Economic Development America

COMPETING GLOBALLY ★ GROWING REGIONAL ECONOMIES ★ CREATING JOBS

FALL 2004

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U.S. DEPARTMENT OF COMMERCE · ECONOMIC DEVELOPMENT ADMINISTRATION

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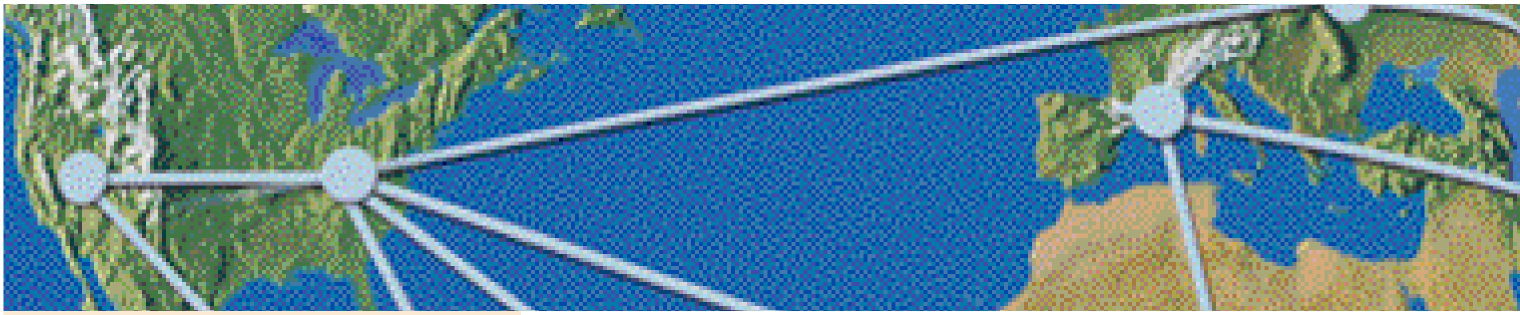

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Economic Development America is a quarterly production of the Economic Development Information Coalition (EDIC).

To provide information about economic development practices and programs, the Economic Development Administration (EDA) created the Economic Development Information Coalition (EDIC). EDIC comprises the International Economic Development Council (IEDC), the National Association of Regional Councils (NARC), and the National Association of Development Organizations (NADO). They have joined EDA to disseminate information to economic development practitioners serving distressed communities through a monthly e-mail newsletter; quarterly telecasts; 20 community forums held throughout the country; and a quarterly magazine. For more information, visit the EDIC home page: From EDA's Web site, www.eda.gov, click on the "EDIC News" link in the lower left corner.

Story ideas are invited and should be addressed to editor **Louise Anderson, telephone (828) 350-8855, email landerson@iedconline.org.**

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A World of Opportunity:

The Case for Optimism in the Worldwide Economy

By David A. Sampson

Assistant Secretary for Economic Development
U.S. Department of Commerce

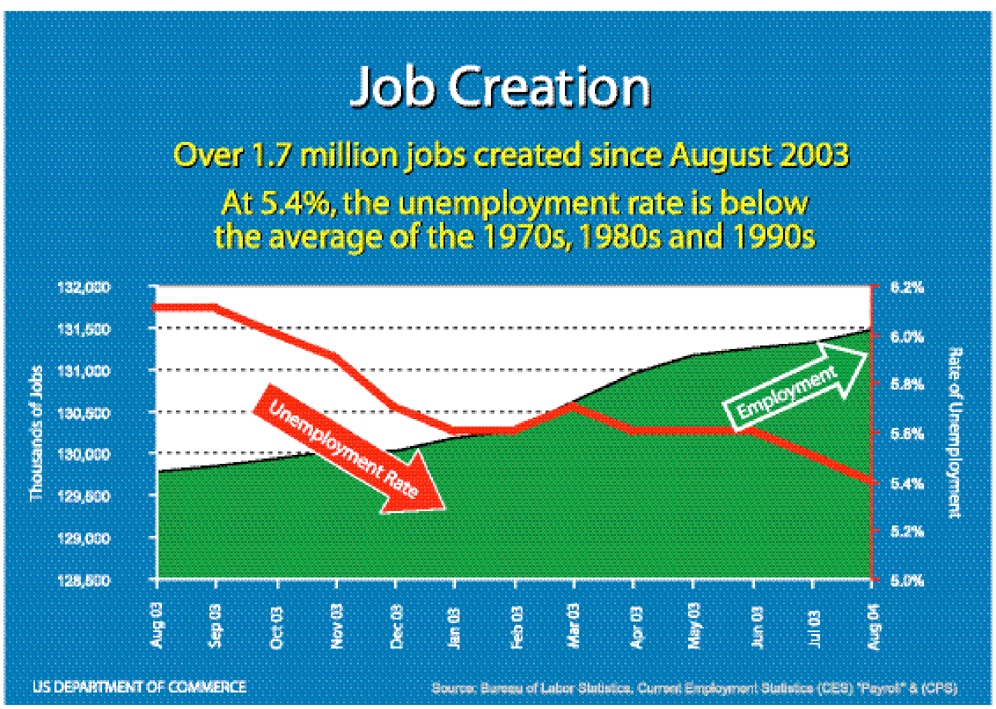
As this issue of *Economic Development America* went to press, the United States Senate passed the Economic Development Reauthorization Act of 2003, which is expected to quickly pass the House of Representatives and be sent to President Bush for signature into public law. EDA's current authorization expired on September 30, 2003.

President Bush has often stated that the role of government is to create conditions in which jobs are created. This legislation will allow EDA to work with communities on the ground to help create these favorable conditions across the country. In relation to the President's Six-Point Plan for Strengthening the Economy, the reauthorization will improve the agency's performance in rural America, strengthen communities' economic planning activities, and streamline the EDA investment process.

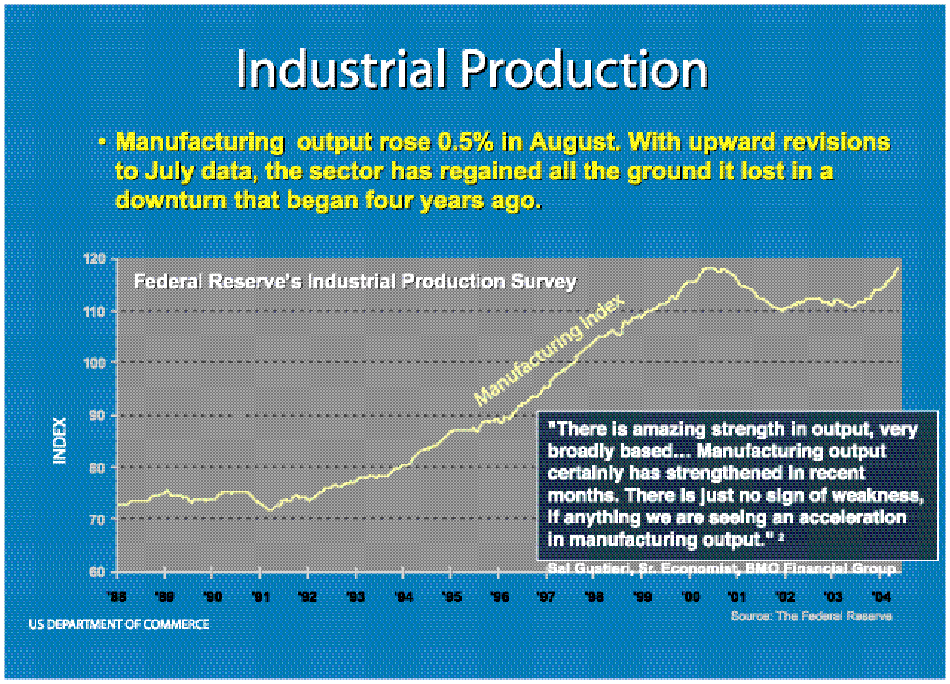
The American economy is strong and getting stronger

In connection with this good news, I am also pleased to report that for 12 consecutive months, American payrolls have added jobs. The 144,000 added in August, combined with upward revisions for June and July, bring the total to 1.7 million new jobs since this time last year. This number represents more new jobs than those created in Germany, Japan, Great Britain, Canada and France combined.

These 1.7 million new jobs are *good jobs at good wages*. The Chicago Federal Reserve Bank recently published a report in which it found that growth in jobs paying more than the mean now outstrips the creation of jobs on the bottom end of the bell curve.[1] The Labor Department reports that gains in workers' pay "outpaced inflation for the second straight month in August. Average weekly earnings [adjusted for inflation and seasonal variations] rose 0.3 percent in August from the prior month, following a 1 percent gain in July."[2] Furthermore, the Department of Commerce reports that personal income and spending grew by a strong 0.4 percent in August, while take-home pay was boosted by a solid increase in wages and salaries of nearly $20 billion at an annual rate. After-tax pay is up more than 10 percent since early 2001.



Over the past 12 months, we have seen homeownership in America reach record highs. Interest rates and inflation remain at historic lows. We have seen improvement in the hard-hit manufacturing sector with the addition of more than 100,000 jobs since February. Manufacturing output



rose 0.5 percent in August. With upward revisions to July data, the sector has regained all the ground it lost in a downturn that began four years ago.[3] Over the past year, unemployment fell in 45 of the 50 states and employment increased in 47 of the 50 states.

A positive vision on the federal economic development role

As encouraging as these signs are, the Bush administration is neither satisfied nor complacent. I am often asked about "offshore outsourcing" or the loss of manufacturing jobs as I visit communities throughout our nation. The loss of any job is regrettable. Economic transition points, like the one we are now seeing, are always hard for companies, communities and workers.

The American economy is changing, and during these times of change economic growth is not felt equally throughout the nation. In communities where traditional industries do not employ as many workers as they did a generation ago, opportunity can seem more distant. So, with a goal of extending America's economic prosperity to every part of our country, President Bush has set a positive vision for the federal government's role.

Engagement in a worldwide economy marked by free and fair trade helps create jobs at home by opening foreign markets to American exports - as well as by encouraging foreign companies to set up operations in the United States.

President Bush has proposed a new "Opportunity Zone" initiative to assist America's transitioning communities and regions – those areas that have lost a significant portion of their economic base as a result of our changing economy, for example, due to loss of manufacturing or textile employment – and are now in the process of transitioning to a more diverse, broad-based, 21st century economy. Opportunity Zones would ease that transition by targeting federal resources and encouraging new and existing businesses to invest in these areas. More specifically, individuals, organizations, and governments within Opportunity Zones could receive priority designation when applying for federal assistance programs, and businesses would receive tax incentives and regulatory relief to spur investment.

Also, with the expansion of the Trade Adjustment Assistance program in 2002, $1.1 billion will be provided in FY 2005 for training and cash benefits for workers dislocated by increased imports or a shift of production to certain foreign countries. Workers are also eligible to receive a Health Coverage Tax Credit covering 65 percent of the premium for qualified health insurance. Workers over 50 may be entitled to Alternative Trade Adjustment Assistance, which pays half the difference between their old wage and the wage they are receiving at new employment for up to two years and up to $10,000.

We also have set a positive vision for continuing and accelerating the current economic expansion, which will require an environment that fosters engagement in, not exclusion from, the worldwide economy for all regions.

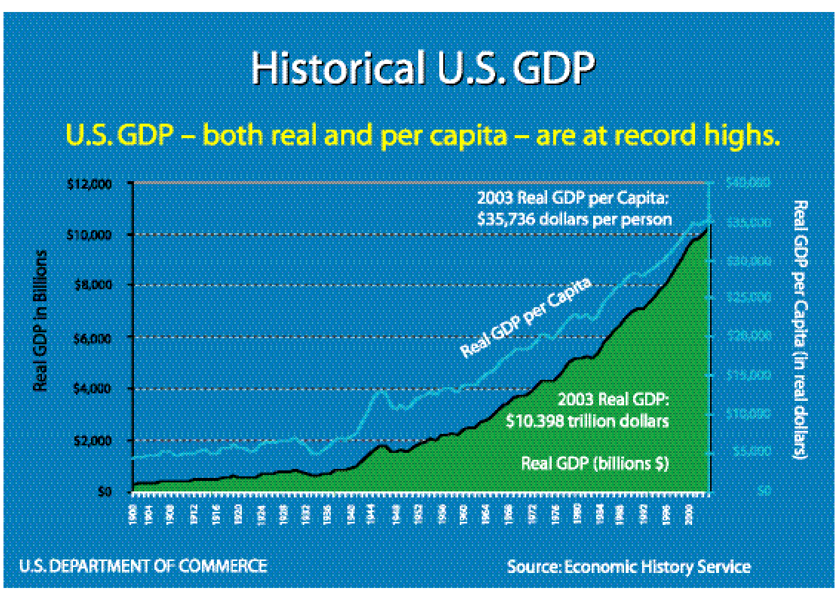
Engagement is the only course

Voices that advocate economic retreat, protectionism, and isolationism offer the wrong economic prescription for increased prosperity. By erecting trade barriers, we would slow our economic growth and cause even more workers to lose their jobs. Engagement in a worldwide economy marked by free and fair trade helps create jobs at home by opening foreign markets to American exports – as well as by encouraging foreign companies to set up operations in the United States. According to government statistics:

- Ten million American jobs depend on exports, and those jobs pay higher wages than non-export related jobs. For example, jobs in exporting manufacturing plants pay wages that average up to 18 percent more than jobs in non-exporting plants.
- America's dynamic high-tech sector depends on exports. In 2003, exports of advanced technology products totaled $180 billion.
- In 2003, $86.6 billion flowed into the United States in the form of foreign direct investment, over twice the amount from the previous year. Increased foreign investment means more factories, more research and development and more jobs for Americans through companies based abroad. These investments account for hundreds of thousands of good jobs created, including more than 700,000 in California, almost 500,000 in New York, more than 425,000 in Texas, and more than 300,000 each in Illinois and Florida.
- Foreign-owned firms directly employ more than 6.4 million workers in the United States – jobs that might otherwise go to foreign workers – and that does not include the millions of people who work at companies that supply parts and material to foreign-owned firms. A few examples:
  - Honda employs about 16,000 Ohioans and 24,000 American workers nationwide.
  - The BMW plant in Greer, South Carolina employs 4,700 American workers, and their 40 regional suppliers employ an additional 7,300.
  - Toyota's new $800 million plant in San Antonio, Texas will create approximately 2,000 new jobs, bringing its total number of employees in the United States to over 35,000.
  - Nestle employs 43,000 Americans nationwide.
- Engagement through free and fair trade also helps to lower prices and increase choices for American consumers. Over the past decade, NAFTA and the Uruguay Round agreements have raised the standards of living of the average American family of four by up to $2,000 a year, according to the Office of the U.S. Trade Representative. A University of Michigan study shows that lowering global trade barriers on all products and services by even one third could boost the U.S. economy by $177 billion, thereby raising living standards for the average family by $2,500 annually.

