the federal fiscal years of 2010 and 2011, as determined by the Department of Homeland Security, was used in this analysis as a proxy for a state’s attractiveness to immigrant populations during the same time states were seeking to be attractive to EB-5 Investment.

Unemployment. The average unemployment rate by state for the federal fiscal years of 2010 and 2011 was used to test the hypothesis that unemployment is
positively correlated with EB-5 Investment. The Bureau of Labor Statistics seasonally adjusted unemployment data, as published by the National Conference of State Legislatures for the years of 2010 and 2011, was used in this analysis. The National Conference of State Legislatures is a bipartisan organization that provides research and other resources to support members of state legislatures in effective policy making. Since 2009 the National Conference of State Legislators has been tracking and publishing the Bureau of Labor Statistics’ state unemployment rates in order to help policymakers solve state-level policy problems.

**Rural Areas.** As farms can be used to represent economic opportunities for EB-5 Regional Center Investment in rural areas, the average number of farms per state in the federal fiscal years of 2010 and 2011 was used as a proxy to test the hypothesis that rural area is negatively correlated with EB-5 Investment. The number of farms per state is compiled by the United States Department of Agriculture (USDA, 2012).

Table 4.1 offers descriptive statistics on the independent variables used in this dissertation;
Table 4.1: Descriptive Statistics

**Independent Variable Descriptive Statistics**

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>SD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>50</td>
<td>$32,217</td>
<td>$70,786</td>
<td>$46,652.60</td>
<td>$8,873.630</td>
</tr>
<tr>
<td>Wage</td>
<td>50</td>
<td>$14.19</td>
<td>$24.23</td>
<td>$18.1746</td>
<td>$2.24291</td>
</tr>
<tr>
<td>Union</td>
<td>50</td>
<td>4.4</td>
<td>26.4</td>
<td>12.530</td>
<td>5.5167</td>
</tr>
<tr>
<td>Taxes</td>
<td>50</td>
<td>3.695</td>
<td>7.425</td>
<td>5.19740</td>
<td>.879302</td>
</tr>
<tr>
<td>InnP</td>
<td>50</td>
<td>.0287</td>
<td>.0983</td>
<td>.052030</td>
<td>.0135268</td>
</tr>
<tr>
<td>InnE</td>
<td>50</td>
<td>-1.68</td>
<td>5.22</td>
<td>-.0896</td>
<td>1.27479</td>
</tr>
<tr>
<td>Imm</td>
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<td>.00055</td>
<td>.19925</td>
<td>.0199530</td>
<td>.03728676</td>
</tr>
<tr>
<td>Unemp</td>
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<td>3.69</td>
<td>13.95</td>
<td>8.4507</td>
<td>2.01968</td>
</tr>
<tr>
<td>Rural</td>
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<td>680</td>
<td>245,650</td>
<td>43,737.00</td>
<td>40,752.134</td>
</tr>
</tbody>
</table>
Chapter 5

FINDINGS

As an under researched economic development program, it is a premise of this dissertation that the EB-5 Immigrant Investor Program is best suited to be analyzed using statistical methods. A binary logistic regression was used to test the research hypotheses exploring the state-level determinants of EB-5 Investment during the federal fiscal years of 2010 and 2011 because the dependent variable used in this analysis, location of EB-5 Investment by state, is a binary, categorical variable. Logistic regression expresses the multiple linear regression equation in logarithmic terms (Field, 2013). This dissertation utilized existing economic development and foreign direct investment literature to determine what, if any, state-level factors were related to state-level EB-5 Investment. This dissertation also used existing economic development and foreign direct investment literature to determine which independent variables were suitable to include in the logistic regression model. The statistical software package, SPSS (version 21), was used to conduct this analysis.

The logistic regression was conducted to determine which independent variables, if any, were predictors of a state’s receipt of EB-5 Investment during the federal fiscal years of 2010 and 2011. The results of the logistic regression support the hypothesis of this dissertation, namely, that there is a relationship between EB-5 Investment and the aforementioned independent variables. After conducting the
analysis, it has been determined that the model reflects EB-5 Investment during the federal fiscal years of 2010 and 2011 and can be used to correctly predict the location of EB-5 Investment. Specifically, the results of the logistic regression indicate that immigration was a significant determinant of EB-5 Investment during the federal fiscal years of 2010 and 2011. The other variables in the model were not significant at the 95% level. The regression results also indicated that the overall model of nine predictors was statistically reliable in distinguishing between states that received EB-5 Investment during the federal fiscal years of 2010 and 2011 and states that did not receive EB-5 Investment during the federal fiscal years of 2010 and 2011. The model correctly classified 70% of the cases.

The regression coefficients are presented in table 5.3. The likelihood of a state to have received EB-5 Investment over the federal fiscal years of 2010 and 2011 is related to the state’s measures of the independent variables. According to the model, the probability that a state was the recipient of EB-5 Investment was positively correlated to immigration, defined as the share of total legal permanent residents that located in the state during the federal fiscal years of 2010 and 2011. The odds ratio indicates that the larger the share of legal permanent residents that chose a particular state, the higher the probability that it attracted EB-5 Investment during the federal fiscal years of 2010 and 2011.

Using Field’s (2013) recommendations for conducting binary logistic regression as a guide, in order to determine the effectiveness of the logistic regression model used in this dissertation, an analysis was conducted to determine how well the
model fit the data using the log likelihood chi square and Pseudo R-squares, and an analysis was conducted to identify multicollinearity amongst the variables in the model using tolerance statistics, VIF factors, and a correlation matrix. The statistical significance of the independent variables was tested using the Wald chi-square statistic.

5.1 Regression Diagnostics

Multicollinearity occurs when independent variables are highly correlated with one another. When this occurs, it is difficult to determine the true impact of the highly correlated variables, with Mertler (2013) suggesting the removal of a variable if it has been determined that the information contained in that variable is captured by another variable already included in the model. Multicollinearity tests were conducted to ensure the independent variables were not highly correlated with one another. The collinearity measures used in this analysis were Variance Inflation Factor (VIF) and Tolerance Statistics, which help determine if any of the independent variables are highly correlated with one another. A tolerance below .1 or a VIF above 10 would indicate the possibility for multicollinearity (Field, 2013). In this model, there were no tolerance values less than .1, and no VIF values over 10, indicating no variables in the model were highly correlated with any other variables in the model.

A correlation matrix was also implemented to explore the relationship between the variables. A value between .8 and 1.0, or -.8 and -1.0 would indicate a strong correlation between variables (Denis, 2010). The correlation matrix displays no values higher than .8, or lower than -.8, further indicating none of the independent variables were highly correlated with one another.
Table 5.1: Correlation Matrix

<table>
<thead>
<tr>
<th>Variable</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Market</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Wage</td>
<td>.341*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Union %</td>
<td>.382**</td>
<td>.333*</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Tax</td>
<td>.177</td>
<td>.041</td>
<td>-0.148</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. InnP</td>
<td>.23</td>
<td>.235</td>
<td>0.211</td>
<td>-.366**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. InnE</td>
<td>.317*</td>
<td>.211</td>
<td>.322*</td>
<td>-.425</td>
<td>.632**</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Imm</td>
<td>.176</td>
<td>.092</td>
<td>0.253</td>
<td>-0.265</td>
<td>.584**</td>
<td>.743</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Unemp</td>
<td>-.285*</td>
<td>.057</td>
<td>0.138</td>
<td>-0.072</td>
<td>.412**</td>
<td>.241</td>
<td>.315*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Rural</td>
<td>-.0192</td>
<td>-.228</td>
<td>-.233</td>
<td>-.132</td>
<td>.102</td>
<td>.251</td>
<td>.303*</td>
<td>.05</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. STEB5</td>
<td>-.103</td>
<td>.071</td>
<td>0.06</td>
<td>-.234</td>
<td>.143</td>
<td>.263</td>
<td>.364**</td>
<td>.075</td>
<td>.234</td>
<td></td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level (2-tailed) **Correlation is significant at the 0.01 level (2-tailed)
After determining there were no problems with multicollinearity, the binary logistic regression was conducted, followed by an assessment on how well the model fit the data. The omnibus test of model coefficients indicated that the model predicts state-level EB-5 Investment, as the chi-square statistic for the model with all independent variables included was 21.398 and statistically significant at the .011 level. According to Field (2013), when examining model fit, a chi-square statistic with a significance level of less than .05 indicates a significant fit of the data. Model fit was also assessed using both the Cox and Snell pseudo R-squared statistic ($R^2_{CS} = .348$) and the Nagelkerke pseudo R-squared statistic ($R^2_N = .464$). Pseudo R-squared statistics are used in logistic regression because no exact equivalent measure of $R^2_{CS}$, which provides the proportion of the variation of the dependent variable explained by the independent variables in the model, has been developed for logistic regression (Peng et al., 2002). The pseudo R-squared statistics assessed in this analysis also indicate that the model was a good fit for the data.

After determining the model was a good fit, an examination of the classification table was used to explore how the predicted values for EB-5 Investment compared to the actual, observed values, and to validate the predicted probabilities. According to table 5.2, the prediction for states that were the location of EB-5 Investment was slightly more accurate than the states that were not the location of EB-5 Investment. Approximately 73% of the states that were not the location of EB-5 Investment during the federal fiscal years of 2010 and 2011 were correctly classified, while 66% of the states that were the location of EB-5 Investment were correctly classified. Overall, the model correctly classified 70% of the cases.
Table 5.2: Observed and Predicted Locations of EB-5 Investment

<table>
<thead>
<tr>
<th>Observed</th>
<th>Predicted</th>
<th>% Correct</th>
</tr>
</thead>
<tbody>
<tr>
<td>No EB5 Investment</td>
<td>19</td>
<td>7</td>
</tr>
<tr>
<td>EB5 Investment</td>
<td>8</td>
<td>16</td>
</tr>
<tr>
<td>% Correct</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Note. The cut value is .500*
5.2 Regression Coefficients

Table 5.3: Regression Coefficients

Logistic Regression Analysis of EB-5 Investment

<table>
<thead>
<tr>
<th>Predictor</th>
<th>B</th>
<th>S.E.</th>
<th>Wald</th>
<th>df</th>
<th>Sig.</th>
<th>Exp(B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>.000</td>
<td>.000</td>
<td>1.730</td>
<td>1</td>
<td>.188</td>
<td>1.000</td>
</tr>
<tr>
<td>Wage</td>
<td>.278</td>
<td>.224</td>
<td>1.540</td>
<td>1</td>
<td>.215</td>
<td>1.321</td>
</tr>
<tr>
<td>Unions</td>
<td>.028</td>
<td>.083</td>
<td>.114</td>
<td>1</td>
<td>.736</td>
<td>1.028</td>
</tr>
<tr>
<td>Taxes</td>
<td>-.673</td>
<td>.639</td>
<td>1.109</td>
<td>1</td>
<td>.292</td>
<td>.510</td>
</tr>
<tr>
<td>InnP</td>
<td>-60.964</td>
<td>48.353</td>
<td>1.590</td>
<td>1</td>
<td>.207</td>
<td>.000</td>
</tr>
<tr>
<td>InnE</td>
<td>-.911</td>
<td>.745</td>
<td>1.494</td>
<td>1</td>
<td>.222</td>
<td>.402</td>
</tr>
<tr>
<td>Imm</td>
<td>211.143</td>
<td>88.710</td>
<td>5.665</td>
<td>1</td>
<td>.017</td>
<td>4.992E+091</td>
</tr>
<tr>
<td>Unemp</td>
<td>-.364</td>
<td>.311</td>
<td>1.371</td>
<td>1</td>
<td>.242</td>
<td>.695</td>
</tr>
<tr>
<td>Rural</td>
<td>.000</td>
<td>.000</td>
<td>.039</td>
<td>1</td>
<td>.844</td>
<td>1.000</td>
</tr>
<tr>
<td>Constant</td>
<td>6.775</td>
<td>5.484</td>
<td>1.526</td>
<td>1</td>
<td>.217</td>
<td>875.508</td>
</tr>
</tbody>
</table>

*Note.* Market = Market Size; Wage = Wage; Union % = Union Percentage; Tax = Taxes; InnP = Policy Innovation; InnE = Economic Innovation; Imm = Immigration; Unemp = Unemployment; Rural = Rural.
5.2.1 Significant Variables

This dissertation implemented a logistic regression to test the hypotheses that EB-5 Investment is correlated to the state-level independent variables of market size, average wage, unionized workforce, tax climate, innovation, immigration, unemployment rate, and rural area. The Wald statistic, seen in table 5.3, indicated that only one variable, immigration, was statistically significant in determining whether a state was or was not the location of EB-5 Investment during the federal fiscal years of 2010 and 2011. Through this analysis the null hypothesis was rejected. According to this analysis, immigration was the only significant determinant of EB-5 Investment during the federal fiscal years of 2010 and 2011. The odds ratio for immigration indicates that an increase in immigration leads to an increase in the odds that a state would be the location of EB-5 Investment during the federal fiscal years of 2010 and 2011. Immigration theories cited in this study, such as Su’s (2010) observation that immigrants spur economic growth through their entrepreneurial activity, and Lin’s (2012) observation that immigrants spur growth through binational investment practices, support the finding that immigration is a determinant of foreign direct investment, and drives the state-level EB-5 Investment.

5.3 Limitations

Using the best data available to conduct a statistical analysis of the determinants of EB-5 Investment, it has been determined that immigration, defined as the percentage of legal permanent residents who chose to settle in a state, positively correlates with EB-5 Investment. The fact that none of the other independent variables were found to be significant at the 95% level indicates a limitation of this research
study as foreign direct investment theory indicates that other variables should have been found significant as well. While immigration met the required significance level determined by the model, this does not mean that other variables have no impact on whether or not a state will be the recipient of EB-5 Investment. Nor does it mean that a logistic regression was inappropriate to use to explore the determinants of EB-5 Investment. The proxies for the independent variables, inspired by foreign direct investment and economic development literature, were also justifiable representations of the concepts they were intended to represent, and offer no cause for concern when exploring the determinants of EB-5 Investment (Bartik, 1985; Boehmke & Skinner, 2012; Chakrabarti, 2001; Coughlin et al., 1991; Hall, 2007b; Hines Jr., 1993; Kornecki & Ekanayake, 2012; Lewer & Van den Berg, 2009; Vila, 2010).

It is the opinion of this researcher that the limitations of this study lie in both the theory and data used to investigate the determinants of state-level EB-5 Investment. As EB-5 Investment is a subset of foreign direct investment, foreign direct investment theory was an appropriate initial theoretical framework to utilize in this analysis. The fact that EB-5 Investment is slightly different than traditional foreign direct investment, as the goal is not profit maximization, but the receipt of a green card leads this researcher to believe that another theory may better explain state-level determinants of EB-5 Investment. Furthermore, the fact that these are personal investment decisions, not corporate decisions, lead this researcher to leave open the possibility that another theory may better explain state-level EB-5 Investment.

Another limitation of this study may lie in the data used to identify the determinants of state-level EB-5 Investment. While a logistic regression was best suited to explore the binary dependent variable of state-level EB-5 Investment,
previously cited research exploring the various determinants of foreign direct investment either used panel data in their analyses, and/or had access to a larger dataset of consisting of individual firm data, allowing for a more precise analysis. For example, when exploring the role of market size on foreign direct investment, both the Lewer and Van den Berg (2009) study and the Billington (1999) study used panel data to investigate the influence of independent variables on foreign direct investment. Other research, such as the Coughlin et al. (1991) study which explored the relationship of variables such as labor costs on foreign direct investment, used logit models in their analysis, but also had access to local-level data with significantly more data points. In order to conduct a more informed analysis, and better test the established theories on the relationship between state-level foreign direct investment and market size, average wage, unionization, tax burden, innovation, unemployment, immigration and rural area, it will be necessary to use either longitudinal data, local data, or both to investigate the determinants of EB-5 Investment. The lack of access to a more detailed dataset that includes annual EB-5 Investment amounts, by Regional Center, is a limitation of this study, and warrants the release of this data by the federal government. More information on the EB-5 Immigrant Investor Program can help researchers better understand the determinants of EB-5 Investment and devise targeted policy solutions to improve state-level participation in the program. Regardless, the analysis conducted for the purposes of this dissertation offers a solid foundation for future researchers seeking to explore EB-5 Investment using statistical methods, as this is the first analysis of its kind to do so.
5.4 Future Research

Given the limitations of this study, the fact that immigration was found to be statistically significant establishes its importance as a determinant of EB-5 Investment, and warrants further investigation by social scientists. In order to further explore the determinants of EB-5 Investment, a Freedom of Information Act request could be used to access redacted I-526 forms, which can be used to create a longitudinal dataset that includes project descriptions and overall investment amounts of each EB-5 project, since the program’s inception. Other than building on the findings in this dissertation through further statistical analysis, the ability of states such as Vermont and South Dakota to attract EB-5 Investment warrant further research as well. Both of these states had low percentages of legal permanent residents who chose to settle in their states during the federal fiscal years of 2010 and 2011, yet they were successful at attracting EB-5 Investment during the federal fiscal years of 2010 and 2011. This indicates that there may be viable policy initiatives for states to implement in order to attract EB-5 Investment. Future research can include case studies on EB-5 financed projects in Vermont and South Dakota in order to identify what factors, other than the presence of immigrant populations, lead to successful attraction of EB-5 Investment.
Chapter 6

IMMIGRATION AS A DETERMINANT OF EB-5 INVESTMENT

The purpose of this dissertation is to identify the determinants of state-level EB-5 Investment. Using data from the IIUSA Economic Impact Report, the Bureau of Economic Analysis, Bureau of Labor Statistics, Center for Economic Policy Research, Tax Foundation, Hall’s Index of Innovation Capacity and Commercial Capacity, Boehmke and Skinner’s State Policy Index, Department of Homeland Security, and the U.S. Department of Agriculture, this analysis found that a state’s share of legal permanent residents, represented by immigration in the logit model, was positively correlated with EB-5 Investment during the federal fiscal years of 2010 and 2011. The relationship between immigration and EB-5 Investment is further confirmed after reviewing state-level immigration patterns during the federal fiscal years of 2010 and 2011 in conjunction with state-level EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). State-level EB-5 Economic Impact was published in the 2013 IIUSA Economic Impact Report. The state-level EB-5 Economic Impact figures are calculated using state-level EB-5 Investment information, economic multipliers and other assumptions not made available to the researcher, which explains why EB-5 Economic Impact was not included as a variable in the logistic regression. The IIUSA Economic Impact Report suggests that the top five states for attracting legal permanent residents attracted 38.2% of all EB-5
Economic Impact. The IIUSA Economic Impact Report also suggests that the top five states for attracting EB-5 Economic Impact attracted 38.7% of all legal permanent residents during the federal fiscal years of 2010 and 2011. Furthermore, a review of the EB-5 Immigrant Investor settlement patterns published in the ICF study (2010) suggests that EB-5 Immigrant Investors follow similar settlement patterns as all legal permanent residents.

The top five states by share of legal permanent residents during the federal fiscal years of 2010 and 2011, California, New York, Florida, Texas, and New Jersey, accounted for 38.2% of total EB-5 Economic Impact (Kay et al., 2013a), indicating that states that attract higher percentages of legal permanent residents also attract higher levels of EB-5 Economic Impact. Alternatively, the fact that the bottom five states by share of legal permanent residents during the federal fiscal years of 2010 and 2011, North Dakota, Vermont, West Virginia, Montana, and Wyoming, attracted 2.8% of EB-5 Economic Impact, further underscores the finding that EB-5 Investment is positively correlated with the share of legal permanent residents settling in a state.

Similarly, when examining the data contained in the IIUSA Economic Impact Report, it can be determined that states that attracted high levels of EB-5 Economic Impact also attracted high levels of legal permanent residents. The top five EB-5 Economic Impact recipients during the federal fiscal years of 2010 and 2011 were Pennsylvania, New York, California, South Dakota, and Washington. These five states accounted for 38.7% of the share of all legal permanent residents during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). The average percentage of
legal permanent residents in the states that received EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 was 3.39%, whereas the average percentage of legal permanent residents for states that did not receive EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 was 0.7%. The average share of legal permanent residents by state for the entire United States was 2.0% (Kay et al., 2013a).

Lastly, though the purpose of this dissertation was to explore the state level determinants of EB-5 Investment, a secondary finding suggests that EB-5 Investors and legal permanent residents follow similar settlement patterns when coming to the United States. This finding results from a comparison between state settlement pattern information contained in the ICF International study (2010) and state legal permanent resident settlement data compiled by the Department of Homeland Security and published in the IIUSA Economic Impact Report. According to ICF EB-5 Immigrant Investor settlement information, the top six settlement states for EB-5 Investors were California, New York, Florida, Washington, New Jersey, and Texas (New Jersey and Texas were tied at 5th place in the ICF study). The top five settlement states for legal permanent residents during the federal fiscal years of 2010 and 2011 were California, New York, Florida, Texas, and New Jersey. The observed similarities between the settlement patterns of EB-5 Investors and all legal permanent residents suggest that EB-5 Immigrant Investors and all legal permanent residents follow similar settlement patterns when choosing where to settle within the United States.
One possible explanation for the relationship between EB-5 Investment and a state’s share of legal permanent residents is that a state business climate that encourages job creation attracts both EB-5 Investment and legal permanent residents, as both immigrants and EB-5 Immigrant Investors seek areas that have strong job markets. A secondary hypothesis explaining the relationship between EB-5 Investment and the settlement patterns of legal permanent residents is that EB-5 Investors prefer to invest in areas where they will ultimately settle, as they can monitor their investments and play a more active role in the success of the project in order to ensure they receive both permanent U.S. citizenship and a return on their investment. Whether or not EB-5 Immigrant Investors finance projects in states that are popular with legal permanent residents because these states have strong economies and have better job creation potential, or because these are states the EB-5 Immigrant Investors happen to settle, figuring out how to attract legal permanent residents is a policy solution that should be explored by policymakers seeking EB-5 Investment.