To position regions for successful innovation, leaders must emerge who are forward-looking and can champion efforts to intensify innovative activity.

With 95 percent of the world's customers living beyond our borders, the path to prosperity for American communities and companies lies in active engagement in worldwide markets.



So how can communities engage in a worldwide economy?

As presented in our Winter 2004 issue of this publication, *innovation* is the only sustainable source for competing worldwide, and thus the only sustainable strategy for regional prosperity. The United States leads the world in innovation. Investments in technology create new industries and careers in U.S. firms that introduce products, create jobs and spur economic growth. America's competitive edge flows directly from innovation and rising productivity. To position regions for successful innovation, *leaders must emerge who are forward-looking* and can champion efforts to intensify innovative activity.

Two-thirds of America's economic growth in the 1990s resulted from the introduction of new technologies, and 60 percent of the new jobs created in the 21st century will require post-secondary education held by one-third of America's workforce.

As you will see in Katie Burns' article, "'Insourcing': How Japanese Cars Come to be Made in America," on page 11, leaders from the regions serving Toyota Motor Manufacturing North America and their key suppliers were successful by focusing on key leverage points for innovation to strengthen and diversify their regional economies. Other regions throughout the nation can do the same. Let me suggest three key leverage points for consideration.

Create an attractive business climate

Spiraling costs of health care, litigation, energy and unnecessary regulation extinguish businesses' ability to hire new people and increase production. The steady accumulation of multiple burdens has had the most severe impact on the competitive environment in which our companies operate.

While businesses have tightened their belts and raised their productivity in an effort to succeed in the marketplace, they have seen their hard-won productivity gains eroded by higher energy costs, medical and pension costs, tort, excessive taxation and regulation. External overhead costs add approximately 22 percent to U.S. manufacturers' labor costs (nearly $5 per hour worked) relative to their major foreign competitors.

Government policies can help get fundamental costs in line to help our companies continue to succeed in the worldwide economy. The problems slowing our potential were a long time in the making. They will not be solved with a single report or a short burst of attention. It takes sustained effort, determination and a willingness to fight for responsible policies.

The Bush administration is leading the way at the national level. We believe that American workers are the best in the world, and that when given a level playing field, they can compete against workers anywhere. We are acting aggressively to negotiate trade agreements that slash foreign tariffs and remove the barriers that are disadvantages to American workers and exporters. Tax cuts were vital to creating an environment of growth and innovation, and they must be made permanent. We must also reduce unnecessary regulations; make health care costs more affordable; reform the legal system to cut down on frivolous lawsuits; and enact a national energy policy that ensures an affordable supply of energy and reduces our dependence on foreign oil.

State and local governments need to step up as well to eliminate barriers to competitiveness. This means restructuring tax systems and regulatory environments to encourage investment and innovation, rather than hold it back.

Collaborate

Political and geographic boundaries are losing relevancy as virtually every product or service developed today is for a worldwide market. Competing worldwide, now more than ever, requires regional collaboration among industries, cities, counties and states. All stakeholders need to define their shared interests and capitalize on regional assets.

Universities, for example, are powerful assets for regional economic development. Regions must intensify efforts to *connect knowledge creators with knowledge commercializers* by broadening university engagement within their communities.

The federal government continues to support the unique capabilities of universities and national labs, including establishing cooperative research programs for the benefit of small- and medium-sized businesses. In addition, the Administration is promoting manufacturing technology transfer to ensure that the benefits of R&D are diffused broadly throughout the manufacturing sector, particularly to small and medium enterprises. Regional leaders must make similar priorities their own, and build successful collaborations such as those profiled in the Winter 2004 issue of *Economic Development America*, themed "University-Based Partnerships in Economic Development."

Develop a world-class workforce

Business leaders express serious concerns about whether the United States is adequately preparing the next generation for the demands of an increasingly high-tech workplace. They make clear that advanced labor skills are one of the decisive factors determining our nation's ability to compete in the worldwide economy.

More Work to be Done...

Many Americans are working hard to make ends meet. We must continue to push forward on a pro-growth economic agenda that meets the needs of the American people.

- ✓ **Making tax relief permanent - raising taxes now would put the brakes on our growing economy.**
- ✓ **Providing worker skills - preparing Americans for the skilled jobs our economy will create in the years to come.**
- ✓ **Controlling health care costs - giving America's working families greater access to affordable health insurance by providing association health plans and health savings accounts.**
- ✓ **Reducing regulation - ensuring that Federal regulations do not unduly handicap America's entrepreneurs by streamlining regulations and reducing paperwork.**
- ✓ **Reducing frivolous lawsuits - supporting enactment of medical liability reform, class action lawsuit reform, and asbestos litigation reform to expedite resolutions and curb the costs lawsuits impose on American businesses.**
- ✓ **Adopting a National Energy Policy (NEP) - ensuring that America has a reliable and affordable source of energy and reducing our dependence on foreign sources.**
- ✓ **Opening new markets overseas - helping to create jobs at home by expanding markets for America's products and services around the world.**

Two-thirds of America's economic growth in the 1990s resulted from the introduction of new technologies, and 60 percent of the new jobs created in the 21st century will require post-secondary education held by one-third of America's workforce. Regions must invest in training and retraining their students and workers to prepare them for the job demands of the future. One important way to do this is to link economic development and workforce development efforts.

On this front, the President's "Jobs for the 21st Century" initiative will prepare our economy and workforce for new challenges by expanding access to post-secondary education and fostering job training partnerships between community colleges and employers in industries with the greatest demand for skilled workers. The initiative proposes $23 billion in FY 2005 for job training and employment assistance, $250 million to help community colleges train workers for rapidly expanding industries, and $1 billion for training and benefits to assist workers dislocated by imports or shifts in production outside the United States.

The Bush administration is committed to promoting effective partnerships that enable all workers to obtain the education and training necessary to succeed in the 21st century workforce, and regions must match this commitment.

A critical juncture in history

We are at a critical juncture in history. The path to prosperity is not through isolationism, but through *engagement* in worldwide markets that promise vast returns for our communities. This transition is not easy, and the federal government plays an important role in fostering an environment that will help forward-looking regional leaders focus on their key leverage points for successful engagement. But we have reason to be optimistic. My visits throughout the country with successful regional leaders, such as those profiled in this issue, have made me confident that American communities can compete with anyone in the world. ★★★

[1] Daniel Aaronson and Sara Christopher; *Employment Growth in Higher-Paying Sectors*; Chicago Fed Letter; The Federal Reserve Bank of Chicago; September 2004; Number 206.

[2] Barbara Hagenbaugh, USA Today, September 17, 2004

[3] The Wall Street Journal, September 16, 2004, A1.

The path to prosperity is not through isolationism but through engagement in worldwide markets.

Clusters 2.0:

The Local Reality of Globalization

By James Gollub

Senior Vice President, Global Economic Development Practice, ICF Consulting

In today's global economy, every metropolitan region and community in the United States must compete both with its neighbors and the rest of the world. America's regions and communities have long had advantages for effective competition. But in a global marketplace, these advantages must constantly improve.

This challenge historically has been laid at the feet of American businesses, but today the lessons from overseas tell us the entire community must innovate and adapt. Economic development in tomorrow's global marketplace is everybody's job – the education system, laboratories, regulatory agencies, banks, investors, and utilities.

A fresh and more systematic alignment of the entire continuum of economic input "suppliers" – public or private – with the constantly changing needs of a community's industries is the hallmark of a high-performing economy. But America's communities still rely too much on programmatic approaches to improvement, often blocking necessary change. Instead, communities need to expand beyond traditional efforts that focus on specific programs for enterprise formation, business retention or industry attraction, to what might be called "Clusters 2.0" – a continuous engagement of all stakeholders in a process of learning and innovating their service delivery.

New rules: everybody is an economic "supplier"

To build and sustain the jobs that employ their citizens, American states and regions need to view themselves as key "suppliers" in the global economy. Every agency and institution needs to become a learning organization, ready to adapt its "product" to market demand – in fact, anticipating market needs as much as possible, rather than reacting. This means:

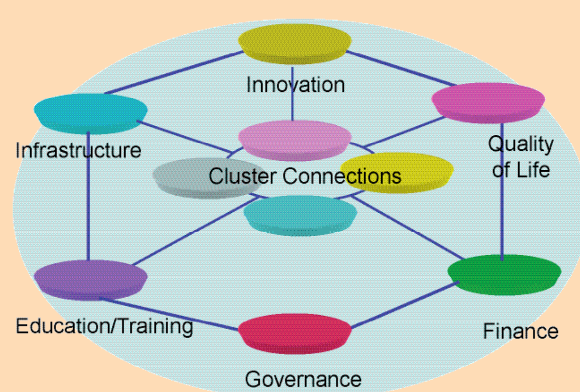
- Every training agency and educational institution makes certain it provides the skills needed by rapidly changing industries.
- Universities and laboratories develop technologies that enable producers to innovate.
- Financial institutions understand and serve each cluster's distinct capital requirements.
- Transportation and logistics, as well as utilities respond to the timing, quality, quantity and pricing realities of key industries.
- Government agencies have a customer-focused approach to working with their economy's different clusters – whether on permitting, regulation or taxation.

The key is for *every* organization, agency and institution to recognize its role in the global marketplace; therefore, they must anticipate customer needs. The compartmentalization of services such as workforce training, innovation, finance and infrastructure – and the isolation of participants that has characterized traditional economic development – will not sustain our economy over time.

Clusters 1.0: A good start, but not deep enough

Industry clusters became a popular focus for economic development in the past decade. Clusters, however, have always existed – they simply were not well understood.[1] They consist of groups of businesses, and their suppliers, that serve markets outside the region and seek similar or complementa-

The Actions of *Every* Public and Private Organization Shape Regional Competitiveness



ry types of skills, finance, infrastructure and even quality of life. They tend to concentrate only in regions with institutions that provide important inputs such as skilled graduates or research. Clusters matter because they bring new revenue into their region. While clusters may generate a quarter of all employment, they power the rest of the regional economy.

In a global, Internet-linked economy, many of a cluster's activities can move easily to places where costs are lower and the skills and technology higher. Companies join in clusters *because* of regional advantages that draw in more talent and investment. As this occurs, regional capacity to respond to needs increases. The regions we now read about in the newspapers are those that best understand what it takes to form and sustain a cluster.

While technology-driven regions receive the highest visibility of late, almost every industry that does not depend on a specific location is becoming global. This is not new. Traditional manufacturing long ago began to move to lower-cost environments. Southeastern U.S. communities have watched painfully as major portions of long-standing industries such as furniture and textiles have moved to Asia. At the same time, advanced manufacturing is growing in the United States, as the renaissance in automotive production illustrates. Moreover, new industries such as wireless communications, consumer entertainment and biomedicine are taking shape here as older industries decline or transform. However, these new companies too could leave for more competitive locations.

In Clusters 1.0, regions awake to the importance of fostering clusters. However, economic development strategies still focus primarily on programmatic matters. We see improved coordination of services, more networking by firms and sometimes a new technology program, but these are not enough.

America must strengthen its communities' capacity to support emerging and changing industries, giving businesses a reason to cluster. In doing so, the country will constantly generate *new* sources of economic value, rather than trying to retain ineffective economic activities.

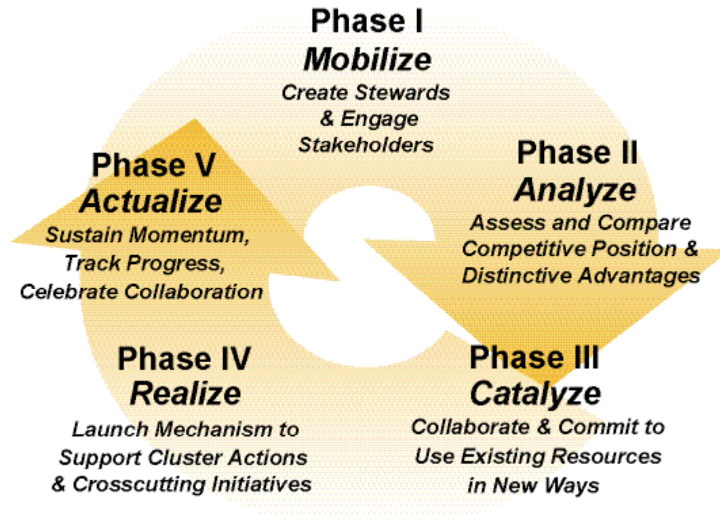
The next stage: Clusters 2.0

Economic developers have only just begun to understand and adopt cluster logic. The emphasis to date has been on describing clusters, identifying them and benchmarking their performance across regions. To energize cluster economies in the global marketplace, a next step is required – "Clusters 2.0," so to speak. Few states and regions have advanced beyond Clusters 1.0 so far.