6.1 Top LPR States and their corresponding EB-5 Impact Rank

The findings of this dissertation indicate that EB-5 Investors finance projects in places with high percentages of legal permanent residents. The top five states for legal permanent residents during the federal fiscal years of 2010 and 2011 were California, New York, Florida, Texas, and New Jersey (Kay et al., 2013a). All of these states were the location of EB-5 Investment. California attracted 20% of all legal permanent residents during the federal fiscal years of 2010 and 2011, and the third most amount of EB-5 Economic Impact during the same time frame. New York attracted 14% of all legal permanent residents and the second most amount of EB-5 Economic Impact during the federal fiscal years of 2010 and 2011. Florida attracted 10% of all legal
permanent residents, and the 13th most amount of EB-5 Economic Impact during the federal fiscal years of 2010 and 2011. Texas attracted 9% of all legal permanent residents, and the 16th most amount of EB-5 Economic Impact during the federal fiscal years of 2010 and 2011. Lastly, New Jersey attracted 5% of all legal permanent residents, and the 18th most amount of EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a).

Of the bottom five states that attracted the least amount of legal permanent residents during the federal fiscal years of 2010 and 2011, North Dakota, Vermont, West Virginia, Montana, and Wyoming, the only bottom five immigration state to even attract EB-5 Economic Impact was Vermont, which happened to rank sixth in terms of total EB-5 Economic Impact. None of the bottom five states in attracting legal permanent residents attracted more than 1% of the share of legal permanent residents during the federal fiscal years of 2010 and 2011, with North Dakota attracting .11% of the share of the legal permanent residents, Vermont attracting .10% of the share of legal permanent residents, West Virginia attracting .09% of the share of legal permanent residents, and Montana and Wyoming both attracting .06% of the share of legal permanent residents each during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a).

6.2 Top EB-5 Impact Rank States and their corresponding LPR

According to IIUSA’s Economic Impact Report, the top five states receiving EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 were, in order, Pennsylvania, New York, California, South Dakota, and Washington (Kay et al., 2013a). Combined, the top five states for EB-5 Economic Impact accounted for nearly 38.7% of the share of all legal permanent residents and approximately 85% of
total EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). Figure 6.1 offers a scatterplot of all 24 states that received EB-5 Economic Impact in 2010-2011 with their corresponding percentages of legal permanent residents. Key states that either received large amounts of EB-5 Economic Impact or attracted large amounts of legal permanent residents were highlighted. Though there is a relationship between a state’s share of legal permanent residents and the receipt of EB-5 Regional Center Investment, the fact that a majority of states that received EB-5 Investment attracted less than five percent of legal permanent residents lends further credence to the hypothesis that another variable that was not included in the logit model is significantly influencing EB-5 Regional Center Investment. This dissertation hypothesizes that “certainty,” measured by the number of jobs created as a result of EB-5 Investment, by state, is a likely determinant of EB-5 Investment and should be included in future analyses if the federal government releases this data.

Figure 6.1: EB-5 Economic Impact Rank with corresponding LPR
6.3 **EB-5 Investor Settlement Patterns and LPR Settlement Patterns**

Though the purpose of this dissertation was to explore the state-level determinants of EB-5 Investment, a secondary finding suggests that EB-5 Investors and all legal permanent residents follow similar settlement patterns. As noted in section 6.1, the top five states for legal permanent residents during the federal fiscal years of 2010 and 2011 were California, New York, Florida, Texas, and New Jersey. All of these states were the location of EB-5 Investment.

The ICF International study (2010) used I-829 forms to determine where EB-5 Immigrant Investors settled in the United States. I-829 forms are petitions to remove conditional residency status and contain information on the investor, the type of establishment created, and the number of jobs created as a result of the EB-5 Investment. The vast majority of EB-5 Investors in the ICF International study moved to California (51%), followed by New York (14%). These figures follow similar patterns of legal permanent residents during the federal fiscal years of 2010 and 2011, where California (19.3%) and New York (14.1%) attracted the highest and second highest share of legal permanent residents in the country. The top destinations for EB-5 Immigrant Investors in the ICF International study were California, New York, Florida, Washington, New Jersey and Texas. California attracted 51% of the EB-5 Investors in the ICF International study, New York attracted 14%, both Florida and Washington attracted 4.1% each, and both New Jersey and Texas attracted 3.1% each. A comparison of state settlement patterns of EB-5 Immigrant Investors in the ICF International study with the state settlement patterns of all legal permanent residents during the federal fiscal years of 2010 and 2011 indicates EB-5 Immigrant Investors likely follow the same general settlement patterns as all legal permanent residents.
6.4 Immigration is a Significant Determinant of EB-5 Investment

While the purpose of this dissertation was to determine what, if any state-level determinants of EB-5 Investment exist, with immigration being identified as a statistically significant determinant of EB-5 Investment, and further supported by the literature exploring immigration as a significant determinant of foreign direct investment (Foad, 2012; Kim, 2006; Lewer & Van den Berg, 2009), an exploration of the relationship between EB-5 Investment and immigration is necessary.

Understanding the relationship between immigration and EB-5 Investment is especially important given that upon receiving their green card, investors are not required, nor are encouraged, to settle in the state of their investment. The investment decision can be made completely separately from the settlement decision. Yet the data suggests that EB-5 Immigrant Investors are investing in locations popular for immigrants, potentially indicating that EB-5 Immigrant Investors invest in areas in which they ultimately settle.

This dissertation offers two likely explanations for the relationship between state-level EB-5 Investment and the settlement patterns of EB-5 Immigrant Investors. One possible explanation is that EB-5 Immigrant Investors follow migration patterns similar to all legal permanent residents, and are investing in areas in which they choose to live so they can monitor their investment and offer assistance if necessary to ensure the receipt of U.S. citizenship and a positive return on their investment. The other possible explanation is that legal permanent residents and EB-5 Investment are attracted to states with strong job markets. Both of these explanations are explored in the following sections.
6.4.1 Investment Oversight

The first hypothesis explaining the relationship between EB-5 Investment and immigrant settlement patterns suggests that immigrants are more inclined to invest in projects that they can monitor personally. A $500,000 investment is not an insignificant amount of money to invest in a foreign country, but the prospect of receiving permanent citizenship, in addition to a return on investment, helps balance this risk for EB-5 Immigrant Investors. By investing in a project that is near their desired settlement location, EB-5 Immigrant Investors have more opportunity to supervise the project in case their investment does not lead to the desired job counts, or offer the desired return on investment. This hypothesis is supported by the Department of Commerce’s publication on visas, foreign direct investment and international travel (Department of Commerce, 2007), which suggests that the ability of foreigners to obtain business visas is positively related to foreign direct investment in the United States, while also suggesting that foreign investors value the ability to visit the United States prior to making investment decisions in order to engage in necessary “business discussions, site selection, and due diligence” (p.2). The report also suggests that foreign investors value the ability to personally manage their investments made in the United States.

The United States Department of Commerce recognized the potential of foreign direct investment to spur economic growth, job creation, and innovation within the United States in the 2007 report on visas, foreign direct investment, and international travel. Ensuring immigrants have the ability to personally inspect and monitor investments made in the United States can benefit the U.S. economy. According to the Department of Commerce report, investors take into account their ease in traveling to the United States when determining whether or not to invest in the
United States. Given this, it is no surprise that immigrants from countries that do not need visas to travel to the United States are responsible for the majority of inward foreign direct investment, as they can easily travel to the United States to inspect property, attend business meetings, and generally monitor their investments (Department of Commerce, 2007). The findings in this dissertation indicate that EB-5 Immigrant Investors are familiar with the locations of their investments, as the majority of EB-5 financed projects were in locations with high percentages of legal permanent residents, and were also in places where EB-5 Immigrant Investors tend to settle. It is likely that EB-5 Immigrant Investors evaluate their investments as other investors do, and place value on the ability to personally ensure that the investment will allow them to successfully achieve their goal of receiving a permanent green card.

6.4.2 Strong Job Markets

The second hypothesis explaining the relationship between EB-5 Investment and immigrant settlement patterns suggests that business opportunities drive legal permanent resident settlement patterns, which in turn drive EB-5 Investment. Business opportunities are not evenly dispersed, and are concentrated in certain localities across the United States (Moretti, 2012). Immigrants tend to settle to in areas where there are business opportunities. As noted by Kim (2006), both immigrants and capital tend to locate in places where they can expect the greatest chance of success. Other researchers, such as Zavodny (1999), have also associated strong economies with immigrant populations, with Zavodny suggesting that immigrants admitted to the United States through employment based programs, such as the EB-5 Immigrant Investor Program, are more likely to move to states with strong economies. It is also hypothesized that immigrant populations directly contribute to
strong economies and strong labor markets, with some researchers, including Fairlie and Lofstrom (2013), finding that immigrants are actually responsible for the job creation in their communities. If immigrants have a reputation for being entrepreneurial job creators, this may explain why EB-5 Immigrant Investors, in need of job creation to satisfy their visa requirements, choose to invest in locations with high immigrant populations.

Using American Community Survey data and the 2007 Survey of Business Owners, Fairlie and Lofstrom (2013) found that immigrants represent nearly 25% of all new business owners in the United States. They also found that immigrants create 15% of all business income, and were responsible for hiring 10% of the workforce. Furthermore, immigrants were found to have a large impact on trade, as over 22% of retail trade was from immigrant-owned firms, and over 20% of wholesale trade was from immigrant-owned firms. Fairlie and Lofstrom’s research supports Lin’s (2012) observations on immigrants supporting trade through binational trade agreements, finding that of businesses that export 100% of their sales, immigrants own just over 50%, and for businesses that export between 50% and 100% of their sales, immigrants own approximately 35%. Business networks, language and culture help facilitate trade between immigrants in the host country and the home country. Trade can lead to strong economies, and strong economies attract immigrants, who in turn create the jobs that attract EB-5 Investment.

California, New York, Texas, and Florida were all highlighted as places popular with EB-5 Immigrant Investors settling in the United States (ICF, 2010). Fairlie and Lofstrom found that in California 37% of business owners were immigrants, and 30% of business owners in New York, Texas, and Florida were
immigrants. California, New York, Texas and Florida also had high numbers of legal permanent residents, and received high amounts of EB-5 Economic Impact during the federal fiscal years of 2010 and 2011. The high number of immigrant owned businesses in these states is even more notable when compared to the national average of 18% (Fairlie & Lofstrom, 2013). The fact that California, New York, Texas, and Florida attracted large numbers of EB-5 Immigrant Investors, large amounts of EB-5 Investment, and have high percentages of immigrant business ownership suggests that these states create an economic and social climate that is attractive to immigrants, entrepreneurs and EB-5 Investment, and suggest that there are in fact state-level determinants, and potentially state-level solutions, to increase participation in the EB-5 Immigrant Investor Program.

Both the hypothesis that economic opportunities drive immigration, which in turn drives EB-5 Investment, and the hypothesis that EB-5 Immigrant Investors settle in states popular with immigrants, and therefore invest in locations where it is convenient for them personally monitor their investments, seem plausible. Still, these hypotheses do not explain the prevalence of EB-5 Investment in states such as Vermont and South Dakota that have high amounts of EB-5 Investment and low numbers of legal permanent residents settling in the state. The fact that these states have been able to successfully attract EB-5 Investment indicate that there are other variables determining EB-5 Investment, and warrant further exploration of this topic.

6.5 State-level Determinants of Immigration

The results of the logistic regression indicate that immigration is a significant determinant of EB-5 Investment. In order to attract more EB-5 Investment and spur economic growth, policy makers and economic development stakeholders should
craft, and support, policy initiatives that make states more attractive to all legal permanent residents seeking to settle in the United States. In order to craft immigration policy that can increase immigration, and potentially state-level EB-5 Investment, it is important to first understand the state-level determinants of immigration. There are many factors involved in an immigrant’s decision to move to a particular state, including the presence of other immigrants of the same ethnicity, and financial incentives, such as potential employment opportunities and prospective earnings. An understanding of the state-level determinants of immigration can help policy makers both predict where resources will be needed to support future immigrant populations and determine which areas have potential to spur economic growth through an increase in the immigrant population.

6.5.1 Preexisting Immigrant Populations

A number of researchers have suggested that preexisting immigrant populations are a determinant of future immigration. Zavodny (1999) of the Federal Reserve Bank of Atlanta conducted a study exploring the state-level determinants of immigration using a data set consisting of legal permanent residents and refugees who settled in the United States between 1989 and 1994. The purpose of the study was to identify determinants of immigration in order to help policy makers craft policy to both attract immigrants and prepare for future influxes of immigrants who may migrate to their state. Zavodny’s work is important to this investigation of state-level determinants of EB-5 Investment because immigration was found to be a statistically significant determinant of EB-5 Investment, and the attraction of immigrants is associated with the attraction of foreign direct investment. Zavodny found that among factors such as economic conditions, welfare benefits, and the presence of other
immigrants, the primary state-level determinant of immigration was the fact that other immigrants were already located in that state (Zavodny, 1999). Immigrants were also found to locate in states with high populations in general.

Zavodny’s (1999) research also shows that immigrants tend to cluster in specific cities, such as New York City or Los Angeles. This finding is supported by the data released by ICF International (2010), which found that the majority of EB-5 Investors settled in California, followed by New York. Legal permanent residents are not evenly dispersed throughout the United States, and tend to locate in particular states in high numbers. Similarly, Fairlie and Lofstrom (2013) found that the impact of immigrant business owners was not spread evenly across the United States, with “gateway states” (p. 11) leading in immigrant ownership. During the time period of Zavodny’s study it was determined that over 75% of legal permanent residents settled in California, Florida, Illinois, New Jersey, New York and Texas, with California and Texas having the highest numbers of legal permanent residents. These states are precisely where EB-5 Immigrant Investors have financed projects. These states also have high numbers of Regional Centers that help facilitate EB-5 Investment.

The existence of established immigrant communities was less of a determinant for immigrants entering the United States as economic citizens and/or with high levels of education. Zavodny (1999) found that immigrants with high levels of education are more likely than others to settle outside of traditional immigration hubs, which is also supported by Bartel’s (1989) finding that immigrants with higher education were more mobile and more likely to locate outside of traditional immigration hubs. This finding is important because one can reasonably assume that immigrants with the resources to invest $500,000-$1 million in the United States have some amount of formal
education, and can be encouraged to locate outside of established immigrant hubs if given the right incentives. Though the primary goal of this dissertation is to explore investment in underinvested areas within the United States, policy initiatives that would specifically encourage immigrants to migrate to states that have low percentages of legal permanent residents should be explored as well, given the relationship between immigration and economic growth. The conclusion of Zavodny’s study was that previous immigration patterns determined future immigration patterns, and there was little that local, federal or state governments could do to encourage where immigrants locate unless policies are formulated to influence migration patterns once immigrants enter into the United States.

Bartel (1989) also explored the location patterns of immigrants and attempted to determine what influenced their settlement decisions. A purpose of this study was to help predict immigration patterns and determine how to allocate resources and social services to accommodate for expected growths in immigrant populations. A multinomial logit model was implemented by Bartel to explore the determinants of immigration. Three variables were hypothesized to have an impact on whether or not an immigrant was to settle in a particular area. The first was the percentage of the people of similar ethnicity located in the area, the second was the distance from the home country to the SMSA, and the third was population size. The distance from the home country to the SMSA was explored for two reasons: the costs of travel between the home country and the host country, and the ability of the immigrant to gain information on their new potential home. Total population size was explored because population size is correlated with economic growth and job opportunities (Bartel, 1989). Other determinants explored were wages, unemployment rates, and
unemployment benefits, which represented economic factors that would influence an immigrant’s decision to migrate to a particular area. The study found that the percentage of similar ethnic minorities located in an SMSA was a statistically significant determinant of a new immigrant’s location decision, though the percentage of similar ethnic minorities in an SMSA was not as strong for immigrants with higher levels of education (Bartel, 1989).

Bartel’s study examined groups of male immigrants that migrated to the United States between 1965 and 1979. Asian immigrants were more likely to migrate to New York City, Los Angeles, and San Francisco, with Hispanic immigrants mostly migrating to Los Angeles, Miami, and New York City. Eastern European immigrants were found to migrate to New York City and other cities located in the Northeast. As noted in both the ICF International study (2010) and the IIUSA economic impact report (2013), California and New York are prime destinations for both EB-5 Immigrant Investors and EB-5 Investment. Similar to Zavodny (1999), a major finding was that immigrants tend to locate in areas where large numbers of their ethnic group have already located (Bartel, 1989).

Instead of conducting a state-level analysis, Bartel (1989) used standard metropolitan statistical areas (SMSAs) in this study in order to capture the entire labor market, as it was determined that SMSAs were more representative of labor markets than states. Bartel’s exploration of immigrant settlement patterns found that immigrants were more concentrated than native-born populations of the same ethnicity, and immigrants were also more concentrated in the largest 25 SMSAs. Bartel found that 75% of new immigrants in their study lived in the top 25 SMSAs, which is significantly higher than native-born populations, who only lived in only
50% of top 25 SMSAs (Bartel, 1989). Furthermore, immigrants with high education levels were less likely to locate in the top 25 SMSAs.

In summation, both Zavodny (1999) and Bartel (1989) found that the existence of immigrant populations was a significant determinant of immigration. Given that EB-5 Immigrant Investors locate in areas that are popular with immigrants, and EB-5 Immigrant Investors finance projects in areas popular with immigrants, these two studies lend support the hypothesis that EB-5 Immigrant Investors are financing projects in locations where they ultimately settle, as they have more opportunity to monitor the investment and ensure the required number of jobs are met in order to receive permanent United States citizenship.

6.5.2 Financial Opportunity

Other researchers have suggested that financial opportunity is a significant determinant of immigration. While acknowledging the fact that United States immigration policy favors letting people in the country who already have relatives in the United States, Borjas’ (1994) examination of the determinants of immigration found that immigrant settlement patterns are also influenced by the factors that led a person to want to leave their home country in the first place, such as for financial reasons. Borjas found that migration decisions of immigrants include comparing potential earnings in the host country to potential earnings in the home country, after subtracting the costs to actually migrate to the host country. Findings by Katz, Creighton, Amsterdam and Chowkwanyun (2010) support the hypothesis that immigrants are attracted to strong markets with abundant job opportunities. Katz et al. suggested that a strong business sector, higher education opportunities, financial and professional services, and employment opportunities in industries where both skilled
and unskilled immigrants can find employment, draws immigrants. This finding was based in their study on immigration in the Philadelphia region using data from the Delaware Valley Regional Planning Commission (Katz et al., 2010).

As seen in the research on the determinants of immigration conducted by Zavodny, Bartel, Katz et al., and Borjas, immigrants tend to cluster where other immigrants are already located, and settlement patterns are influenced by federal policy that favors granting visas to people who already have family members in the United States. This may explain why immigrants are not evenly dispersed throughout the United States, and offers insight into why EB-5 Immigrant Investors financed Regional Center projects in only 24 states during the federal fiscal years of 2010 and 2011. These studies also suggest that economic citizens, such as EB-5 Immigrant Investors, can be more flexible about location decisions because they (likely) have higher levels of educational attainment and have more opportunities for employment outside of traditional immigrant clusters. Lastly, immigrants take income maximization into account when making migration decisions, with places where both skilled and unskilled immigrants have opportunity to advance economically becoming attractive states to settle. An understanding of the determinants of immigration can help predict where social services are needed, and where additional government resources can be allocated. Furthermore, this overview of the determinants of immigration can help state-level policymakers develop strategies to attract immigrants, and potentially EB-5 Investment, to their states.

6.6 Supportive and Deterrent State-level Immigration Policy

After exploring the state-level determinants of immigration, and determining that pre-existing immigrant populations and financial motivations are key
determinants of state-level immigrant settlement patterns, an understanding of common state-level practices used to encourage (or discourage) immigration can help in evidence-based policy formation designed to make states more attractive to immigrant populations. As noted in Chapter 3, immigrant populations have the potential to spur economic growth through trade, job creation, and entrepreneurship. Furthermore, as immigration was found to be a significant determinant of EB-5 Investment during the federal fiscal years of 2010 and 2011, an increase in immigrant populations will likely lead to an increase state-level participation in the EB-5 Immigrant Investor Program.

Boushey and Luedtke (2011) recognized the influence state-level supportive policies and deterrent policies could have on immigrants in the United States. Boushey and Luedtke explored the differences between state immigration policies using a number of factors, including welfare spending and the labor market. State level immigration policy has important implications to economic development because immigration can shift labor demographics and influence the overall labor market (Boushey & Luedtke, 2011). States that have histories of attracting large populations of immigrants may be able to react differently to influxes in immigration than states that have low levels immigration, as those with experience with immigrant populations are better equipped to handle challenges that may arise between native-born and foreign-born populations. This may be a reason why immigration is a determinant of EB-5 Investment, and why immigration leads to foreign direct investment, because barring the Vermont case (and other outliers), the states that have received significant amounts of EB-5 Economic Impact are states that have historically attracted significant immigrant populations.
According to Spiro (2001), state governments can influence various aspects of immigration policy, such as through civil rights and what protections immigrants have under the law, and social rights, such as access to benefits and services like public education, healthcare, and welfare. Another key role state government plays in policy regarding immigration is law enforcement. Evidence based policies that fall under these domains can have an influence on whether or not immigrants will be attracted to a particular state, and whether their presence can spur economic growth and job creation through foreign direct investment.

State-level immigration policy can be understood through a framework of policies that support immigration and policies that deter immigration, such as the ability to access social services, which supports immigration, or increased immigration enforcement by local law enforcement officers, which deters immigration. While the federal government ultimately controls immigration policy, states can take active measures to either support or deter immigration, thereby influencing their attractiveness to immigrant populations, and their ability to promote economic growth through immigration policy.