The following summarizes a few observations about sustaining cluster initiative momentum.

Mobilize: Engaging stakeholders

Stewards: The first generation of cluster strategy oversight emphasized short-term advisory committees reporting to existing boards. In Clusters 2.0, regions recognize that serious cluster strategy requires its own committed leadership, not just temporary committees. Regions should invite prominent individuals who have a broad, objective perspective to serve as "stewards" who oversee progress on overall state economic competitiveness.



Phases of Regional Competitiveness Strategy

Cluster co-chairs: Regions and communities are working harder to recruit cluster group leaders who can promote collaborative decision-making – not simply offering recommendations, but reaching agreements on behavioral changes that both companies and institutions should make together.

Collaborative communications: The Internet has profoundly influenced the way regions communicate with stakeholders from across the economy. In Clusters 2.0, Web-based communications provide a permanent infrastructure for regional dialogue, interaction and management.

Analyze: Thinking competitively

The first generation of cluster analysis was highly descriptive, based on creating "vision" and what essentially was a wishful thinking-based strategy. Analysis often focused on a single cluster with no appraisal the overall economy. The next generation begins by examining the regional economy as if it were a holding company. Three distinct types of analysis are now needed to enable community decision-making:

- ***Overall regional performance:*** The first question that every region needs to answer is: How are we doing? The answers set the focus for all subsequent cluster strategy development.
- ***Cluster analysis:*** Individual cluster analyses need to focus far more on effectively mapping the structure of each cluster – using the more recently improved NAICS codes, with more in-depth analysis of cluster structure (not simply the larger producers) and more aggressive benchmarking against competing regions.
- ***Economic foundation assessment:*** American communities must concentrate on identification, analysis and comparison of each major category of economic input. By learning how well and how differently regions and communities support each cluster, a community can develop the agility required to compete effectively.

Catalyze: Achieving realistic commitments to competitiveness

Economic development grew up in an era of compartmentalized roles and functions such as small business assistance and industry recruitment. Public agencies were on one side of the economic dialogue and companies on the other. But real competitiveness requires *everyone* in the regional marketplace to learn and change. For this to occur, two important (and often subtle) differences for implementing competitiveness strategy need to be recognized:

- ***Convening the marketplace:*** Cluster groups must more realistically represent their surrounding marketplace. This requires not just a committee of industry representatives, but the public or private agencies and institutions that impact each industry as well. Participants should build on good competitive analysis, work on shared problems and reach agreements on changes to their own policies, programs and practices. *This convening of the market place is the crucial hallmark of Clusters 2.0.* Many competitors overseas understand this in ways that Americans do not. Yet the crux of global competitiveness is creating and aligning advantages with producers.
- ***Defining flagships:*** Cluster groups need to define the challenges they share as well as the solutions on which they are willing to work together – across clusters and stewards. These crosscutting needs and actions, often called *flagships*, either resolve longstanding problems or catalyze new advantages for multiple clusters.

Realize: Think implementation from the start

In the past, the development of a competitiveness strategy often concluded with a report recommending actions. In Clusters 2.0, there are no more wish lists, only commitments. An implementation mechanism should be defined, designed and established before the strategy is concluded, and launched as the results are presented. Realizing actions increasingly relies upon having:

- ***Regional leadership organizations:*** The first order of business is to redefine leadership, whether for an existing or new economic development body. Leaders must focus not just on traditional programs, but on decisions and actions of all public and private organizations that impact competitiveness. Ideally, such a leadership organization helps schools, government agencies and other stakeholders learn more about the needs of a high-performing economy and helps them make better use of resources – just as businesses must do to compete.
- ***"Real" cluster networks:*** Dynamic cluster networks must be formed, not simply as associations under a new label but as real reflections of the regional marketplace. Producers and suppliers must actively collaborate with every public agency that impacts them, as well as every major institution that supplies them – schools, banks, utilities and so on.

In the United States, industry collaboration often tends to be national, focusing on lobbying and pre-competitive technology – which, while important, do not always address regional challenges. Regional efforts have tended to be one-issue initiatives, such as workforce training projects. In Clusters 2.0, clusters are no longer simply a group of businesses, but a real collection of key economic stakeholders.

Actualize: Sustaining momentum

Once leadership and cluster mechanisms are in place, there should be strong reinforcement to make collaborative improvements an ongoing part of the economic culture, not just an occasional study process. This requires three types of capability:

- ***Collaborative online communities:*** To support continuous improvement and community input processes, communities are implementing Internet-based forums that permit continuing dialogue. These become the distribution mechanism for the continuing work of the cluster initiative and complement semi-annual forums.
- ***Competitiveness matching funds:*** When clusters undertake competitiveness strategies, their members typically define challenges and the actions needed meet them. However, members often fail to make progress without external financial support. Competitiveness matching funds can provide a portion of the money a cluster network needs to purchase goods or services for carrying out an action. The funds go to third parties, not cluster members themselves, and are carefully tracked for compliance.
- ***Competitiveness tracking systems:*** Regions and communities will measure their economic performance periodically. But if the metrics used each time vary, tracking the results may be difficult. This is why a well-designed competitiveness tracking system that uses consistent metrics over time is essential.

Reward collaboration and celebrate innovation

Markets are the epitome of collaboration. Effective regional cluster action results from a change in collaborative culture, not necessarily new projects or programs. "Hot" economic regions – those with a high rate of enterprise formation, expansion and attraction – have enduring traditions of agility across both the private and public sectors. For this reason, sustaining a regional industry cluster initiative requires a constant "hunt" for examples of innovation and adaptation by businesses and institutions. Meetings should be held throughout the year and annual performance reports published.

Ultimately, if American communities are to compete effectively in the global market, they must embrace continuous improvement without hesitation. That is what Clusters 2.0 is all about: learning to change and changing to compete. ★★★

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[1] J. Gollub, Cluster-based Economic Development: A Key to Regional Competitiveness, EDA 1997

‘Insourcing’:

How Japanese Cars Come to be Made in America

By Katie Burns

International Economic Development Council

More than a few people in recent years have been worrying about the impact of globalization on American jobs – namely, the “outsourcing” of American jobs abroad.

Fewer people seem to know about the other side of the issue – what some call “insourcing,” or foreign-based companies that establish offices, manufacturing plants and other facilities here in the United States.

Twenty years ago, there was a great deal of concern about U.S. policies of economic openness that permitted large flows of foreign investment into the United States. Yet, today, this foreign investment is widely recognized as having been very beneficial for the U.S. economy, particularly for workers and consumers. Since 1990, “insourcing” has been responsible for $1.5 trillion of investment in U.S. companies and factories, and currently provides jobs for some 6.4 million Americans.[1]

Insourcing, and the economic development benefits it provides, was the overarching theme of a recent roundtable discussion hosted by Toyota Motor Manufacturing North America and the U.S. Economic Development Administration. The event took place in one of 10 manufacturing plants the company operates in the United States, this one just outside Princeton, Indiana, population 8,000. On September 14, representatives from several of those communities joined Assistant Secretary Sampson and key Toyota executives in the 4 million-square-foot Princeton plant where Toyota assembles 300,000 vehicles a year and employs nearly 4,800 people, for this groundbreaking event titled, “Thinking Regionally, Competing Globally.” The discussion focused on economic development strategies that position communities to compete successfully in the worldwide economy, and thus attract world-class companies like Toyota or its key suppliers to their regions. EDA hopes that other communities might learn from these best practices.

Dr. David Sampson, assistant secretary for economic development with the U.S. Department of Commerce, reminded participants at the roundtable that, in 2003, the United States saw $86.6 billion worth of direct investments by foreign-based businesses. “America has built the world’s largest economy by working with the world,” he said.

Thom Robinson, executive vice president for the Morristown (Tennessee) Chamber of Commerce, has seen this firsthand. Morristown, population 25,000, is home to 14 international companies representing six different foreign countries. “It’s rare that you hear about insourcing, the foreign investments that are made here – and the results,” he said. “These are, for the most part, newer, better-paying jobs that require greater skills. These are replacing lower-paying, lower-skilled jobs that are going offshore.

Toyota Motor Manufacturing Indiana Inc. occupies 1,160 acres in Princeton, Ind., and as of December 2003 employed 4,700 people.
Photo courtesy of James Holderread, Evansville Regional Economic Development Corp.

“Our real challenge in my state, and this nation, is to be able to supply enough skilled or trainable workers to meet the needs of these new investors.”

The participating communities had certain things in common that won over Toyota and other manufacturers: a regional approach; the ability to learn from previous efforts; long-term economic development strategies; broad-based, bipartisan support for their attraction efforts; and a willingness and ability to deliver on commitments.

Hidehiko "T.J." Tajima, president and CEO of Toyota Motor Manufacturing Texas, shows off a souvenir of the company's announcement that it would build a new plant in San Antonio.

Photo courtesy of Toyota Motor Manufacturing North America

Taking a regional approach

You can't win the insourcing game, especially when dealing with a major employer like Toyota, unless you're willing to work across jurisdictional lines and position your region for success. This point was hammered home again and again.

Indiana: The panelists who had helped land the Princeton plant included a state senator, the Gibson County attorney, a Princeton resident, and representatives from "Vision-e" and the Evansville Regional Business Committee, both based in Evansville, Ind., some 20 miles away in Vanderburgh County. Vision-e reports that approximately 1,300 Vanderburgh county residents work in the Princeton plant.

Owensboro, Kentucky: Malcolm Bryant, a real estate developer in Owensboro, some 60 miles from Princeton, noted that community leaders there lobbied almost as hard for the Indiana decision as the Indiana leaders did. "Our capitol didn't understand that," he said.

Owensboro, however, did understand it: The town is near enough to host suppliers to the Indiana plant, but not so close that the area's businesses compete with Toyota for the same workforce. This explains in part why the area now is home to Dana Corp., which provides Toyota with steel frames, and parts manufacturer Toyetetsu America, which together employ almost 800 people.

Morristown, Tennessee: Robinson, who serves as the sole economic development professional for Morristown, pointed out that thinking regionally has helped attract 14 international companies representing six different countries. The Northeast Tennessee Regional Association markets the region, while the federal Tennessee Valley Authority, local utilities and the state Economic and Community Development Department also participate.

San Antonio: Jeff Moseley, executive director of Texas Economic Development in the office of the governor, dryly noted that regional cooperation isn't always easy to get in the Lone Start State. "We do have issues in Texas with 'Friday night football syndrome,'" he said, referring to the hostilities that develop among communities whose high schools compete against each other in football and other sports. But those issues largely fell by the wayside as San Antonio and the state pursued Toyota. Today the company is building a plant only 15 miles from downtown San Antonio, where it plans to start manufacturing Tundra trucks in 2006, with a projected workforce of 2,000.

Learning from previous efforts, and don't burn bridges

If International Corporation X decides to build its facility elsewhere despite all your efforts, Sampson and others said, don't burn your bridges; learn from the experience instead, because, like southwest Indiana, your area might one day get a second chance.

Indiana: Attorney George Rehnquist, a Princeton resident who served on the regional team that helped recruit Toyota, recalled the company coming through in the 1980s, scouting a location for a Camry sedan assembly plant. That project eventually went to Georgetown, Ky. But Rehnquist recalled that Indiana officials did receive a very nice thank-you note from Toyota, telling them that the area had been one of the top finalists. "We thought they were very polite to say that," he recalled, wryly.

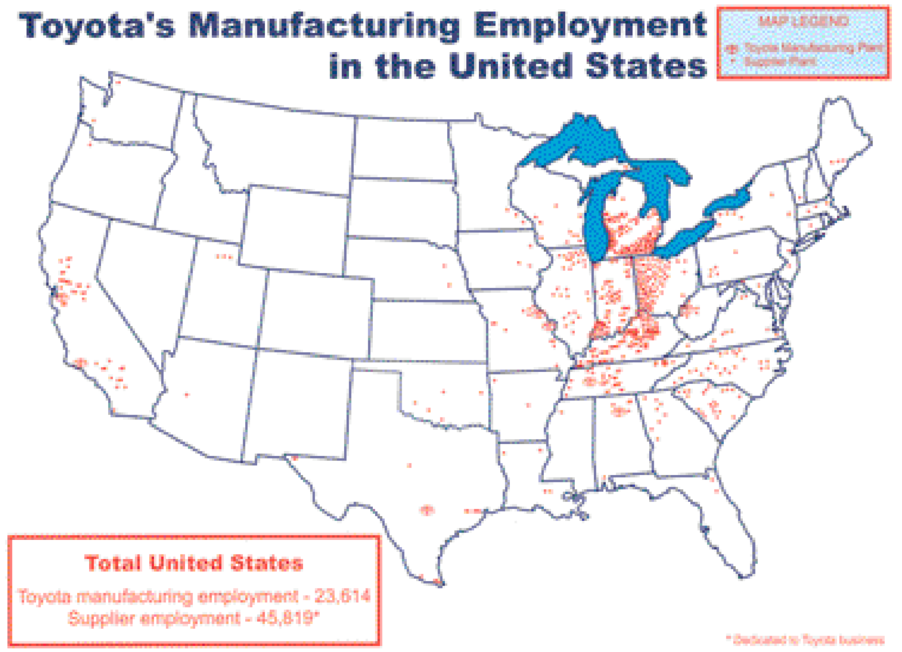
Ten years later, however, Toyota did return, looking for a place to build its Tundra truck line. Everyone, from the state level on down, swung into action. They persuaded the county council to pass an income tax to fund economic development projects, despite the council's previous rejection of the idea. They persuaded all the owners of the 1,160-acre proposed site to sell, by vetting a price with Toyota and then offering the same rate to all the owners at once. (That way, no one fussed about his neighbor getting a better price than he did.) They made sure that state law would allow Gibson County and other local governments to offer tax abatements and create tax increment financing districts. They shored up support for transportation and workforce training help.