6.6.1 State Policies that Deter Immigration

Initiatives such as the 2005 Secure Border Initiative encouraged immigration enforcement within the United States due to the high number of illegal immigrants employed in the United States and the high number of immigrants seeking to enter the United States. Because of this, and other initiatives, a number of policies implemented across the United States have had a negative impact on state-level immigrant settlement patterns. Furthermore, states such as Arizona, with native-born populations that feel socially and economically threatened by immigrants, have had a
tendency to enact policies that discourage immigration, as opposed to policies that encourage immigration (Boushey & Luedtke, 2011). It also has been determined that states that experienced large influxes of immigrant populations were more likely to implement policies that were designed to limit immigration, possibly because of the perceived economic threat of the new arrivals to their states. Common policies adopted to control immigration included requiring law enforcement officials to check immigration status during traffic stops, limiting access to public benefits and social services, placing restrictions on an immigrant’s ability to receive a driver’s license, or policies that place restrictions on an immigrant’s eligibility to receive public benefits. These restrictive policies have been found to have a negative impact on state-level immigration patterns. When constructing policy alternatives designed to boost both immigration and economic growth, policymakers should explore reducing or eliminating some of their most restrictive policies.

Jones-Correa and Fennelly’s (2009) study on immigration in North Carolina offers examples of deterrent policies that can have a negative impact on attracting state-level immigration. In 2003 immigration enforcement shifted from enforcement on the federal level to enforcement on the state level in North Carolina. This resulted in police serving in the immigration enforcement capacity by checking immigration status upon arrest in a number of counties around the state. In 2009 there were 66 formal agreements between Immigration Customs Enforcement and state and local agencies in North Carolina for authority over investigation of undocumented immigrants (Jones-Correa & Fennelly, 2009). In North Carolina, the enforcement of immigration laws by state and local officials has had a negative impact on immigrant populations within the state by altering their habits, forcing them to live more
suppressed lives, and disconnecting them from their communities (Jones-Correa & Fennelly, 2009). Furthermore, Jones-Correa and Fennelly found that some immigrants, whether in the United States legally or not, do not feel safe and secure in their communities if they have to interact with police, even if they have committed no crime.

Immigration related racial profiling leads immigrants to feel uncomfortable in their communities, so if a state is interested in attracting and/or maintaining its immigrant populations, placing an emphasis on enforcing the prohibition of racial profiling, especially with immigrant populations, is a policy solution that can implemented to encourage a supportive environment for immigrants. For example, in Minnesota, border patrol agents were brought in to assist situations where interpreters were needed. While border patrol agents can justifiably serve as interpreters, they do not give off an air of impartiality (Fennelly, 2006). Similarly, policies such as requiring police to check immigration status during routine traffic stops can also have a negative impact on an immigrant’s experience in the state, and should be avoided if the goal is to promote immigration in order to benefit from the accompanying economic growth and foreign direct investment that comes with their presence.

Other policies that can deter state-level immigration include those that restrict immigrants from receiving driver’s licenses, forcing immigrants to either adhere to the law and not drive, or forcing them to break the law by driving. In interviews cited by Jones-Correa and Fennelly (2009), the inability to obtain a driver’s license encouraged an immigrant to leave North Carolina and move to Texas, because in Texas he was eligible to have a driver’s license. Other immigrants have considered leaving the United States and moving back to their home countries as a result of deterrent
immigration policies (Jones-Correa & Fennelly, 2009). Though policies that may deter illegal immigrants from settling in a state may have less of a direct impact on EB-5 Immigrant Investors, these policies can have an impact on the attraction of EB-5 Investors (and potentially, EB-5 Investment), because as noted by Zavodny (1999), immigrants like to settle in areas that are popular with other immigrants.

Immigration policy, whether supportive or deterrent, may have a serious impact on state-level economic development, and specifically, state-level EB-5 Investment. Jones-Correa and Fennelly (2009) found that state responses to immigrant populations can impact economic growth, as some immigrants were hesitant to purchase homes or make other long-term investments due to a fear that they will be forced to leave the country at any given moment. This indicates relaxed immigration policies can potentially encourage investment in communities across the United States. Texas, which was perceived to have more favorable driver’s license laws for immigrants than North Carolina, had 19 Regional Centers, while North Carolina only had two during the federal fiscal years of 2010 and 2011 (Kay et al., 2013b). Furthermore, North Carolina did not attract any EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a). As immigration was found to be a significant determinant of EB-5 Investment, perhaps the fact that Texas has more favorable immigration polices than North Carolina (Jones-Correa & Fennelly, 2009) explains why Texas received EB-5 Economic Impact during the federal fiscal years of 2010 and 2011 and North Carolina did not.

Policies that reduce public services for immigrants, or don’t allow immigrants to receive public assistance, were also cited by researchers as having a negative impact on state-level immigration (Fennelly, 2006). Furthermore, preventing access to social
services, or making access to social services difficult, can make immigrants believe their immigration status is at risk, even if it is not. For example, policy can be crafted that does not require the input of sensitive information in order for people to receive benefits. Fennelly noted that regardless of actual immigration status, and risk of deportation, immigrants were wary of accessing social services that required the input of sensitive information because of perceived risk to their immigration status. The same was found to be true for immigrants wanting to access childcare services (Fennelly, 2006).

6.6.2 State Policies that Support Immigration

Researchers have also found that states can enact policies that encourage immigrants to settle in their states, such as providing support for adult education programs, supporting job training programs, and providing interpreters for immigrants in order to help them access social services. States can also encourage immigrants to settle in their states by creating opportunities for immigrants to access low income housing, allowing drivers licenses for undocumented immigrants, and allowing undocumented immigrants to pay in-state tuition rates in order to attend college. Though wealthy investors such as EB-5 Immigrant Investors may not be attracted to states because of these social services, the presence of other immigrants who are attracted by social services has been identified as a determinant of immigrant settlement patterns. By providing these services, states can potentially increase their attractiveness to EB-5 Immigrant Investors seeking to invest in and/or settle in their states.

Fennelly’s (2006) research on immigration policy in Minnesota can provide a general overview of how state policies can support and attract immigrant populations.
Supportive Minnesota state immigration policies highlighted by Fennelly include providing education for immigrants, such as adult GED (general education degree) classes and ESL (English as a second language) classes. In fact, Minnesotans spend eight times more than the federal minimum for adult immigrant education (Fennelly, 2006). Minnesota combines state funding with federal funding for these classes, while also providing grants for organizations that are devoted to adult immigrant education. In addition, Minnesota supports programs that combine language, education and job training. These adult education programs help immigrants assimilate and become productive members of their communities.

Fennelly (2006) also found that providing subsidies for low-income housing is another supportive policy initiative that state governments can implement in order to encourage immigration and potentially stimulate economic growth through foreign direct investment, and potentially EB-5 Investment. In addition to subsidies for low-income housing, Fennelly (2006) found that adequate healthcare can also create an environment supportive of immigration. According to Fennelly, Minnesotans also support immigration through healthcare policy, where it is common to have interpreters at hospitals to ensure those who do not speak English have access to quality health care. It is important to note that while some policymakers believe that the provision of social services, and in particular, welfare, is a determinant of immigration, Zavodny (1999) found that only refugees were drawn to areas with significant public benefits. Furthermore, Ben-Gad (2004) found that immigrants do not contribute to economic growth if they end up using more in social services than they actually contribute through taxes. In the context of formulating evidence-based policy, policymakers should ensure that upon migrating to their states, supportive
policies are in place so immigrants can be in a position to set up businesses and/or find meaningful employment so they can pay taxes to offset any burdens they place on communities through their use of social services (Ben-Gad, 2004).

Given that policies that support immigration have potential to spur economic growth, some state policymakers have welcomed immigrants and supported policies that would encourage immigrants to locate within the states. This is especially true for policymakers who derive their influence from supporting immigrant populations, such as those in liberal political parties, who historically in the United States have been more inclined to support immigration policies, as immigrants themselves have historically supported liberal, progressive policies (Boushey & Luedtke, 2011). From a political perspective, according to Quispe-Agnoli and Zavodny (2002), one of the main obstacles with supporting immigration, or supporting policies that would encourage immigration, is that native-born workers have the perception that immigrants are taking their jobs and/or lowering wages. Labor can shift if unskilled immigrants enter the market, but this does not necessarily mean that immigrants are taking jobs away from native-born populations. Using Census of Population and Housing and the Census of Manufacturers data, Quispe-Agnoli and Zavodny’s study examined the influence of immigration on capital, output mix, and productivity. Their model assumed that each state had two types of workers, native workers and immigrant workers, and that the capital was mobile across sectors within the state, with an increase in one sector leading to a decrease in another sector. Quispe-Agnoli and Zavodny did this for both high skilled and low skilled workers. They found an increase in immigration can lead to a slowing down of manufacturing output in states. They also found that increases in immigration decrease labor productivity in both high
skilled and low skilled sectors (Quispe-Agnoli & Zavodny, 2002). Importantly, Quispe-Agnoli and Zavodny found that immigrants do not suppress wages on the state level when they enter a state. Their reasoning was that if immigrants are low wage workers, or low skilled workers, they will likely be working alongside high skilled native workers, increasing the productivity of the high skilled workers by freeing up their time to conduct complex work (Quispe-Agnoli & Zavodny, 2002). Furthermore, they found that immigrants can lead to increased investment. McCarthy and Vernez’s (1997) research on immigration and manufacturing investment, as cited in Quispe-Agnoli and Zavodny’s study, found that when low wage immigrants migrate to an area, there is little capital investment, yet these increases in low wage immigrants actually resulted in increases in capital investment in California. The fact that immigrant populations were not found to depress wages, while also being found to increase foreign capital investment, should encourage the increased support for state-level policies that attract immigrant populations.

6.7 State and Federal Immigration Policy

Though states have the ability to influence immigration settlement patterns through supportive and deterrent policies, the federal government ultimately controls immigration. Despite this, states still play a significant role in shaping immigration policy, especially in the aftermath of the 9/11 terrorist attacks and continued inability of Congress to enact comprehensive immigration legislation. For example, California state immigration policy has had a significant influence on federal policy given the state’s prominence as a destination for a large number of immigrants (Spiro, 2001). Immigration policy may be more effective at promoting economic growth if policies are formulated and implemented on the state level, especially policies dealing with
social benefits, because local decision makers are more aware of important issues impacting their immigrant communities (Spiro, 2001). This is in contrast with “one size fits all” federal policy. Regardless, cooperation between state and federal government is necessary if states want to experience economic growth as a result of immigration. Key areas of cooperation between states and federal government include the issuance of driver’s licenses, employment eligibility, and financial aid for undocumented immigrants. States also cooperate directly with federal law enforcement agencies to perform duties such as immigration status checks and participating in Department of Justice trainings on immigration law and procedures, (Newton & Adams, 2009).