The Indiana team also did its homework on primary concerns of Japanese companies and their workers. The top three: education, health care and food. Ken Robinson, executive director of what then was called "Vision 2000," now known as "Vision-e," in Evansville, commissioned a video of interviews with all the heads of the region's colleges and universities, and had it translated into Japanese. He found

Japanese language interpreters for local hospitals, and assembled an analysis of the area's restaurants and international grocers so incoming Japanese families would find food that reminded them of home. "In economic development, there's the 'hard' side and the 'soft' side, and we had to become experts in both," Robinson said.

They also set about opening the hearts and minds of some local residents who resented the notion of a foreign company coming to town. "What we said back then was true," Gibson County Attorney Jerry Stillwell recalled. "Once your child, your son-in-law, or your neighbor's kid is working there, all that [resentment] will be gone."

The Princeton plant began operations in December 1998, and has expanded twice since.



A map showing the distribution of Toyota's existing and planned manufacturing facilities in the United States, as well as the locations of supplier plants.
Map courtesy of Toyota Motor Manufacturing North America

San Antonio: The state of Texas learned a few things from its own experiences in wooing Toyota. Although San Antonio won the project, the state's lack of direct involvement in economic development projects at the time and its lack of funds for "deal-closing" incentives on major projects had been problematic. Moseley said Texas since then has reorganized its economic development department and placed it under the direct supervision of the governor's office, and it has set up a $295 million fund to provide incentives – and that fund played a key role in persuading Texas Instruments to build a new semiconductor plant in Richardson, near Dallas, instead of going elsewhere.

Arkansas: Even though Toyota chose Texas over Arkansas as the site for its new truck plant, Larry Walther, director of the Arkansas Department of Economic Development, described it as good for his state. "What we've found is that experience has led to other things," he said. Other companies have decided to set up shop in Arkansas after noting the pitch state leaders had made. The process has also left the state with something it once had lacked: a ready site for another major manufacturer to use. Arkansas also has stepped up its regional ties – not just within Arkansas, but with Mississippi, Tennessee and Texas, Walther said.

Sustaining a long-term strategy

The wise community is the one that takes a long-term view of its economic development strategy and maintains it over the years. "If your state strategy changes every time the power at the top changes, that's bad," Sampson said.

San Antonio: Although it took years before any Japanese companies set up shop there, the Alamo City in fact has had consultants working with Japanese businesses for 20 years, according to Mario Hernandez, president of the city's Economic Development Foundation.

Morristown, Tennessee: The area attracted its first Toyota affiliate company in 1989 and has been at work developing a thriving cluster of international manufacturing companies throughout the ensuing 15 years. Regional leaders have had ties with Canada for two decades and are working now on a German initiative.

Huntsville and Madison County, Alabama: This region may be the ultimate example of a place with a long-term international economic strategy. The area got a special boost in the 1950s when Werner Von Braun arrived from Germany and started what then was a fledgling aerospace industry there. Not only did the region develop a high-tech economy before anyone had really heard of the term, regional leaders there learned to think internationally before most other communities did.

The area's first Asian-based firm arrived in 1981 – LG Electronics, based in South Korea. Madison County Commission Chair Mike Gillespie said officials soon decided to pursue international businesses more aggressively, sending representatives abroad to trade shows, conferences and other venues. Often, he recalled, the Huntsville/Madison County area was the only American community at these events. The region also developed an inland port at the regional airport and established what eventually became the North Alabama International Trade Association.

The effort paid off in 2000 when Toyota came looking for a site to build a new assembly plant for V-8 truck engines. As Brian Hilson, CEO of the Huntsville/Madison County Chamber of Commerce recalled, "We literally told the site selection committee, 'Look, if we could build engines that could send a man to the moon in 1969, we can build your truck engines.'" Toyota executives agreed, and today the Huntsville plant employs 345.

Securing broad-based support

If you want to impress site selectors for a major international company, be sure everyone is on board with your attraction

Richard Sears, a young student in southwestern Indiana, drew up his own idea of what a Toyota manufacturing plant in his community would look like. His was one of the many drawings and essays created to show Toyota the community's support for a proposed manufacturing plant there.

Artwork courtesy of Vision-e, Evansville Regional Economic Development Corp.

strategy – public and private sectors; city, state and county officials; the educational institutions; and the Democrats and Republicans alike. Dennis Cuneo, senior vice president of Toyota Motor Manufacturing North America, highlighted this as he moderated the panel. "The last thing a company such as ours wants is to find itself in the middle of a political squabble," he warned.

Indiana: Handling elected leaders can be a challenge, thanks to confidentiality requirements laid down by most corporate site selectors. Rehnquist recalled the team had to walk a fine line, respecting Toyota's requests for secrecy early on while somehow providing as much information as they could to elected officials. "In order to get cooperation, in order to get people to be able to react when you need them to and not be surprised, so they don't take a negative attitude, I think it's important to tell them as much as you can," he explained.

State Senator Lindel Hume (D) jokingly said that he was one of the politicians Rehnquist's group had been expected to keep in the dark. "Probably my greatest contribution was keeping my mouth shut," Hume said. But throughout the process, he and other officials kept partisan politics as far out of the picture as possible. This was particularly important in a place like southwestern Indiana, where Republicans and Democrats share power.

And Indiana leaders pulled together to get funds for infrastructure improvements, including an overpass to help feed employee and truck traffic onto the local highways; extending two rail lines to the site; maintaining existing programs such as the state's special credit for payroll taxes; and strengthening the area's college and university-based workforce programs.

San Antonio: Officials there were courting Toyota in the midst of a gubernatorial election, and some observers worried that the governor's challenger might try to raise questions about the deal being hammered out. But the opponent and his backers understood that this project was too important for San Antonio, and for Texas, to be made into a campaign issue. Officials from both parties, who might disagree on plenty of other issues, pulled together to make the Toyota project a reality.

Delivering on promises

The work doesn't stop once the initial contract has been signed. If you want the new company to stay and expand in your area, you need to follow through on every promise made during the courtship phase.

Indiana: Officials had promised Toyota a clean, trouble-free site; when they discovered two pipelines on the property at the last minute, they moved them. They promised water; they delivered. They promised road and rail improvements, and they delivered. They committed to workforce training, and they delivered.

Lawrence County, Illinois: Terry Dennison, executive director of the Lawrence County Development Council, recounted making promises without hesitation after finally getting the head of Trim Masters Inc. to so much as speak with him on the phone. The company chief told him, "We need 30 acres." "You've got it." "We need sewer and water." "You've got it." "We need this. …" "You've got it."

As it turned out, the county didn't actually have everything ready to go. But they had so many other assets – a good site, a highway leading to the Toyota plant, and more – that Trim Masters was willing to wait a bit while local officials scrambled to make good on the rest of its commitments. (Dennison noted that a grant from EDA helped the county fund the necessary water and sewer improvements.) Today, the company – which changed its name to ATS, for "Automotive Tech Systems" – not only followed through on its own commitment to employ 100 people, it has expanded to a workforce of 800 and has made $200,000 in corporate donations to the local schools and other community causes.

Morristown, Tennessee: Thom Robinson compared Morristown's approach to that of a good car dealer, focusing on "service after the sale." He also emphasized earning the company's trust. "We shoot straight with them on every issue, and we work to 'underpromise and overdeliver,'" he said. It works. Seven automotive companies have come to his small community and stayed because the first one, Toyoda-Koki Automotive, came to the area in 1989 and had a good experience.

That's also why Toyota has expanded twice in Princeton, Indiana. Area leaders made sure company executives had a good experience there, and they keep working on it. And that's what it takes, ultimately – making sure the company has a good enough experience to want to stay. ★★★

[1] Business Roundtable, March 2004, "Securing Growth and Jobs: Improving U.S. Prosperity in a Worldwide Economy"

Time to Coach Companies to Compete in the Ring

By Carol Conway

Deputy Director, Southern Growth Policies Board

Communities were thrown into a boxing match called "globalization" and many didn't get up after the first punch. But the fact is that export development is no longer a peripheral strategy for job growth. If you don't want your community down for the count in the next decade, export development has to go mainstream – working fist-in-glove with the fancy footwork of other business development strategies, such as recruitment, incubation and plant modernization.

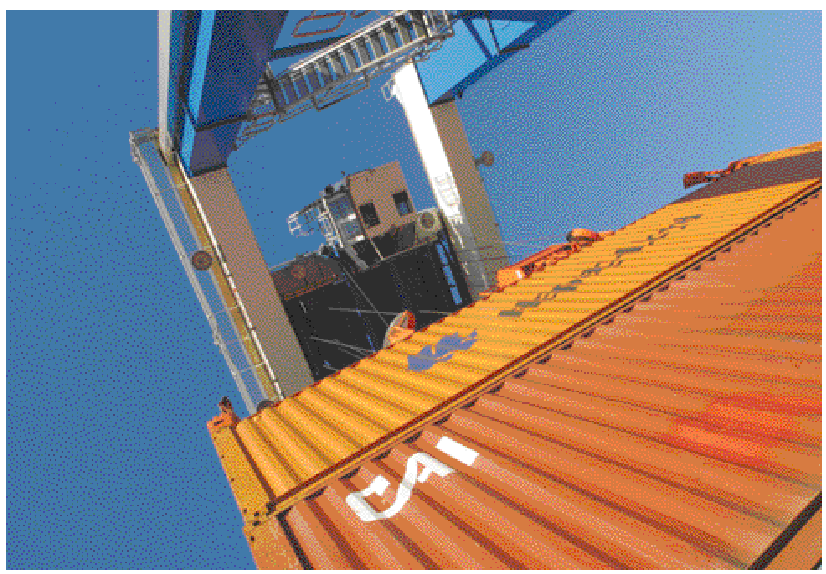
This all may sound like silly hyperbole, but it isn't for most communities. After all, small businesses create two-thirds of the new jobs in the United States and represent 97 percent of all exporters. To illustrate, if the South's businesses had merely exported up to the national average in 2001, measured as a share of gross output, we could have enjoyed $46 billion annually in increased revenues and over 600,000 more jobs in the region.[1] That would have been more than enough to balance out the loss of jobs due to imports.

This analogy is probably right for non-Southern firms as well. Except for the giant multinationals, the majority of experienced exporters are shipping to just one country (Canada or Mexico) and at a fraction of their potential.[2] Moreover, the United States is the most passive exporter among major industrialized countries, exporting merchandise worth little more than 7 percent of its output in 2003, versus 28 percent for Germany or Canada.[3] (Both figures would be bigger if service exports were included.)

Consider these facts:

- Trade accounted for about a third of U.S. growth during the 1990s.
- Two-thirds of the world's purchasing power is outside the United States.
- In 2002, a sluggish year for exports and production, 13 percent of the world's entire output consisted of merchandise exports.[4]
- On average, manufacturing exporters use technology 50 percent more intensively than their counterparts that only sell domestically.[5]
- Worker productivity in exporting plants is 10-15 percent higher, and the return on investment is 8-22 percent better.[6]
- Exporters are able to pay better wages – an average of 13-18 percent more than firms that only sell domestically.[7]
- Sales growth allows plants to add jobs 18 percent faster.[8] Notably, virtually every manufacturing job lost in the 1990s was from a non-exporting plant.
- Exporters also spend more on worker training – 13 to 27 percent more – and help raise local workforce performance standards.[9]

This exceptional performance is seen in both large and small exporters. In truth, however, entering the export business generally doesn't make a firm more profitable – most enjoy above-average profits even before they start exporting. But research does show that the act of exporting increases



States and communities can help companies learn how to export by supporting educational programs; organizing alliances; creating opportunities to help businesses learn from each other; spreading business intelligence; increasing networking opportunities and investing in infrastructure.

the longevity of a firm and the rate at which it creates jobs.[10] Increased firm longevity may be due to in part to increased learning. Going global does more than increase sales; it gives companies chances to learn, innovate and stay competitive. Recent research suggests that *any* level of international activity enhances the odds for business survival and growth.[11]

This finding echoes other recent research on the textile sector. Cheap overseas labor was only one of several factors leading to industry decline, but the research suggests that globally-aware modern management was one of several predictors of firm survival.[12]

Why do we export far less than our potential? Some of the many reasons more firms don't export, or export more intensively, are:

- *Lack of awareness and expertise.* Businesses are awash in information, but have neither the time nor inclination to sift through the noise to capture the intelligence. Moreover, business advisors such as banks or accountants may not have the expertise needed for a specific international transaction.
- *Internal disconnect.* Going global means more than responding to unsolicited buyer requests, or placing an ad in a journal; it means being willing to reinvent the company. Existing sales and marketing staff can only go so far. The parts of the firm handling certifications, packaging, cost accounting and supply chains all need to be revamped to maximize a firm's global potential.
- *Rigidity.* For many businesses, it is hard to recognize the point when proven success strategies are no longer effective at keeping the firm competitive. For some, going global means fundamentally altering what they are and how they conduct business. For others, exporting represents too big a risk, too large a shift in scale.
- *Lack of planning and commitment.* Many firms have attempted to export and failed, often because they jumped in with little foresight. Firms must do their homework – and get help with it – before they become stuck. One must look and act like a reliable, long-term supplier.
- *Peer support networks tend to be very limited.* Moreover, the public sector is rarely organized to advise firms effectively on the total range of skills and knowledge needed to pursue international opportunities.