According to Newton and Adams (2009), states have recently been enacting laws directly related to immigration because of the gridlock faced at the federal level regarding the passage of substantive immigration legislation. States have reacted to this gridlock by enacting policy that tailors to their particular problems and specific populations. Though immigration is a federal policy, other than border patrol, states have had an influence on local immigration policy in two key ways: the first is in the way that federal agencies delegate power to state agencies, and the second is by creating policies that impact immigrants indirectly. State policy was crafted to influence the following issue areas in 2006 and 2007: Driver license and identification, employment, public benefits, human trafficking, education, law enforcement, healthcare, voting and elections, border control, and legal services and assistance. Western states passed the most immigration laws during this time period, followed by the South, Midwest, and Northeast. The states most responsible for immigration legislation during this time period were Arizona, Colorado, Hawaii, Michigan and
Virginia. The policies enacted by were both supportive of immigration and against immigration.

A major policy issue that the federal government and states cooperate on involves identification cards and drivers licenses. The federal government, as a result of legislation passed by Congress, requires standards for identification so that the federal agents can scan driver’s licenses and other identification in order to check terrorism databases (Newton & Adams, 2009). Some states have added additional requirements to receiving an ID card such as being a legal permanent resident, in an attempt to prevent undocumented immigrants from having legal identification and skirting immigration laws. Newton specifically noted that states have used identification laws to enforce immigration laws and catch undocumented immigrants (Newton & Adams, 2009).

Policies related to employment laws are another avenue where states and the federal government must cooperate. There are laws preventing the hiring of undocumented immigrants, and laws that require identification for employment. The majority of these laws are enacted to prevent undocumented workers from being hired, to discourage employers from hiring them, or to prevent immigrants from receiving unemployment benefits (Newton & Adams, 2009).

Most higher education related immigration policies deal with whether or not undocumented immigrants can receive federal financial aid. For example, though it failed to pass Congress, the DREAM Act would have allowed undocumented immigrants who came to the United States as children to receive federal financial aid and become citizens after finishing two years of college (Newton & Adams, 2009). Though the DREAM Act failed, many undocumented immigrants were able to pay in-
state tuition in states such as Nebraska. In contrast, states such as Louisiana, Indiana, Nevada, Oklahoma, South Carolina and Wyoming prevented undocumented immigrants from using in-state tuition (Newton & Adams, 2009).

Lastly, though not specifically immigration related, for the purposes of this dissertation it is important to note that states also cooperate with the federal government through economic development initiatives. State money is often paired with federal money in order to fund infrastructure upgrades and other capital developments. The federal government can support the EB-5 Immigrant Investment Program indirectly, by providing capital for economic development projects that pair EB-5 Investment with federal dollars. As noted in the case of Vermont, when done correctly, government involvement with EB-5 Immigrant Investor Program can lead to successful projects.

6.8 Conclusion

Through this dissertation it has been determined that immigration was a significant determinant of EB-5 Investment during the federal fiscal years of 2010 and 2011. EB-5 Immigrant Investors financed projects in states with high percentages of legal permanent residents. The ICF International study (2010) suggests that these same investors migrate to areas within the United States that have high percentages of immigrants. There are two hypotheses that help explain the relationship between EB-5 Investment and immigration, the first being that immigrants find it convenient to live near their investments in order to monitor the projects and ensure they will create the necessary jobs for a permanent green card, and the second being that places popular with immigrants have higher prospects of job creation, making investments in those areas more attractive. This analysis suggests that in order to improve state-level
participation in the EB-5 Immigrant Investor Program, policy should be formulated around immigration, as the percentage of legal permanent residents was found to be a significant determinant of EB-5 Investment. The determinants of immigration include the number of immigrants already located in the area, as immigrants tend to cluster in immigration hubs across the United States, access to social services, and strong economies where both high skilled and low skilled immigrants can find employment and maximize their income. States have interests in attracting immigrants, as immigrants have been shown to lead to economic growth. Studies show that most immigrants are self-selecting, with the most motivated of individuals choosing to leave their home countries to come to the United States (Borjas, 1994), which may further explain their productivity in relation to native-born populations. Though immigration policy is primarily crafted on the federal level, inaction by Congress has encouraged many states to develop immigration policies that tailor to their own specific needs. Some states have embraced policies to encourage immigration, such as supporting the civil and social rights of immigrants, and ensuring immigrants have access to public benefits such as education, financial aid, healthcare, welfare, adult education (such as GED classes), interpreters to help immigrants navigate bureaucracy, low income housing subsidies, and not requiring sensitive personal information for public services that would compromise an immigrant’s citizenship status, even if they are here legally.

States can also discourage immigration by implementing practices that deter immigrants, such as racial profiling, the use of border patrol agents as interpreters, restricting driver’s license access, which requires immigrants to break the law if they want to move around, or requires them to stay stationary for fear of being caught,
requiring law enforcement to check immigration status of people they stop, and laws that prevent the hiring of undocumented immigrants. As noted by Boushey (2011), pro-immigration policies lead to large numbers of immigrants settling in states, and these policies that support immigration can lead to economic growth. Furthermore, if anti-immigrant policies are implemented, they can discourage immigrants from fully investing in their communities by purchasing homes or opening businesses, as they may feel that they can be deported at any time. As immigration is a determinant of EB-5 Investment, and EB-5 Investment can lead to economic growth in high unemployment communities across the United States, support of immigration policies that lead to the attraction of immigrants should be explored by state-level policymakers to increase participation in the EB-5 Immigrant Investor Program.
Chapter 7

STATE POLICY AND EB-5 INVESTMENT

The findings of this dissertation indicate that EB-5 Investment has potential to spur economic growth across the United States through entrepreneurship, immigration, and foreign direct investment. Immigration, defined as the share of legal permanent residents settling in a state during the federal fiscal years of 2010 and 2011, was identified as a statistically significant determinant of EB-5 Investment. Furthermore, the presence of immigrant populations has been shown to be a statistically significant determinant of foreign direct investment. This dissertation hypothesizes that increased econometric research with better data will reveal additional determinants of EB-5 Investment, and will quite possibly lead future researchers to conclude that other aspects of foreign direct investment theory accurately explain the program’s state-level distribution of EB-5 Investment, such as the hypothesis that market size is positively correlated with EB-5 Investment.

A number of states have made concerted efforts to attract both foreign direct investment and EB-5 Investment. Foreign direct investment strategies have included providing support for business clusters seeking foreign direct investment, incentivizing investment by providing grants that offset state tax burdens, and the direct involvement by key political figures in courting foreign direct investment. EB-5 Investment strategies have included directly managing Regional Centers as well as designating a state-level administrator to coordinate EB-5 Investment with other economic development activities. The following section provides an overview of state
activity designed to attract both foreign direct investment and EB-5 Investment. In addition, the following section will also provide strategies, other than the attraction of immigrant populations, that both states and the federal government should consider in order to solve the problem of uneven state-level distribution of EB-5 Investment.

7.1 State Policy and Foreign Direct Investment

As noted in the research conducted by Axarloglou and Pournarakis (2007), state policy can be crafted to attract foreign direct investment, employment opportunities, and economic growth. Given that EB-5 Investment is a small subset of foreign direct investment, an exploration of different state approaches to attracting foreign direct investment can offer insight on the different policies states can adopt to attract foreign direct investment, and potentially EB-5 Investment.

Many states have supported business clusters as a way to attract foreign direct investment. Business clusters, or agglomeration economies, are areas with high concentrations of related industries that benefit from being located near one another, as they are able to share suppliers and have access to the same markets and workforces (Blakey & Leigh, 2010). Zou (2009), in a report sponsored by the Georgia Tech Enterprise Institute, analyzed Georgia’s competitive ability to attract foreign direct investment, and suggested that Georgia focus on attracting foreign direct investment to specific sectors, such as manufacturing industries, where Georgia can have a competitive advantage. For example, in 2009, Georgia was able to attract a Swedish firm that wanted to turn the state’s pulp and paper mills into biorefineries. This was accomplished by highlighting the state’s advantages, such as the fact that Georgia is second in the nation in forestland behind Oregon. Though second in the nation, Georgia has advantages over Oregon, as the forests in Oregon are protected, while
forests in Georgia can be used for economic development purposes. By promoting the ability to utilize forestland in economic development initiatives, Georgia was able to attract foreign direct investment (Zou, 2009). Zou’s report also suggested that the state should encourage ties with emerging economies in order to increase the state’s international profile and make Georgia more attractive to foreign investors. Lastly, Zou’s report recommended that Georgia support initiatives that can create economic spillovers, such as public private partnerships with universities (Zou, 2009).

Georgia’s efforts at attracting foreign direct investment can be seen in its ability to attract EB-5 Investment during the federal fiscal years of 2010 and 2011 (Kay et al., 2013a).

Similar to Zou’s (2009) report on foreign direct investment in Georgia, analysts in Washington State also offered insight on what a state could do to attract foreign direct investment. In 2009, the Puget Sound Regional Council, which encompasses the Seattle and Tacoma Washington metropolitan areas, released a report on how Washington can attract foreign direct investment to communities across the state. The report gave an overview of foreign direct investment, highlighting the fact that foreign direct investment often locates in larger, successful markets. The report also noted that states with high levels of college graduates working in finance, insurance, and real estate were more likely to attract foreign direct investment (Puget Sound Regional Council, 2009). In contrast to Zou’s report on foreign direct investment in Georgia, targeting specific industries to highlight for foreign direct investment was not identified by the Puget Sound Regional Council as a promising strategy to attract foreign direct investment to the state (Puget Sound Regional Council, 2009). The contrasting perspective on industry specific targeting
corroborates the research conducted by Axarloglou and Pournarakis (2007), who found that some industry clusters are better than others at promoting economic growth. As Georgia and Washington State have different industry profiles, they should develop strategies that play to their individual strengths in order to attract foreign direct investment. Similar to Zou’s (2009) recommendations for the State of Georgia, the Puget Sound Regional Council (2009) report also encouraged cooperation between the state economic development agencies, local economic development agencies, and regional organizations to make communities more attractive to foreign investors.

In 2010, Vila published a case study on the relationship between state policy and the attraction of foreign direct investment in four states: Florida, South Carolina, Indiana, and Pennsylvania (Vila, 2010). All of these states were the location of Regional Centers during the time of this study, and all except Indiana were the location of EB-5 Investment during the federal fiscal years of 2010 and 2011. In fact, South Carolina had two Regional Centers, Florida had 20 Regional Centers, Indiana had one Regional Center, and Pennsylvania had three Regional Centers during the federal fiscal years of 2010 and 2011 (Kay et al., 2013b). According to Vila, in this era of globalization, having a comprehensive plan to attract foreign direct investment is necessary in order to attract enough investment to have an impact on economic growth. Each of the four states in the case study had specific plans to attract foreign direct investment. Included in the strategies were the creation of business clusters, lowering taxes, improving education and research institutions, incentivizing business development by providing capital to businesses, and supporting workforce development initiatives (Vila, 2010).
Vila (2010) highlighted the different structures used to attract foreign direct investment to each state. In Florida, a public private partnership between the Florida State Department of Commerce manages the state’s economic development and foreign direct investment initiatives. In South Carolina, foreign direct investment is directed through the Department of Commerce, where a Deputy Secretary is specifically tasked with the role of attracting foreign direct investment to the state. Indiana has a public private partnership that is primarily funded by the state, but also has a private foundation set up to finance outreach and international trips. Pennsylvania manages foreign direct investment through an organization entitled the Center for Direct Investment, which is located in the Department of Community Development. Pennsylvania also has a “Governor’s Action Team” (p.269) which is comprised of business professionals who advise businesses seeking to locate in Pennsylvania (Vila, 2010).

The governors of each of the four states headed trade missions designed to promote the advantages of their state to foreign business leaders and lend prominence to local economic development plans seeking foreign investment. Some governors also sought out business consultants with experience in identifying and creating opportunities for foreign direct investment in order to help with their international outreach. Other strategies used by governors to bring attention to a state’s assets included hosting conferences and trade exhibitions for different industries within their states (Vila, 2010). Outside of involvement by the governor, these states also set up official offices in foreign countries to help facilitate foreign investment. By having representatives in foreign countries, states were able to help establish business relationships between foreign investors and local organizations. For
example, Pennsylvania saw an increase in investment from France after setting up an office in France (Vila, 2010).

Similar to Zou’s (2009) recommendations for the State of Georgia, the states in Vila’s case study also formulated policies aimed at the support or creation of industry clusters, such as providing tax incentives, research and development funding, supporting workforce development initiatives, and combining state, federal and private capital to support job creating industries such as biotech and renewable energy (Vila, 2010). Strategies to attract foreign direct investment included policy initiatives aimed at reducing tax liability and/or increasing profits associated with foreign investment. Examples included providing reimbursements for each employee hired to offset workforce expenses, reducing taxes on small businesses, offering tax credits for research and development investments, and creating a tax climate favorable for investment, such as lowering the state corporate income tax rate (Vila, 2010). In Pennsylvania, the state was able to put together a significant package of tax incentives in order to bring a dental implant manufacturer to the state, which included a $2.25 million loan and $300,000 in workforce development capital (Vila, 2010).

A state’s workforce policies, such as at will employment, and/or the availability of workforce development grants, were also considered by Vila (2010) when examining strategies to attract foreign direct investment. According to Vila, laws regarding unions in the workplace have been a contributing factor to South Carolina’s ability to attract manufacturing jobs (South Carolina has a low unionization rate, and is a right to work state, meaning that even if a business has a unionized workforce, workers do not have to pay union dues if they do not want to). Other
states, such as Florida, provide grants to companies for the training of the workforce for specific jobs, which increases the state’s ability to attract foreign direct investment.

As noted in this examination of state policy and foreign direct investment, various states have put together cohesive strategies to attract foreign direct investment. They have dispatched their governors to solicit business, opened up offices in other countries in order to promote investment opportunities in their states, and provided tax incentives to offset tax burdens. States have also provided funding for workforce development initiatives. These policies were all created in order to promote economic growth through foreign direct investment, and can offer guidance for states seeking to attract foreign direct investment (and subsequently, EB-5 Investment) through strategies other than through supportive immigration policies.

7.2 State Policy and EB-5 Investment

Just as these states have put together comprehensive strategies to attract foreign direct investment, some have developed comprehensive strategies to attract EB-5 Investment as well. In 2012 the Minnesota Trade Office, located in the Department of Employment and Economic Development (DEED), released a report on how to best use EB-5 Investment to boost the state economy and promote job creation. Their study was done in conjunction with the University of Minnesota’s Carlson Consulting Enterprise and was funded by a grant from the McKnight foundation (Umarji, 2012). Minnesota investigated the EB-5 Immigrant Investor Program because of its ability to create jobs in both rural areas and urban areas. The success of Regional Centers in financing agricultural projects in South Dakota, and Regional Center urban development projects in the City of Philadelphia, were cited as reasons to explore the implementation of the program in Minnesota (Umarji, 2012).
While there are numerous Regional Centers across the United States, the Minnesota study found that a majority of these are not fully operational, with many having funded only one project in their entire existence. The study also found that only between ten and 20 Regional Centers were actively seeking investors during the time of their study (Umarji, 2012). Government activity and government involvement, either on the state level or the local level, is common for the nation’s most active Regional Centers. Prominent state-level Regional Centers are located in Hawaii, Iowa, Pennsylvania, South Dakota, and Vermont (Umarji, 2012). Los Angeles, New Orleans, Philadelphia, Metropolitan Milwaukee Chamber of Commerce, and the Center for Innovation at the University of North Dakota were the location of prominent locally operated Regional Centers. Additionally, though not involved in the operation of a Regional Center, the state of Washington has a staff person who serves as an EB-5 liaison for the numerous privately run Regional Centers in the state. This staff person also works with Regional Centers to figure out ways to jointly provide jobs and promote economic growth within Washington State (Umarji, 2012).

7.2.1 Lessons from Vermont and South Dakota

For state policy makers seeking to utilize EB-5 Investment in economic development plans, lessons from two states that did not attract high levels of legal permanent residents during the federal fiscal years of 2010 and 2011, yet attracted relatively large amounts of EB-5 Economic Impact during the same time period, deserve additional attention. During the federal fiscal years of 2010 and 2011 South Dakota, while only attracting .13% of the share of legal permanent residents, ranked fourth as measured by EB-5 Economic Impact (Kay et al., 2013a). South Dakota was
followed closely by Vermont, which only attracted .10% of the share of legal permanent residents during the federal fiscal years of 2010 and 2011, yet ranked sixth as measured by EB-5 Economic Impact. The fact that both these states had direct involvement in managing EB-5 Investment, and were able to attract such high levels of EB-5 Investment despite their inability to attract large numbers of legal permanent residents, indicates that targeted state involvement in the EB-5 Immigrant Investment Program can lead to the successful attraction of EB-5 Investment. While there are lessons that can be learned from experiences in both states, the EB-5 Immigrant Investor Program’s implementation in South Dakota should serve a model to avoid, while Vermont should be held as a model to be replicated when attempting to encourage state-level EB-5 Investment.

South Dakota’s involvement in the EB-5 Program made headlines in 2014 when the state was forced to investigate a number of EB-5 financed projects in the state that were affiliated with the South Dakota Regional Center (SDRC) amidst allegations of fraud and mismanagement by the administrators (Ward, 2014). The SDRC gained exclusive rights to manage the EB-5 Investments for the State of South Dakota in 2010 (Mercer, 2014). Prior to the contract with the SDRC, EB-5 Investments in the State of South Dakota were made through Northern State University and the South Dakota Department of Tourism and State Development. With less government oversight, the SDRC began to aggressively market projects to overseas investors. This led to the financing of projects that either did not produce the required number of jobs, expected rates of return on investment, or both, while allowing stakeholders in the projects, such as immigration attorneys and the SDRC, to make substantial profits from associated commission and fees (EB-5 News, 2013).
Ultimately the projects were not as successful as predicted, with one of the major projects, a $115 million beef slaughterhouse, filing for bankruptcy (Ward, 2014). Amid allegations of fraud and mismanagement, a state audit determined that the government did not adequately oversee the projects. In September of 2013, South Dakota terminated its contract with the SDRC (Montgomery, 2013). The state audit of the program determined that there were not enough policies and procedures in place to adequately oversee the SDRC, given its close relationship with the state of South Dakota. The audit also found that proper documentation was not properly collected to satisfy USCIS requirements, and that there was a lack of an ethics policy that would prevent the conflicts of interests that contributed to the mismanagement of the program (Department of Legislative Audit, 2014).

Alternatively, Vermont has been heralded as a model for state-level involvement in the EB-5 Immigrant Investor Program, namely for its high levels of government oversight and rigorous approval process for projects seeking EB-5 Investment. The state’s involvement in the EB-5 Immigrant Investor Program is backed by Senator Leahy, the U.S. Senator from Vermont, who has been behind all of the efforts to reauthorize the EB-5 Immigrant Investor Regional Center program since the program’s inception (Office of Senator Leahy, 2013). In Vermont, the Regional Center is not a separate entity from the State of Vermont, and is actually managed under the Agency of Commerce and Community Development (ACCD). ACCD lists many advantages to investing through its state-run Regional Center. In particular, large portions of the state are eligible for the reduced $500,000 investments, as the majority of the state qualifies as a targeted employment area. In addition to opportunities to invest at the $500,000 amount, investments through the Vermont
Regional Center use economic projections to determine job counts, further providing certainty to investors seeking job-creating projects in order to obtain permanent citizenship in the United States (ACCD, 2012a). Another advantage for EB-5 Immigrant Investors who chose to invest in the Vermont Regional Center is the fact that the Vermont Regional Center is wholly administered by the state of Vermont, meaning that there no additional fees charged to investors, as state administration eliminates the need to pay middlemen to help facilitate EB-5 Investment. Vermont also works directly with business owners to make them aware of additional business incentives that they can access if they start a project using EB-5 Investment. This cooperation effectively pairs EB-5 Investment with government capital, which has been shown to lead to the successful implementation of EB-5 projects (ACCD, 2012a).

Most importantly, the Vermont Regional Center is known for its ability to quickly achieve approvals for citizenship. The fact that the state oversees each project helps ensure that each project will help immigrants achieve their desired goal of United States citizenship. The Vermont model has been very successful, as 100% of immigrants participating in the Vermont Regional Center have successfully completed the program and obtained citizenship (ACCD, 2014). EB-5 Immigrant Investors feel that investing in Vermont is more secure than EB-5 Investments made in other areas because of the government oversight. The state ensures that all projects comply with USCIS regulations. The state also reviews each EB-5 project at least four times a year to ensure they are on a track to meet financial and job creation projections, and to offer assistance if there is a need to make sure the project can create the required number of jobs in order to satisfy the investors (ACCD, 2014). Most importantly, the state
preapproves each EB-5 project and enforces a memorandum of understanding with participating businesses to ensure the project is in compliance with EB-5 laws, and to ensure that the production of the economic impact statements, job projections, and data required by USCIS is produced. Vermont also helps monitor job creation, and helps ensure developers have a valid marketing plan (ACCD, 2012b). Because of the vetting of Vermont EB-5 projects, coupled with their high success rate, the state of Vermont’s Regional Center is well known amongst EB-5 Investors. Furthermore, though not unique to investments made in Vermont, the state’s Regional Center actively markets itself as a stable investment opportunity that ultimately allows children of EB-5 Immigrant Investors to gain citizenship and attend school in the United States (ACCD, 2014). As seen in both the South Dakota and Vermont cases, intensive state involvement can lead to successful implementation of the EB-5 Immigrant Investor Program, as long as there is adequate oversight. The lack of oversight can lead to the mismanagement issues seen in South Dakota, whereas proper oversight can lead to the success story seen in Vermont.