Taking action

We need a greatly heightened awareness of competitive strategies and opportunities, and confidence that we can win in the global boxing ring. For that, we must find new ways to drive down the cost of exploring exports.[13] The approaches need to include, but go beyond incremental increases in existing export programs. This does not mean, however, that states and communities should subsidize export operations – quite the contrary, direct subsidies are inefficient and violate international agreements.

Among the responses that states and communities might consider are:

- *Provide systematic educational programs for existing business staff.* This could be accomplished through matching grants or tax incentives to individual firms or professional associations. (Educational programs generally are not considered export subsidies and therefore would not compromise international trade agreements.)
- *Organize and support alliances and collaborations among trade service stakeholders,* including those that may not recognize their role, such as professional associations or industrial extension services. Government, foundations and corporate champions can motivate these groups to come together to develop and implement state, regional and community strategic plans for helping businesses go global.
- *Create structures for businesses to learn from and encourage each other.* Exporters say that most of what they know about trade they learned on their own or from their peers.[14] Industry alliances or clusters are a good starting point for developing peer networks, as well as sector-specific strategic plans.
- *Develop systems to spread business intelligence.* International certifications, standards, regulations, politics, competitors and consumer taste shift rapidly and all at the same time. Industry journals and professional associations help, but the equivalent of a daily international briefing would be more effective to those companies just starting to explore or expand into new markets.

"ISO regulations have many different standards, and there can't be exporting unless these standards are met. It is hard to figure out how to get ISO certification."

– From a community discussion forum on globalization in Knoxville, February 18, 2004.

- *Increase contact opportunities for firms, entrepreneurs and their key personnel.* Face time with potential buyers is essential. It is relatively easy and inexpensive to attend an international trade fair in North America, or to work with universities and International Visitors programs to channel foreign visitors into the local business community. States might also consider educational tax incentives for non-exporting companies to travel to shows and fairs, and make better use of videoconferencing.
- *Invest in the hard infrastructures of transportation and communication.* Federal and private funding make it possible to upgrade infrastructure, but trade is not always top on planner's minds.

Pioneering programs

The Federation of Southern Cooperatives. This group created an Emerging Markets Program that provides export training and facilitation to small family farmers and cooperatives based in rural communities in what is known as the "Black Belt," a Virginia-to-Arkansas swath of very poor counties with significant African American populations. The program is part of an ongoing effort to link small family farmers across borders and thereby establish global market relationships between Black Belt areas and countries in Africa, the Caribbean and Latin America.

The Kansas City Chamber of Commerce. It created GLOBE (Global Leadership Opportunities for Business Executives), a nine-month export training program for business executives to learn – together as a group – how to export. At the end of the course, participants have very specific export plans and a peer network to turn to for ongoing advice and support. Business executives with extensive international trade experience teach the courses.

The Southwest Virginia Higher Education Center. It created the International Business Program, which targets export advice and help to smaller firms in southwest Virginia, a region of the country that has been economically devastated by plant closings. The program holds international videoconferences with U.S. federal offices overseas and uses interactive videoconferencing for "matchmaker" events to introduce individual companies to potential buyers. The program also offers Web site design and translation services for small firms, as well as seminars on effective e-commerce strategies. Students from a new international business degree program at a local college prepare international marketing research and plans for area businesses.

The North Alabama International Trade Association (NAITA). Twenty years ago, Madison County's International Trade Development Center (ITDC) established this nonprofit, business-driven organization as an integral part of its economic development strategy. NAITA promotes trade education, provides a networking forum and offers current information on trade issues through its Web site (www.NAITA.org). Since its inception, NAITA has hosted over 300 events and hosted or supported 96 foreign business delegations from 39 countries. NAITA's current membership totals a record 360, indicating a strong interest in trade.

Meanwhile, the ITDC monitors the impact of trade on the local business community. An initial trade survey released in 1986 identified 84 exporters in Madison County with export sales of just over $1 billion. In 1998, 148 local companies exported $3.3 billion of goods and services, supporting 51,142 jobs.

Rural Enterprises of Oklahoma, Inc. (REI). REI started the International Trade and Development (ITD) program in 2000 to help rural firms explore the global marketplace. REI is a nonprofit economic development organization that has been serving rural Oklahoma for 21 years through incubators, investment recruitment and related activities. The majority of Oklahoma businesses are small, many located in rural areas. Very few of these companies have access to the usually urban-based export programs and services. ITD works closely with other state and federal organizations to make rural businesses aware of these resources.

The South Carolina Export Consortium (SCEC). Created in 1997, SCEC became a consultant to small, homegrown and privately held firms, which almost always are terrified to enter international markets. SCEC now provides these small-

Going global does more than increase sales; it gives companies chances to learn, innovate and stay competitive.

er companies with market studies, business plans and consulting services. On an annual basis, SCEC conducts an average of 60 research projects and works with more than 100 companies. SCEC also has helped train over 100 graduate students and interns at the University of South Carolina and Clemson University. Through this partnership, students work with and conduct market research for consortium clients. SCEC also was instrumental in establishing export-marketing classes at both institutions.

Coaches and contenders

In the global economy, change and increasing complexity make traditional approaches to competitiveness inadequate. Exporting is about education, planning, infrastructure and behavior incentives – the classic functions of public policy. More coaches and contenders both are needed in the ring.

For more information about these model programs, other reports and globalization discussion toolkits, visit Southern Growth's Web site at www.southern.org. ★★★

Southern Growth Policies Board (SGPB) is a non-partisan public policy think tank based in Research Triangle Park, North Carolina. Formed in 1971, SGPB develops and advances economic development policies by providing a forum for partnership and dialogue among a diverse cross-section of the region's governors, legislators, business and academic leaders and the economic- and community-development sectors. SGPB is supported by memberships from 13 Southern states – Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, Missouri, North Carolina, Oklahoma, South Carolina, Tennessee, Virginia, West Virginia – and the Commonwealth of Puerto Rico.

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[1] These numbers are intended for illustrative purposes only. Calculations are made based on 2001 Miser data, divided by state GSP. The result is compared to the national average, with "missed sales" being those that would have been produced if the state exported at the average rate of exports as a share of GSP. Extrapolations are made based on $1 billion in sales creating 15,000 direct and indirect jobs in the goods sector, and 10,000 jobs for the services sector. Services are estimated to be close to the national average, which is one-third the value of manufacturing exports. The numbers could be quite different in a period of full employment.

[2] It is often said that only a quarter of firms that could export actually do, and among those that do export, they export only a quarter of what they could.

[3] The U.S. numbers are calculated based on the average of all state exports and all state GSP. As such, it may vary from U.S. exports as a share of Gross Domestic Product – a reflection of the data collection challenge. The Canadian and German numbers come from the *CIA World Factbook* and are based on 2002 estimates.

[4] *The CIA World Factbook*, 2003, http://www.odci.gov/cia/publications/factbook/index.html. Growth in global output fell from 4.8 percent in 2000 to 2.2 percent in 2001 and 2.7 percent in 2002.

[5] Dr. Paul M. Swamidass, *Technology on the Factory Floor, III: Technology Use and Training in U.S. Manufacturing Firms*, The Manufacturing Institute, 1998.

[6] Another study, *Why Exports Matter: More!*, by Dr. J. David Richardson and Karin Rindal, shows that 1992 exporters were up to 20 percent more productive than their non-exporting peers (The Manufacturing Institute, 1995).

[7] U.S. Small Business Administration, http://www.sba.gov/oit/statereports/, and *Exceptional Exporter Performance: Cause, Effect or Both?*, by Dr. J. Bradford Jensen and Dr. Andrew B. Bernard, Carnegie Mellon Census Research Data Center, 1997.

[8] Ibid.

[9] Dr. Paul M. Swamidass, *Technology on the Factory Floor, III: Technology Use and Training in U.S. Manufacturing Firms*, The Manufacturing Institute, 1998.

[10] Ibid.

[11] J. David Richardson and Howard Lewis, *Why Global Commitment Really Matters*, Institute for International Economics, 2003.

[12] "Community Based Adjustment to Textile Plant Closure and Downsizing," conference, University of North Carolina, Center for the Study of the American South, http://www.unc.edu/depts/econ/PlantClosure/index.html. Historically, manufacturers depended on a local intermediary to match product to buyers. When textile production shifted to Asia in the mid-1990s, the link between buyer and supplier was severed. Asia evolved its own supply chain with its own intermediary institutions. Many textile managers were unaware of the consequences. Today, textiles from Asia have virtually no U.S. content. (This contrasts with the Caribbean and Central America, where U.S. content of imported apparel items can hit 50 percent.)

[13] National Federation of Independent Business, http://www.nfib.com.

[14] Jennifer Bremer, "Trading Up: Report on A Symposium to Provide State and Private Sector Input Into the National Export Strategy," Kenan Institute for Private Enterprise, 1993.

Merging Old and New Economies:

Perspectives from the Textile Industry

By Skott Greenhalgh Ph.D.

Vice President of Research and Development, Prodesco; Chief Technology Officer, Secant Medical

The textile industry is one of the oldest and largest sectors in the history of American manufacturing. At one time, the textile industry was the fourth largest employer in the United States, but today textile companies are struggling to survive. Many mills have closed, thousands of jobs have been lost, and many small towns fight to exist beyond their dependency on the local mill.

Textile mills were commonplace first along the Northeast corridor of the United States, in response to the needs of the colonists at the beginning of our country. For 200 years, textile mills grew in numbers. Gradually, textiles become more than just clothing, blankets and bedding. They were engineered for a variety of uses and as the industrial revolution gained momentum, the need for more sophisticated textiles, industrial fabrics and ever-increasing efficiencies gained speed as well. New textiles machines were developed that ran faster, created less waste, and ensured a continuous, low-cost supply of fabrics.

The engineers who created the machines for these highly efficient mills unwittingly initiated their own demise. The new generation of machines had safety devices, automatic shut-off systems, fewer moving parts, self-threading mechanisms, automatic cutting, and many more simplifying options. Smaller numbers of workers per mill were needed, and the mills that did not embrace the new technologies became extinct.

As mill owners sought ways to increase profits, the efficient mills gave owners multiple avenues to reach their goals. They needed less labor, were mobile, and the majority of the mill workers could be less skilled. Mill owners recognized that Southern states had hungry workers, which equaled cheap labor; low-cost space for mills; and abundant raw material supply (cotton was the material of choice). Many mills made the move south and set up shop. Costs dropped even more, and eventually, only a handful of mills remained in the Northeast. Those that did remain in the Northeast were mills that focused their resources on technologically advanced textiles.

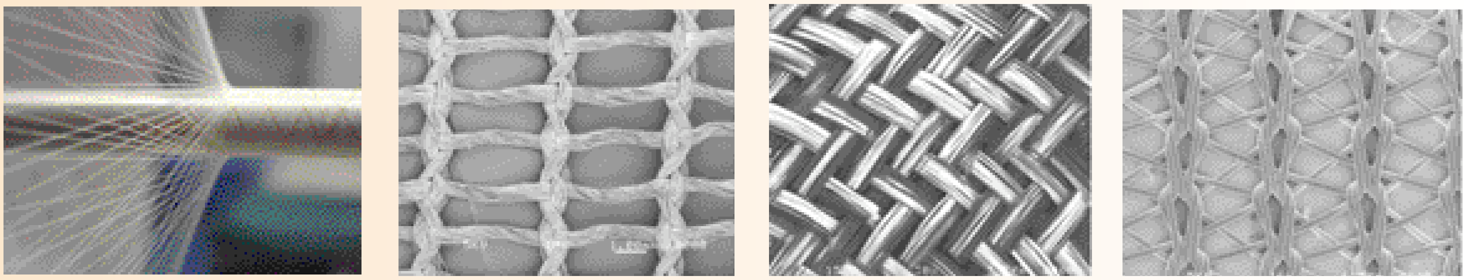
Southern mill owners did very well for many years, but slowly, a new threat began to develop as workers and mills overseas started competing with U.S. mills. The labor rates in Asia and some European countries were less than one-fifth the rate in the United States. Mill owners had to adjust again, so they started developing partnerships with their competitors and moved many manufacturing operations offshore.

Under the need to do more with less at a lower cost, this cascade of events led to a shrinking U.S. textile workforce. However, the highly skilled textile workforce in the Northeast survived as technical textile companies leveraged basic ideas to protect and even grow their businesses. These high-tech mills recognized that they had cream-of-the-crop workers, top-notch equipment, and ways to legally protect their creativity through trade secrets and patents. Technical textiles is just one of the industries that followed this path to survive. Other industries, such as electronics, pharmaceuticals, medical devices, aerospace and automotive companies are following in the footsteps of the textile giants.

Prodesco's story

Prodesco (**Pro**duct **Des**ign **Co**mpany) is a 60-year-old technical textile firm that in the early 1970s found itself struggling with changes in the industry. Recognizing that it needed to get creative in order to thrive in a changing marketplace, Prodesco reinvented itself in the mid-1970s by leveraging its foundation skills and knowledge to create a non-commodity business. Prodesco began to serve special components markets – primarily aerospace, medical and technical industrial – with highly customized fabric needs, such as strengths, areal densities, temperature needs, porosity or uniformity. Prodesco has since made fabrics that were on the moon and the space shuttle, implanted in the human body, and that protected people during war.

Serving customers for whom a quality product was a top requirement required highly technical skill sets, unique equipment and resulted in high-cost final parts – as much as $300 per square centimeter for some fabrics. The confidential nature of the work was key to protecting business as well.



Prodesco serves special components markets – primarily aerospace, medical and technical industrial – by meeting highly customized fabric needs, such as strengths, areal densities, temperature needs, porosity or uniformity. Its fabrics have been on the moon and space shuttle, implanted in the human body, and protected people during war.

These are among the reasons that the "Prodesco model" has worked: little competition; a skilled workforce; trade secrets that include raw materials, finishes, equipment and tools; supply agreements; patents; and a workplace that nurtures creativity and freedom.

Moving into medical

In 1998, Prodesco made an evolutionary change, creating a medical division to take advantage of rapid growth in medical technology advances. It fit well with the Prodesco model: high-risk, high-reward work; long-term projects requiring highly technical know-how; and a niche less sensitive to market conditions. The senior management of Prodesco sought out and hired an elite team with medical industry expertise and gave them vast amounts of freedom and resources, guided by a written charter, to respond to the urgent need to support larger medical device companies with textile expertise.

The new medical division managers wrote a detailed business plan and went to work cultivating a new market, creating new lab spaces within Prodesco, leveraging skills from within and hiring from outside when a deficiency was found. The new medical division followed Prodesco's trade secret lead, but quickly became intellectual property owners and strategists: Within the first few years of the creation of the medical division, Prodesco had filed 16 patents to protect the company's product, material or in some cases, process.

Prodesco's medical textiles group was spun out as Secant Medical LLC in 2001 to make components for medical companies. Following Secant Medical was the spinout of a second company, Secant Medical Engineering (SME), in late 2003. SME's charter is to start new medical product developments that can be sold or distributed by the larger medical companies. SME's personnel have had to learn more than textiles and materials; they have become fluent in patent work, FDA regulatory paths, medical device testing and design.

SME has and will continue to leverage the unique textiles and material technologies of Secant Medical. And while SME can develop a medical device more efficiently, at lower cost and in many cases smarter than a large company, its products are then sold or distributed by larger companies with huge sales forces and vast experience.

Common threads

Textiles in the United States have followed a cascading cycle that ultimately has led to the demise of most companies that compete on cost rather than technology. Among the many small textile companies that have adapted to survive, a common thread exists: hard work, highly skilled workers, highly technical products, and confidentiality or patents for protection. When these tools are leveraged well, success is within reach.

Prodesco grew its technical textile business quickly; then Secant Medical became a leading player in the medical component industry and created a foundation of technology that the second spinout, Secant Medical Engineering, is leveraging into its own devices. These successes have not come easily, though. Many dedicated employees and shareholders have endured many years of hard work. But with multiple patents issued, filed or pending, plus unique skills in certain areas and the ability to leverage other resources when needed, a diversified Secant Medical/Prodesco has become stronger than ever. ★★★

Product/Invention	Year of Introduction	Time from Concept to First Use	$ Spent at Commercialization
Balloon catheter	1960	2 Months	Time & Materials
2nd gen. balloon catheter	1970	9 Months	$5 million
Artherectomy	1980	24 Months	$12 million
Endograft	1990	36 Months	$150 million
Drug-coated stent	2000	52 Months	$800 million

This chart illustrates typical medical device paths and the ever-increasing costs and complexities in the medical device arena.

Creating the Seamless Global Economic Development Service Network

By Donald T. Iannone

Principal, Donald T. Iannone and Associates

This article challenges economic developers with a new way to think about and approach their work in the future. It speaks to the need for local economies worldwide to work together in forming a seamless global economic development service network to support business, industry, and job growth through strategic collaboration and partnering.

This article presents a vision of economic developers worldwide building new national and global partnerships to grow a network that could connect economic development organizations (EDOs) across the world. The reach of this network could be vast, including big cities and urban regions, small towns and rural regions, places in highly developed nations and places in newly developing countries. *Everyone has a role in play and something to gain.*

The central reasons for moving to this new model are 1) to better serve the growth needs of businesses on a global basis, and 2) to help communities, regions, and states build the relationships they need to connect to new development opportunities generated by the global economy. The thesis underlying the seamless global network idea is that by working together across local, state, and national borders, economic developers can help companies become more globally competitive, and at the same time local economies can be expanded. This includes opportunities for individual EDOs to build their own national and global networks as well as to connect networks among EDOs.

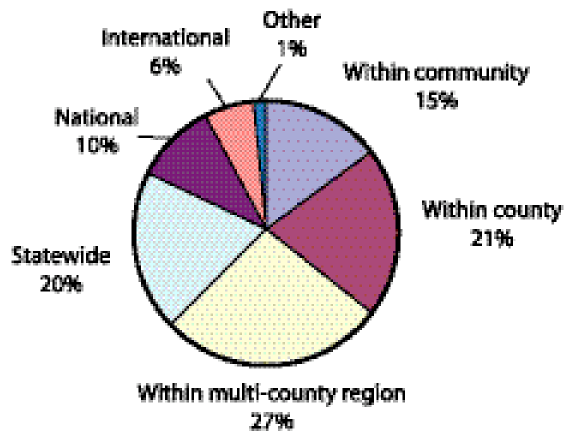
The roles of partnerships and regionalism

Businesses realize they must collaborate with customers, competitors and suppliers, especially when it comes to doing business globally.[1] Partnerships, strategic alliances, and joint ventures are a well established way of life for businesses. According to a March 2004 survey of economic developers across the United States and internationally by Donald T. Iannone & Associates (DTIA), nearly 75 percent of all EDOs are engaged in at least five partnerships; another 23 percent have between one and four partnerships; and only 2 percent of respondents had no partner relationships. These numbers confirm what most economic developers already know: they must work together to accomplish their goals.

The survey also revealed that most economic development partnerships exist at the local level: 63 percent are limited to the local community, county and surrounding region; another 20 percent are statewide in nature; and 16 percent of economic development partnerships are national or international. An overwhelming majority of economic developers (90 percent) believe that partnerships of all types will be even more important in the future.

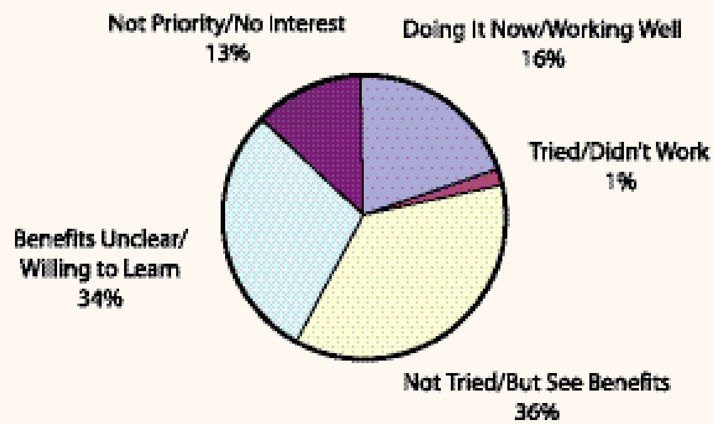
Under the current paradigm, most economic development efforts in the United States and elsewhere around the world start and stop within defined local and state political boundaries. But economies span political borders, which is the principal reason for regional approaches to economic development. Considerable attention has been given over the past two decades to areas such as Phoenix, Atlanta, San Diego, Chicago, Toronto, Kansas City, Research Triangle Park, Silicon Valley, Berlin, Osaka, Seattle, Hong Kong and other metropolitan areas that have been working consistently on regionalism for some time.

Figure 1: Economic Development Partnerships (554 Total Partnerships)



An important reality for many areas will be that they cannot achieve their economic development goals alone. The proliferation of industry cluster initiatives globally points to the necessity of greater collaboration between and among clusters nationally and globally.[2] A 2002 study by the Brookings Institution found that of the 51 major metro areas across America aspiring to be leading biotech centers, only nine have any major commercial concentrations related to the sector.[3] One implication for these 51 centers is that they must find ways to work together nationally and globally to succeed. The success of industry clusters worldwide may hinge on their ability to form new partnerships with each other to share resources and develop mutually beneficial opportunities.

Figure 2: Interest and Willingness to Explore National and Global Partnerships (Total Responses 201)



Regions with shared economic visions and plans are better prepared than those lacking such consensus to build successful national and global partnerships. San Diego's vision of its role within a rapidly changing bi-national economy, coupling U.S. and Mexican economic development interests, is a good illustration of how this can be done.[4] San Diego and Tijuana, Mexico have been cooperating to expand maquiladora plant development. Many companies with manufacturing plants in the Tijuana area have administration or operations facilities in San Diego County. The facilities contribute greatly to the local economy and add to the region's importance as a manufacturing area.

By adopting a global vision of the entire worldwide economic development system, economic developers may be able to: 1) accelerate their progress on the local and regional levels, and 2) prepare economic regions worldwide to work together in developing new opportunities created by the global economy, even sparking new growth for each other's areas.

Moving from partnerships to networks

Reliance on partnerships by economic development organizations points to the importance of networks – bundles of relationships and partnerships – to economic development work. Successful EDOs such as the Greater Phoenix Economic Council, the San Diego Regional Economic Development Corporation, Enterprise Florida and the Research Triangle Foundation of North Carolina have strong networks that help them achieve their goals. One example is the Greater Phoenix Economic Council's Economic Development Directors Team (EDDT), a regional network of communities working cooperatively on business recruitment and area marketing. Another example is the Workforce and Economic Development Network of Pennsylvania (WEDnetPA), which works to make companies across Pennsylvania more competitive by updating and improving the skills of their employees to meet specific company needs.

The seamless global network is a *network of networks* that can help EDOs everywhere strengthen access to resources such as knowledge, technology and funding, and to opportunities such as business investments, innovation, entrepreneurs and export opportunities. Local, regional, state/provincial and national economic development organizations on all continents should identify the best opportunities for their areas to succeed by expanding and building partnerships with geographic places that have shared economic interests and concerns.

This global network is already evolving from efforts in many places. For example, the Fairfax County Economic Development Authority in Northern Virginia has just announced the opening of a new trade and investment office in Bangalore, India to promote trade, reverse investment and joint ventures between Indian and Northern Virginia businesses. Another example is the European Union-India Cross-Cultural Innovation Network, a unique collaborative project which links European and Indian universities and research institutes. This cross-cultural collaboration aims to contribute to the exchange of innovation and entrepreneurship models, especially their transferability across regions and cultures both within India and the EU.

This is an important direction for economic developers because it may be the only way they can provide the appropriate scale response to the major challenges and opportunities posed by globalization. These next-generation economic development partnerships could be most helpful in contributing to efforts related to international trade development, foreign direct investment, travel and tourism, industry cluster development, and many other areas discussed below. These new partnerships may be able to help places impacted by offshore outsourcing to anticipate and respond more effectively through coordinated strategies across geography.

Who can help create the seamless global network, and how

What are some logical economic development opportunities that could be helped by national and global partnering? The list is quite extensive, but here are some of the better ones that economic development organizations might want to consider:

- Expanding international trade connections and increasing exports and imports between and among global places.
- Promoting cross-investment by companies belonging to truly global industries.
- Increasing technology ties across the world to accelerate the innovation process in strategic technologies.
- Increasing joint ventures and business cooperation among companies sharing markets, major customers, and other opportunities.
- Connecting work performed in both well-established and emerging industry clusters across the world.
- Promoting greater student exchanges and joint research cooperation in key scientific, engineering and business fields.
- Promoting entrepreneurial exchanges between and among nations, regions and cities.
- Expanding travel and tourism activities between and among nations, states and cities.

Which economic development groups could be catalysts for creating the seamless global economic development network? Here are some that can help:

- State and regional economic development organizations.
- National and state economic development professional associations.
- Federal agencies concerned with economic development, commerce, trade, labor and technology.
- Industry cluster organizations.
- Technology assistance centers.
- Colleges and universities.
- State and regional convention and visitors' bureaus.
- Industry and trade associations.
- Financial institutions with global reach.
- Global and national real estate companies and developers.
- Communications and publishing companies concerned with economic development and industry site selection.
- Companies that see the value of this global network.

How would businesses likely react to the concept? Some will immediately see the idea's benefit because it produces value for their business. They are the ones to sign on as founding sponsors of these efforts. Most businesses will need to be educated on the idea, which will be new to them. They should be involved early on in the partnership development process; they will be most supportive if they help give shape to the initiatives. Business could be involved by: 1) giving leadership to these partnerships; 2) using their business facilities and executives around the world to cultivate new economic ties between areas; and 3) using these networks to undertake facility site location projects.

Businesses should be involved early on in the partnership development process; they will be most supportive if they help give shape to the initiatives.

Some businesses will not favor the idea because it could change the ground rules on how areas compete for future business investment deals. Non-believers will be best convinced by tangible results that illustrate how the new model works.

How will government react to the idea? Once again, the reaction is likely to be mixed. Those with a positive global vision will see the benefits. State governments with development offices abroad may be a big ally. The U.S. government is already playing a role in this arena through the U.S. Agency for International Development, among others.

Some Good Examples and Proposed Action Steps

Which areas are already moving in this direction and could offer insights into how to approach global partnerships successfully? Here are just a few areas:

- **Ottawa, Canada,** which has formal economic development cooperation partnership ties with Boston, the Research Triangle Park area, Silicon Valley, Tucson, Washington, D.C., New York City and several European cities.
- **Fairfax County, Virginia,** which has initiatives in place to stimulate cooperation among technology entrepreneurs in Northern Virginia and those in Germany, the United Kingdom and other countries. For example, Fairfax County is working with the U.K. Innovation Agency to promote technology-based entrepreneurial exchanges and cooperation.
- **Houston, Texas,** which is a member of the World Energy Cities Partnership (WECP) that includes Aberdeen, Scotland; Calgary and Halifax, Canada; Dammam, Saudi Arabia; Daqing, China; Luanda, Angola; Perth, Australia; Rio de Janeiro and others. The partnership promotes cooperative energy-related development among the member cities by allowing the exchange of petroleum industry knowledge and economic and infrastructure development strategies; providing a worldwide network of industry support services and resources, and facilitating trade missions.