7.3 Federal Policy and EB-5 Investment

Similar to state-level policy, federal policy can be used to improve participation in the EB-5 Immigrant Investor Program. First and foremost, the Department of Homeland Security, and the United States Center for Immigration Services, should make it a priority to release as much information on the EB-5 Immigrant Investor Program as possible, so researchers can determine what businesses are created as a result of EB-5 Investment, how many jobs are created as a result of EB-5 Investment, and where these economic benefits are located. The federal government is already collecting this information via I-829 forms and I-526 forms. I-
526 forms are documents prepared by the prospective EB-5 Investors that offer the immigrant’s country of birth, United States address (if applicable), description of project they intend to finance, initial investment amount, percentage of ownership in the entire enterprise, and total number of jobs the investment is projected to create. The successful submission of the I-526 form gives an immigrant investor conditional permanent residency in the United States for two years. I-829 forms, submitted by the immigrant investor to receive permanent residency, confirm their current United States address, the amount they invested in the EB-5 project, and jobs created as a result of their investment. Access to this information will help determine if the program in fact leads to economic growth within the United States, and give credence and transparency to an under-researched federal program. Furthermore, more precise data, when used in a statistical analyses, will help produce better conclusions on the determinants of EB-5 Investment, which will also help with the formulation of evidence-based policy. Table 7.1 details research potential and applications of data currently being collected by the federal government if the EB-5 Immigrant Investor Program’s information were made publicly available.
Table 7.1: Available Data and Corresponding Research Applications

<table>
<thead>
<tr>
<th>Data</th>
<th>Location</th>
<th>Research Application</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor home country</td>
<td>i526</td>
<td>Explore relationship between EB-5 Investment overall FDI</td>
</tr>
<tr>
<td>Investor US address</td>
<td>i526/i829</td>
<td>Determine settlement patterns of EB-5 Investors</td>
</tr>
<tr>
<td>Investment type (Regional Center vs. Direct)</td>
<td>i526</td>
<td>Determine the significance of Regional Center Program</td>
</tr>
<tr>
<td>Date/Location of Investment</td>
<td>i526</td>
<td>Panel Data for Longitudinal Study on determinants of Investment</td>
</tr>
<tr>
<td>Type of business</td>
<td>i526</td>
<td>Determine which industries benefit from EB-5 Investment</td>
</tr>
<tr>
<td>Percent ownership in enterprise</td>
<td>i526</td>
<td>Explore the role of entrepreneurship in the EB-5 Program</td>
</tr>
<tr>
<td>Projected jobs created</td>
<td>i526</td>
<td>Explore the relationship between EB-5 Investment and Job Creation</td>
</tr>
<tr>
<td>Name/Location/Date Regional Center was established</td>
<td>i924</td>
<td>Determine significance of first mover advantage</td>
</tr>
<tr>
<td>Organization/Structure of Regional Center</td>
<td>i924</td>
<td>Explore which structure leads to successful EB-5 Projects</td>
</tr>
<tr>
<td>Geographic scope of Regional Center (including map)</td>
<td>i924</td>
<td>Explore the relationship between EB-5 Investment, location, and job creation</td>
</tr>
<tr>
<td>Industry focus of Regional Center (NAICS Code)</td>
<td>i924</td>
<td>Explore which jobs are targeted by Regional Center operators</td>
</tr>
</tbody>
</table>
For the purposes of this dissertation it would have been preferable to use more specific data to represent the dependent variable. Though IIUSA released ratio-scale data for the dependent variable, the state-level EB-5 Economic Impact figures released included multiplier effects. Use of this data would misrepresent total investment per state and lead to a biased analysis. In addition, no state-level EB-5 Investment data has been released for the time period of 1990-2010, preventing a more informative time-series analysis. Every attempt was made to ensure that this investigation was objective and statistically sound to avoid criticism that has plagued other research on the EB-5 Immigrant Investment Program (Ruark & Moinuddin, 2012). In order to conduct a more precise analysis on determinants of EB-5 Investment in the future, investments by industry, state and year, as listed on I-526 or I-829, forms would have been necessary. While it was requested that IIUSA and USCIS release this information for the purposes of this dissertation, it was not made available to this researcher. There were several attempts to use more precise EB-5 Investment data, such as information recorded in I-829 forms, for this dissertation. On June 13th, 2013, this author met with Mike Cattalano, an immigration officer at the United States Center for Immigration Services Field Offices located at 1600 Callowhill Street, Philadelphia, PA. This author was informed that the only way to access I-829 data was through the Freedom of Information Act. On July 31st, 2013, this author emailed Alison Siskin, Specialist in Immigration Policy at Congressional Research Services, in order to access redacted investor application data. Ms. Siskin informed this author that she was prohibited from releasing this data as disaggregated EB-5 statistics are not published and are only available from USCIS and/or the Freedom of Information Act. Lastly, on December 2nd, 2013, this author emailed Albert Shields, Press and
Policy Advisor for Congressman John Carney in order to access redacted investor application data. Congressman Carney’s office did not respond to this author’s request.

7.4 Recommendations

The findings of this dissertation indicate that immigration is a statistically significant determinant of EB-5 Investment. In order to create a climate that attracts EB-5 Investment, this dissertation concludes that state policy should be formulated to attract immigrant populations, as immigrant populations have been found to spur economic growth through entrepreneurship and the attraction of foreign direct investment. This dissertation also encourages the federal government to release more detailed data on the EB-5 Immigrant Investor Program. Specifically, this dissertation encourages the publication of information on the number of jobs created, by state, as this information is already being collected, and its utilization in future research can determine if a new variable, termed “certainty,” and defined as the projected number of jobs created by industry, and by state, is a determinant of state-level EB-5 Investment. If “certainty” is found to be a statistically significant determinant of EB-5 Investment, the identification of the types of businesses, and their corresponding job counts, can lead to more targeted policy designed to increase state-level participation in the EB-5 Immigrant Investor Program.

The release of additional data by the federal government can also help determine if foreign direct investment theory is the most appropriate theory to use to explain the state-level distribution of EB-5 Investment. If the release of additional information confirms the importance of foreign direct investment in explaining EB-5 Investment, states can enact policies such as providing funds to support business
clusters, encourage the cooperation between state and local governments to develop comprehensive strategies to attract foreign direct investment, encourage the governor and other high level state officials to directly promote state assets to potential foreign investors, provide grants to businesses to offset state tax burdens, and offer assistance to support workforce development. These and other strategies have been implemented by states seeking to promote economic growth through the attraction of foreign direct investment.

Lastly, states can follow the example of Vermont, which has direct oversight of the EB-5 Investment, or Washington State, which has a dedicated employee that coordinates and helps facilitate the attraction of EB-5 Investment. As direct and indirect government involvement has been identified as a component of successful EB-5 attraction, states should be encouraged to have more oversight of EB-5 Investment in order to attract the jobs and foreign direct investment associated with this program.
Chapter 8

CONCLUSION

The primary purpose of this dissertation was to explain the state-level distribution of EB-5 Investment during the federal fiscal years of 2010 and 2011. The fact that EB-5 Immigrant Investors financed Regional Center Projects in only 24 states indicates a missed opportunity for policymakers seeking to spur economic growth across the United States. The underutilization of the EB-5 Immigrant Investor Program can be addressed at the federal, state, and local levels. This analysis focused primarily on state policy and EB-5 Investment because comprehensive economic development strategies are often formulated on the state level.

Through the logistic regression it was determined that the state-level determinants identified in this dissertation explain the uneven state-level distribution of EB-5 Investment, with immigration identified as a significant determinant of EB-5 Investment. While the results of this dissertation can help guide the creation of evidence based policy designed to spur economic growth through the EB-5 Immigrant Investor Program, this dissertation can also be implemented in future research exploring economic development through entrepreneurship, immigration, foreign direct investment, and EB-5 Investment, as the findings have built upon previous studies and have made contributions to all of these fields. Furthermore, this dissertation has laid the foundation for causal research related to EB-5 Investment, as it is the first study to explore the relationship between the determinants of foreign direct investment and state location of EB-5 Investment.
This dissertation advances the work of Foad (2012), Kim (2006), and Lewer and Van den Berg (2009), by confirming the relationship between immigration and foreign direct investment, as EB-5 Investment is a subset of foreign direct investment. Using the logistic regression to explore the relationship between the dependent variable of state-level EB-5 Investment and the independent of variables of market size, unions, taxes, innovation, unemployment, immigration, and rural area, it was determined that immigration was a statistically significant determinant of EB-5 Investment. The logistic regression was also able to accurately predict which states 2011. Furthermore, the model indicated that an increase in immigration would lead to an increase in the probability that a state would be the recipient of EB-5 Investment.

Immigration policy is important to this dissertation because immigration has been identified as both a determinant of foreign direct investment and a determinant of EB-5 Investment. Foreign direct investment theory supports immigration as a determinant of EB-5 Investment, and as an avenue for policymakers to explore, because immigrants can spur economic growth as a result of entrepreneurship, job creation, and binational investment practices. Furthermore, immigration policy is a policy issue that state-level policymakers can actually influence through the implementation of supportive policies.

This dissertation also helps advance the work of Bartel (1989), Katz et al. (2010), and Zavodny (1999), by hypothesizing that EB-5 Immigrant Investors follow similar migration patterns as all legal permanent residents and invest in the states in which they ultimately settle. This hypothesis is supported with data from the ICF International study (2010) and the IIUSA Economic Impact Report (2013). Using the best data available, there are indications that EB-5 Immigrant Investors move to and
invest in the following states popular with all legal permanent residents: California, New York, Florida, Texas and New Jersey.

This dissertation also determined that there are likely variables that are significant to state-level EB-5 Investment yet were not included in the model. Researchers such as North (2012), Ruark and Moinuddin (2012), and Sichter (2010), cited uncertainty as an influential factor in determining EB-5 Investment, yet the current data does not allow for an exploration of “certainty” (or uncertainty) as an independent variable at this time. States with low percentages of legal permanent residents, such as Vermont, also indicate the presence of significant variables not included to the model. This dissertation suggests that the federal government release more descriptive information on the EB-5 Immigrant Investor Program so, among other things, future researchers determine the significance of “certainty” and what further policies should be implemented to support increased participation in the EB-5 Immigrant Investor Program.

In conclusion, one reason to conduct research on the EB-5 Immigrant Investor Program is because it is currently under-researched, and there is academic value in pursuing research on promising economic development programs. Secondly, and most importantly, an investigation of the uneven distribution of EB-5 Investment is necessary because the results of this research can lead to evidence-based policy solutions that can improve the economic well-being of people living in some of America’s most impoverished communities. It is for this reason that social scientists, in addition to legal scholars, should dedicate attention the program’s underutilization. This dissertation should inform state-level policymakers who are seeking to spur growth through immigration, foreign direct investment and EB-5 Investment. Many
states are experiencing hardships that have resulted from the current economic crises and are looking for strategies to boost local economies. By embracing economic development initiatives that encourage immigration, entrepreneurship, and foreign direct investment, such as the EB-5 Immigrant Investor Program, state and federal policymakers can both increase participation in an underutilized program, while also developing innovative approaches to improve the lives of people all across the United States of America.
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