Plan to spend time on an ongoing basis educating your stakeholders ... Remind them that 'collaborative advantage' will be a key to future local economic competitiveness in the global economy.

- **Japanese External Trade Organization (JETRO),** which has operated a region-to-region cooperation program for several years to promote economic cooperation between Japanese cities and regions and their counterparts globally.

What action steps can EDOs take to build the seamless global economic development network through business-oriented partnerships? These steps are suggested:

1. Plan to spend time on an ongoing basis educating your stakeholders on why such a network is important. Show them how globalization impacts the health and vitality of local economies and why it is important to promote economic cooperation between and among places nationally and globally. Remind them that *collaborative advantage* will be a key to future local economic competitiveness in the global economy.
2. Use your organization's strategic planning process as a vehicle to identify, evaluate and create workable national and international partnerships that serve the best economic interests of the geographic area your organization represents.
3. Strategic partnering is a learned competence, which means that those areas that work at sharpening their col laboration skills will improve over time. Be prepared to "go to school" on national and global partnering.
4. Build upon and extend existing partnerships and collaborations with national and global reach. In many cases, these relationships will produce the greatest short-term success.
5. Use state overseas economic development offices that promote international trade and investment. These offices can help open doors with international partners.
6. Use international trade centers and other international business resources located in your area as springboards for global economic development partnering.
7. Build upon your area's existing international educational ties. Many colleges and universities have strong international ties related to their educational and research activities. International educational exchanges are quite common in cities both large and small.
8. Use the international offices of major corporations based in your area. These offices could be valuable in getting the attention of potential international economic development partners and also serve to get companies actively involved in this process.
9. Use federal government trade, business, and international cooperation agencies, which are already working to advance economic and business interests abroad.
10. Finally, view competition and cooperation as two ends of the same spectrum when thinking about future partnership opportunities. This is a chance to discover opportunities to work cooperatively with other geographic areas that typically might be viewed as competition. Think of the partnership process as a way to grow positive-sum approaches to developing future opportunities. ★★★

Don Iannone is the principal of Donald T. Iannone & Associates (DTIA) based in Cleveland, which assists communities, regions and states with economic development strategy development and implementation. Since 1986, DTIA has assisted 230 public and private sector clients in 41 U.S. states and 13 countries. DTIA publishes Economic Development Futures Web Journal (www.don-iannone.com/edfutures), which monitors economic development worldwide. Don can be reached by email at: dtia@ix.netcom.com, and by phone at: (440) 449-0753.

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1 For insights see Jarillo, J.C. (1993) *Strategic Networks: Creating the Borderless Organization.* Oxford, Butterworth-Heineman; and Porter, M.E. and Fuller, M.B. (1986) Coalitions and Global Strategy, in M. Porter: *Competition in Global Industry.* Harvard Business School Press.

2 For insights into the growing number of industry and regional clusters globally, visit The Competitiveness Institute's website at: http://www.competitiveness.org/.

3 Joseph Cortright and Heike Mayer, *Signs of Life: The Growth of Biotech Centers in the U.S.*, Brookings Institution, June 2002.

4 San Diego officials have been working towards this vision through efforts by the San Diego Regional Economic Development Corporation, the San Diego Regional Chamber of Commerce, the City of San Diego, and the University of California at San Diego.

International Bilateral Alliances: Keys to Success

By Ronnie L. Bryant, CEcD, FM

President and Chief Operating Officer, Pittsburgh Regional Alliance

Once the domain of large businesses with expansive resources to pursue new territory overseas, the global market today is more likely to interest smaller companies that are ready to open new fronts for their products, services and innovations. These companies are interested in developing new markets for outsourcing, new supply chains, additional sales and investment channels and expanding e-commerce. It's a trend that has gathered momentum over the past decade, prompting economic developers throughout the United States to devise strategies to harness what is quickly becoming routine business growth.

Two hundred and fifty years ago, the conventional wisdom was that those who controlled the source of the Ohio River held the keys to prosperity. Both France and England laid claim to what is now known as the Pittsburgh region, ushering in what was technically the first world war and sealing the region's reputation as a center of profit and prestige. Indeed, thanks to steel and the business acumen of people such as Andrew Carnegie, the region's high standing continued well into the 20th century.

But by the 1980s, the region's reliance on a single-industry economy served mostly as a cautionary tale. Beginning a decade earlier with the recessions of the 1970s and the availability of inexpensive foreign labor, Pittsburgh's steel mills found themselves unable to compete with foreign steel mills and most closed down. This created a ripple effect that decimated the local economy, as railroads, mines and factories across the region shut down one by one.

Today, less than a generation after the last mill closure, the region has enjoyed a renaissance, thanks in part to an economic development community that recognizes the benefits of a robust regional trade and export strategy. In 2004, the region now boasts more than 320 foreign-owned businesses, more than one-third of which did not exist 18 months ago.

Indeed, companies based in the United Kingdom, Germany and France alone account for more than 29,000 jobs in southwestern Pennsylvania. Add Japan-based companies and the number of jobs generated by foreign-owned firms grows to more than 35,000. According to Carnegie Mellon University research, foreign-owned firms spend more than $1.4 billion annually on wages in the region. Their average annual paycheck is $51,441, more than 50 percent higher than the region's average annual wage overall.

The largest 10 companies here from Germany – the region's number one foreign investor – employ more than 7,000 people locally. Since arriving in the Pittsburgh region, these 10 companies have invested $3.9 billion. When housing, retail and recreational spending by their employees is factored in, the total impact of the companies' investment is, by conservative estimates, close to $8 billion.

Meanwhile, like new business attraction, exports can be an equally significant generator of regional growth. According to the U.S. Department of Commerce, $1 billion in exports equals 12,500 jobs. Based on this equation, 730 home-grown businesses in southwestern Pennsylvania have created 12,000 jobs.

In order to forge meaningful, cross-border reciprocal alliances, the region first had to identify alliances at home.

The Pittsburgh region targeted areas with similar characteristics to build partnerships: those with an industrial background, a strong educational legacy and momentum for social and community renaissance.

How? The short answer: Economic development leaders targeted regions, developed prospects, grew relationships and fostered deals. The long answer: It started at home.

Look Inward First

Environmental infrastructure

Loosely defined, globalization refers to the increasing integration of world markets for goods, services and capital. It has also been defined as a process by which nationality becomes increasingly irrelevant in global production and consumption. Bilateral alliances are a subset of globalization, referring to the agreements, projects and deals between the businesses and organizations of at least two separate nationalities undertaken with the understanding of mutual benefit. Mutual benefit begins with self-knowledge.

Without a dependent relationship on steel, southwestern Pennsylvania began a slow journey of self-analysis, culminating in a newly defined list of industry clusters in which the region could justifiably claim influence and opportunity for growth. In-depth research and analysis, bolstered by statistics from the commonwealth's departments of labor and community and economic development, led to four primary clusters: advanced manufacturing, information technology, life sciences and financial and back office services. The list not only provided targeted sectors for assistance and promotion within the region, but also gave economic developers a first clue in where to look for compatible regions beyond U.S. borders.

The analysis pointed to regional strengths that needed to be addressed, including existing infrastructure (transportation networks, pad-ready sites, etc.), the quality of university programs and graduates, and quality of life. A better understanding of these three regional amenities granted a more complete picture of appropriate global partners – those areas of the world with an industrial background, strong educational legacy and momentum for social and community renaissance seemed to be ideal spots to mine for like-minded interests and inclinations.

Organizational infrastructure

The Pittsburgh Regional Alliance (PRA), southwestern Pennsylvania's business marketing agency, recognized the importance of additional due diligence before committing resources and energy to business development overseas. Surface compatibility is a good indication of potential, but without analogous economic development organizations with which to partner, efforts might not take root. In order to forge meaningful, cross-border reciprocal alliances, the region first had to identify alliances at home.

Chief among the partnerships in the Pittsburgh region was the PRA's own parent organization, which itself has become a national model for economic development. The Allegheny Conference on Community Development and its affiliates – the Greater Pittsburgh Chamber of Commerce, Pennsylvania Economy League's Western Division and the Pittsburgh Regional Alliance – work together to mobilize leadership in the Pittsburgh region to grow the economy and improve its quality of life. Specifically, the organization performs four important functions: Marketing the region to business decision-makers worldwide and gathering market intelligence about the needs of these customers; providing research and analysis to improve the region's competitiveness; advocating on behalf of these improvements on local, state and federal levels; and completing the circle by marketing a new and improved region to business decision-makers.

Southwestern Pennsylvania boasts two other economic models that are unique nationally. Both the Pittsburgh Digital Greenhouse and Pittsburgh Life Sciences Greenhouse are public/private partnerships formed to advance their particular focuses through university research and programming, pre-market analysis among businesses and state assistance to help facilitate business growth. Their presence in the region, in association with the Allegheny Conference, its affiliates and other alliances among economic development agencies, universities and government officials on all levels provides incoming foreign-owned businesses a strong network of assistance, resources and peer contacts. It is a package essential for attraction.

Armed additionally with the proper attitude for developing bilateral alliances – recognition of goals broader than exports and investments – the Pittsburgh Regional Alliance began orchestrating the bilateral approach to attracting businesses to the region and to creating soft landings for Pennsylvania firms overseas.

Building the Bilateral Approach

Based on similar histories, economic development and regional infrastructure, the PRA initially targeted two places in Europe: the Manchester region in the United Kingdom and Germany's Dortmund area. Both Manchester and Pittsburgh once thanked heavy manufacturing for their prosperity. Due to changes in the global marketplace, however, both cities recognized a need to compete in the age of technology. Likewise, both have impressive standing in university academics. A fit seemed natural, and the same held true for the Dortmund region. What remained was to form alliances not just region to region or agency to agency, but person to person.

Creating relationships – with people

At its most basic, the concept of the Pittsburgh Forum is to provide relevant information to those interested in expanding or relocating their business to North America. Frequently paired with the more traditional outward-bound mission trips, the forums are panel seminars staffed by experts in accounting, immigration, law and other topics businesses are likely to face when establishing a presence overseas.

Though presented as information germane for expansion anywhere within the U.S., the presence of Pittsburgh area professionals helps to create the personal connections many individuals rely upon when making key decisions. The goodwill of many of these relationships reflects positively on the region: North America may be the destination, but southwestern Pennsylvania is the front door, if not the final address. During a single trip to the north of England, representatives from the Pittsburgh region met with 149 executives from 66 companies and generated about 20 newspaper articles.

It's little wonder that representatives in Manchester have declared the Pittsburgh region to be their most vigorous North American partner. Such enthusiasm has fueled further partnerships with those who have observed the benefits of building alliances, which in turn has granted businesses located in southwestern Pennsylvania access to similar assistance overseas. In fact, in conjunction with Invest in Britain Bureau, the Pittsburgh Regional Alliance has been able to provide numerous U.S. companies with practical assistance on establishing or expanding a business in the United Kingdom. To date, two Pittsburgh companies have established an office in the U.K. and several are in the process. Meanwhile, several British firms have made the Pittsburgh region their North American home, based on the assistance of these young partnerships, as in the case below.

A textbook case

In 2001, Manchester-based Lamination Technologies, Ltd., was producing a special pressure-sensitive, fire-resistant adhesive tape used in extreme environments such as race cars and aircraft interiors. Founder Phil Morris also was developing a high-performance, fire retardant material that he believed could have military as well as commercial applications. That October, he attended a Pittsburgh Forum staged by the Pittsburgh Regional Alliance in Manchester. There, he met several senior economic development representatives from the region and received nuts-and-bolts advice on setting up shop in the United States. Though he had only a vague notion of Pittsburgh at that time, when luck found him on a brief layover in the area, such were the relationships he had established at the forum in Manchester that he felt at ease calling on his new contacts.

During one trip to Manchester, UK, representatives from the Pittsburgh region met with 149 executives from 66 companies and generated about 20 newspaper articles.

Morris shortly had solid offers of assistance in establishing an American office address and fresh contacts with a government consulting agency that works to help technology firms. Thanks to the networks in place in southwestern Pennsylvania, Morris also found himself in U.S. Congressman John Murtha's office, who made introductions at the U.S. Department of Defense and provided connections with individuals and governmental organizations, research funding and other sources. Those connections led to contracts, which led to production orders which necessitated a manufacturing facility that is currently under construction in the Pittsburgh region. Recruiting has already begun at the plant and orders are scheduled to begin processing at the end of the year.

The Bottom Line

More and more small companies are carving out international niches for themselves. Whether they are foreign companies planning to expand in southwestern Pennsylvania or homegrown companies looking to expand abroad, they need help navigating the process, and in the end communities in both countries benefit.

The Pittsburgh region's bilateral alliance strategy has been successful for several key reasons: clear knowledge of regional strengths; matches with compatible regions (those with similar characteristics); a base of partnerships at home that can cultivate a complementary base of partnerships abroad; and links among people. And never forgetting that the approach must be bilateral – no alliance holds together without benefits to both sides. It is a long-term approach that requires patience and nurturing, but for the Pittsburgh region, the return is already proving well worth the investment.
★★★

The PRA is a nonprofit economic development organization, working in concert with public, private and civic organizations to generate and serve business creation, expansion and relocation, and to aid employers in the growth of a skilled talent pool in the 10-county region.

Economic Development and the CANAMEX Corridor Coalition:

Five States, One Effort

Gail Lewis Howard, Policy Advisor for Economic Development, Office of the Governor, Arizona; Tom Skancke, President and CEO, Skancke Company, Las Vegas

By Gail Lewis Howard & Tom Skancke

Only now, 10 years after the passage of the North American Free Trade Agreement, can we really begin to assess what it meant to the North American economy. Economists, analysts and politicians look at a variety of statistics – job losses or gains, changes in exports and imports, trade figures with other regions of the world – and arrive at a number of different conclusions about NAFTA's impacts. But two things are quite clear: trade among Canada, the United States and Mexico is more robust than ever, and economic integration among the three countries is becoming a new reality.

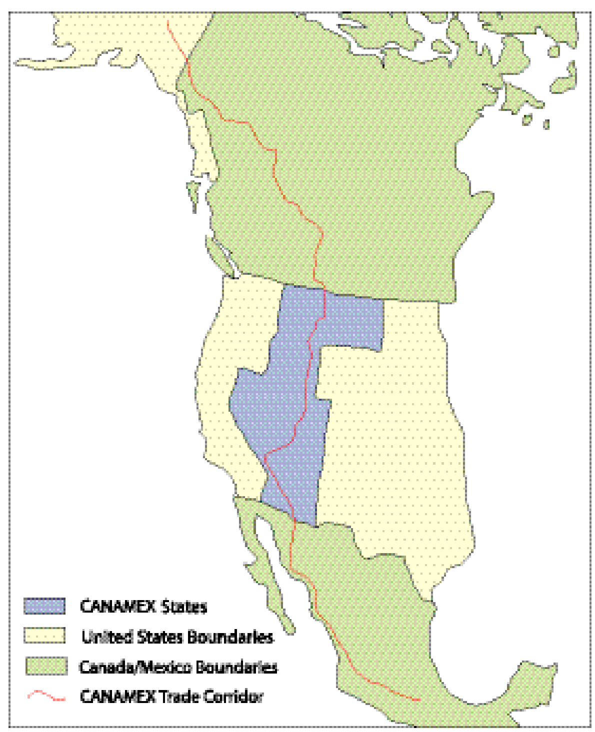
One of the consequences of this integration is a need to reorient U.S. trade and transportation infrastructure and policy toward the north-south movement of people, goods and services. Because the transportation system in the United States traditionally has been geared toward east-west movement – dating back to the wagon tracks that marked the way for future roads and highways – the new reality of NAFTA presents some significant challenges. Transportation officials at the federal and state levels were caught responding to the reorientation with little preparation.

In response, the federal Department of Transportation, Federal Highways Administration, enacted the National Corridor Planning and Development Program. The program provides allocations to states and metropolitan planning organizations for coordinated planning, design and construction of corridors of national significance, economic growth, and international or interregional trade. The related Coordinated Border Infrastructure Program is intended to improve the safe movement of people and goods at or across the borders between the United States, Canada and Mexico.

CANAMEX's common characteristics

One of the 43 designated "high priority" corridors was labeled by its member states as CANAMEX. According to

CANAMEX Trade Corridor



The Mariposa commercial port of entry at Nogales: Commercial vehicles entering the United States from Sonora must pass several inspections before proceeding to their destinations. Warehouses appear at the bottom, while federal and state inspection facilities appear at the top. Vehicles are entering the United States from the right side of the photo.

federal law, the CANAMEX corridor runs from Nogales, Arizona, through Las Vegas, Nevada; Salt Lake City, Utah; Idaho Falls, Idaho and Montana to the Canadian border. The corridor is bounded by the province of Alberta in Canada and the Mexican state of Sonora.

The corridor is incredibly diverse, encompassing rapidly growing urban areas, huge stretches of federal land, dry deserts and snowy mountains, and some of the nation's most striking natural wonders, such as Grand Canyon, Bryce Canyon and Zion national parks.

Despite its diversity, however, the five states have much in common and share an identity that distinguishes CANAMEX from trade corridors identified in other parts of the country:

- All five states are growing (the corridor includes four of the five most rapidly growing states in the country) and have major urban areas, yet all have rural communities that face very different economic realities from their urban counterparts.
- All have vast tracts of federal land held by the Bureau of Land Management, Bureau of Reclamation, National Park Service and U.S. Forest Service.
- All have relatively small congressional delegations.
- All face huge increases in truck traffic and have relatively small transportation budgets to deal with the issue.
- All are shifting from natural resource-based economies to knowledge-based economies and value-added tourism, and are fighting to stay competitive with such giant neighbors as California and Texas. (The CANAMEX corridor has a total population of 11.3 million; Los Angeles County alone has a population of 9.8 million.)

Because the corridor is inland with no seaport, each state is trying to create a new international trade base from north-south trade and the intersection of north-south and east-west infrastructure.

Recognition of these commonalities led the five CANAMEX states to respond aggressively to the federal high priority trade corridor designation. While many corridors undertook virtually no joint planning and others joined forces loosely and only on transportation, the CANAMEX states began to view the corridor as an opportunity for regional competitiveness, a framework to break down traditional barriers – among states, among state agencies, and between the public and private sectors – and approach trade in a new way. The states saw CANAMEX as an opportunity to work together to create a business environment that would foster trade, create jobs and stimulate economic activity.

The CANAMEX Corridor Project

In 1995, the five CANAMEX states decided to formalize the CANAMEX Corridor Project as a joint initiative of Arizona, Nevada, Idaho, Utah and Montana, with the primary objective of developing and implementing the CANAMEX Corridor Plan. The plan outlines areas of collaboration by the states with the goals of stimulating investment and economic growth in the region and enhancing safety and efficiency within the corridor. A comprehensive and coordinated plan was designed to help ensure the efficient allocation of resources necessary to maximize the economic potential for the United States, Canada and Mexico. The CANAMEX project includes transportation, commerce, tourism and communications components.

A few key statistics highlight the reasons that the five states chose to aggressively pursue the CANAMEX corridor as a multi-state coalition. The Congressional representation for all five CANAMEX states is 14; California alone has 52 representatives. There has been a 130 percent increase in vehicle miles traveled in the five states since 1970, yet only a 5 percent increase in new road miles since that time. Nearly 70 percent of the freight in the CANAMEX corridor moves by truck, and 65 percent of the freight has its origin or destination outside the region. The corridor was facing enormous need, with minimal new resources.

As a result, in December of 1999 the five states signed a memorandum of understanding, which was renewed in 2003. In the MOU, the states agree to collaborate on the planning and development of a corridor that meets the growing demands of efficient freight and logistics, trade, tourism and economic development. The five-state CANAMEX Corridor Coalition (CCC) was formed, and an executive director, based in Arizona, was hired.

The five states hired a consultant to develop a corridor plan, completed at the end of 2000, and each state began a lengthy series of public meetings with stakeholders. In an unusual move, the five states included representatives from the province of Alberta and the Mexican states of Sonora, Sinaloa, Nayarit and Jalisco in some of the discussions, recognizing that improving transportation in the United States would be less effective if the improvements were not matched across the borders. After gathering input from stakeholders and international partners, the CCC approved the plan in 2001, agreeing to make CANAMEX the "Corridor of Innovation" and adopting ideas for four initiatives: a smart freight corridor, a smart tourist corridor, smart process partnerships, and improved rural telecommunications access.

The four initiatives were selected not only because they held the most promise for cooperative agreement and trade generation, but also because they complemented one another. For example, "wi-fi" along rural segments of the highway not only improves rural telecommunications but also provides Web access to truckers and tourists as they pass through the corridor.

In order to keep the initiatives moving, the CANAMEX member states appointed representatives to a coalition oversight council. Initially made up of the directors of the five departments of transportation, the coalition states later added private sector representatives and representatives from tourism. The addition of private sector participation and the rotation of the coalition chairmanship have helped engage stakeholders in the CANAMEX planning and development process and ensured involvement from all five partner states – both critical elements of the corridor's success. The coalition has continued to actively engage stakeholders, such as regional transportation agencies, trucking companies, railroads, airlines, economic development organizations and tourism promotion agencies, among others.

Mexican trucks being processed at Nogales's "Super Booths": As a result of an innovative collaboration, US Customs and Border Protection and Arizona Motor Vehicle Division officials work side by side to expedite the processing of commercial vehicles entering the United States at Nogales's Mariposa Commercial port of entry.

Transportation priorities

Early priorities for CANAMEX regarding transportation are to address the only components of the corridor between the Mexican and Canadian borders that are not four-lane divided highway (all in Arizona, between Phoenix and Las Vegas), and to address the need for a new bridge to bypass Hoover Dam, along the Arizona-Nevada border. Long considered a bottleneck to trade, the old Hoover Dam bridge – which actually routes traffic on a historic two-lane road across the dam – became recognized as a major security risk after September 11. The coalition has had remarkable success in its priority project. More than $86 million in federal funds have been directed toward the Hoover Dam bypass so far, with the approaches nearly completed on the Arizona side and underway on the Nevada side, and funding options for the actual bridge identified.

The progress on the transportation front has encouraged the coalition to move forward on other elements of the four initiatives. As relationships build on the trade, tourism, and communications fronts, CANAMEX is evolving away from a transportation-dominated project into a broader economic development project.

Tourism

With the CANAMEX states hosting the crown jewels of the national park system and a variety of attractions from outdoor recreation to the one-of-a-kind draw of Las Vegas, joint tourism planning and promotion to create a Smart Tourist Corridor has emerged as another logical area for collaboration. When the Rockies in Canada and the Sea of Cortez in northern Mexico are added to the mix, the region becomes an unrivaled series of tourism attractions. Because tourism relies so heavily on transportation infrastructure, the collaboration has created the added advantage of building new relationships between transportation and tourism sectors within each individual state.

In 2003, the CCC engaged the Western States Transportation Institute to develop a game plan for becoming a more competitive tourism corridor, asking: What can the states do together to brand the region as a tourism draw and enhance the experience for the CANAMEX region's visitor? And can these activities work to the benefit of the entire region without reducing the effectiveness of limited tourism promotion dollars within each individual state? The final

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report, delivered in 2004, came up with a host of suggestions designed to make the CANAMEX area a more competitive tourism destination.

Bolstered by support from their governors, the five state tourism directors met in 2004 and signed an agreement to work together, both on ways to brand the corridor and to make it user-friendlier for tourists. On the latter front, Arizona agreed to act as a pilot to add tourism information to the state's 511 transportation information system, which is under development throughout the corridor. The idea is to add a prompt for tourism information the state's 511 call-in number, which provides real-time transportation information on road closures, construction, accidents and weather alerts. Today, a call to Arizona's 511 system also allows users to connect to an operator for tourism information. As Arizona works out the kinks in the system, other CANAMEX states are prepared to follow suit. A future challenge to be addressed will be how to allow users to access information about neighboring states as travelers approach the border.

The five U.S. CANAMEX states are also exploring joint promotional and branding opportunities, and are working on a logo that can appear on roadside signs on the CANAMEX highway. Adding the logo to Web sites, Web links to the other CANAMEX states, and engaging in joint promotional opportunities such as printed materials also are on the drawing board.

International trade

With transportation and tourism efforts underway, the states are now beginning to explore the directive from the governors to find joint international trade opportunities. Although the discussions are just beginning, the five state commerce directors are looking at ideas such as:

- cooperation with their overseas trade offices;
- joint inbound or outbound trade missions;
- banding together to promote the region for more international air service; and
- looking at complementary areas of excellence in the region's universities and research centers.

The idea of joint trade missions comes as a way to differentiate the region from other larger states' activities. Why be one more state taking a group to China, for example, when a multi-state mission offers more opportunities for U.S. states and a wider array of options for potential Chinese partners? And if Alberta and the Mexican states are interested in cooperating, a multinational trade mission would gain great attention. Also, in considering the need for regional international air service, banding together with a carrier such as Phoenix-based America West may offer opportunities. America West serves all five states and may be able to coordinate schedules so that the region can serve as a larger feeder to an international carrier in Phoenix or Las Vegas, which have much more accessible and less crowded customs facilities for both passengers and cargo than West Coast hubs.

Each individual state within the corridor has used CANAMEX to drive other international trade activities. In Arizona, for example, the governor has appointed a CANAMEX Task Force to govern the state's activities and help government officials seek out and implement trade opportunities. The Arizona task force takes on the special responsibility of looking at the state's border ports of entry, recognizing that a bottleneck on the Arizona-Mexico border reduces efficiency and competitiveness.

As one way of addressing border issues, Arizona and the state of Sonora, Mexico, recently signed an MOU in which the two states agree to work together to carry forward the CANAMEX corridor's four key goals bi-nationally. The states will prioritize their needs and advocate to their respective federal governments for border planning, and will work to help the four Mexican CANAMEX states finalize a route and engage in joint planning and promotional activities. The MOU has already borne fruit in the agreement of the Sonorans to explore a 511-type road information phone number that will also feature tourism information – as well as billboards, Web sites and other informational outlets to give tourists safety information in Mexico.

Expanding the framework

The CANAMEX states have taken the basic idea of a trade corridor and expanded it into a framework for encouraging innovation and expanding competitiveness. The corridor will be at a competitive advantage for trade in the 21st century, leveraging transportation as a key element of economic development and tourism. As the corridor continues to move forward, leadership in the five states remains committed to becoming a true "corridor of innovation." ★★★

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The **International Economic Development Council (IEDC)** is the premiere organization for the economic development profession. Serving close to 4,000 members, IEDC is the world's largest professional membership organization providing a diversity of economic development services, including research and advisory services, conferences, professional development and legislative tracking. Visit IEDC's website at www.iedconline.org to learn more about membership, upcoming events and IEDC services.

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