The 10 LESSONS *from* GLOBAL TRADE *and* INVESTMENT PLANNING *in* U.S. METRO AREAS

BROOKINGS

The **10 LESSONS** *from* **GLOBAL TRADE** *and* **INVESTMENT PLANNING** *in* U.S. METRO AREAS

GLOBAL CITIES INITIATIVE
A JOINT PROJECT OF BROOKINGS AND JPMORGAN CHASE

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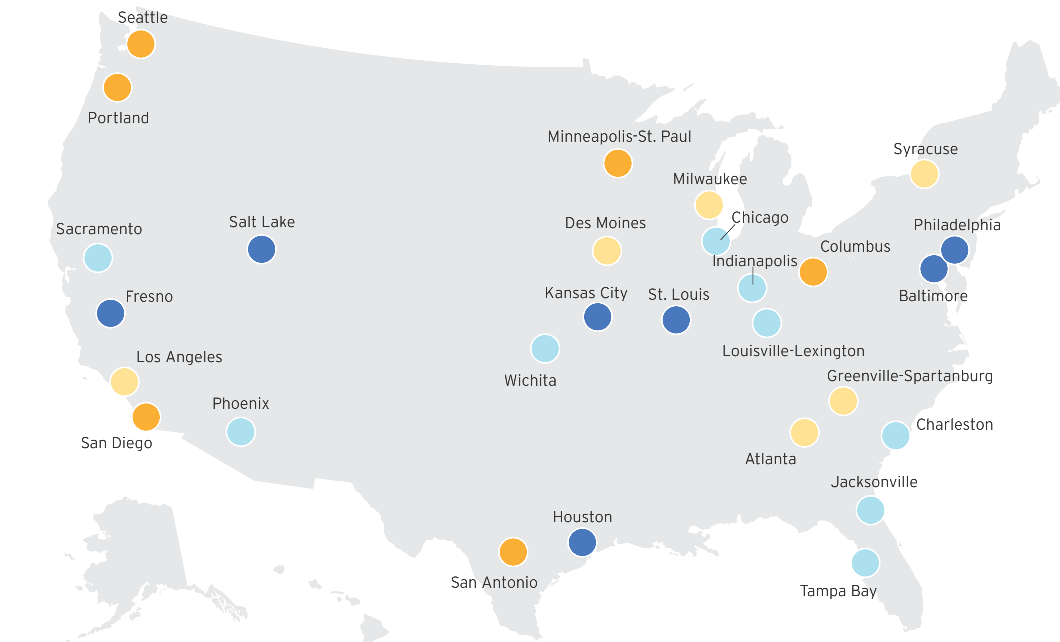
THE GLOBAL CITIES EXCHANGE: PARTICIPATING METRO AREAS



PHASE 1: EXPORTS

Starting exports Q1 2015

- Baltimore
- Fresno, CA
- Houston
- Kansas City, MO
- Philadelphia
- Salt Lake
- St. Louis

Completed exports

- Chicago
- Charleston, SC
- Indianapolis
- Jacksonville, FL
- Louisville-Lexington, KY
- Phoenix
- Sacramento, CA
- Tampa Bay, FL
- Wichita, KS

PHASE 2: FDI

Starting FDI Q2 2015

- Atlanta
- Des Moines, IA
- Greenville-Spartanburg, SC
- Los Angeles
- Milwaukee
- Syracuse, NY

Completed FDI Q1 2015

- Columbus, OH
- Minneapolis-St. Paul
- Portland, OR
- San Antonio
- San Diego
- Seattle*

**Seattle is the only Exchange metro to start the planning process with FDI. It has entered the export cohort that started in Q1 2015 to complete the process.*

THE 10 LESSONS FROM GLOBAL TRADE AND INVESTMENT PLANNING IN U.S. METRO AREAS

Changing global dynamics make it imperative that U.S. metro areas engage globally as never before. To prepare local leaders to respond, this paper presents the "10 lessons" that have emerged to date from the efforts of a group of U.S. metro areas to develop and implement strategies to maximize the benefits of exports and foreign direct investment (FDI) and grow traded sectors. Regional leaders with an awareness and understanding of these insights will be better positioned to embrace new opportunities, confront challenges, and develop stronger global trade and investment plans that reflect 21st century market realities.

Twenty-eight U.S. metro areas, representing about 30 percent of the U.S. economy and selected through a competitive application process, are developing trade and investment plans as part of the Global Cities Initiative (GCI), a joint project of the Brookings Institution and JPMorgan Chase (see map). The goal of GCI is to catalyze a shift in economic development policy and practice that results in more globally competitive metropolitan areas, positioned for high-quality growth and better jobs for more workers. GCI activities include producing data and research to guide decisions, fostering practice and policy innovations, and facilitating the Exchange, a peer learning network designed to drive creation and implementation of global trade and investment plans.

The insights in this paper are lessons learned from working with U.S. metro areas involved in the Exchange, particularly the five metro areas that in early 2015 became the first group to complete the full export and FDI planning process through participation in the FDI pilot. Surveys and local interviews with hundreds of firms and economic development practitioners in the Exchange metros served as the foundation for this analysis.

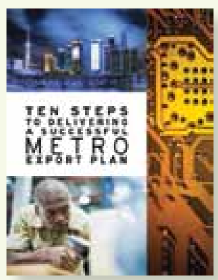
THE EXCHANGE PLANNING PROCESS

Metro areas in the Exchange go through a two-part planning process as part of a cohort of six to eight regions. In the first year, metro areas develop and launch an export plan. Brookings created a series of resources that capture lessons from this process and provide data, tools, and guidance to enable other U.S. metro areas to develop export plans.

In a subsequent year, metro areas in the Exchange create an FDI plan that incorporates not only "greenfield" investment, i.e., opening a new establishment, but also mergers and acquisitions (M&A) and other forms such as EB-5 visa investments, private equity, sovereign wealth funds, and joint ventures. Rather than produce separate export and FDI plans, each of the metro areas in the FDI pilot chose to fully integrate their activities into an overarching global trade and investment plan. The same process outlined in "Ten Steps to Delivering a Successful Export Plan" proved to apply to an FDI planning process, with only a few minor differences (such as adapting the core team and steering committees to include FDI practitioners and favoring more in-person company interviews over a company survey). Therefore, a separate process guide for FDI was not produced. Instead, Brookings produced this report to capture the key considerations involved in creating and implementing a plan that integrates exports and FDI, as well as guides that provide more specific directions for developing a market assessment and writing a global trade and investment plan.

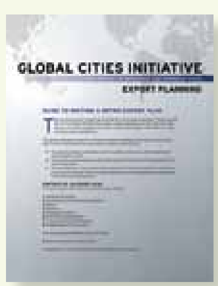
EXPORT RESOURCES

Ten Steps to Delivering a Successful Metro Export Plan: A step-by-step guide to preparing for and managing a metro area export planning process.



Export Nation/Export Monitor: A data series that estimates production of goods and services exports by industry at the sub-national level.

Detailed guides and tools: *Guide to Writing a Metro Export Plan, Export Market Assessment Guide, Championing Your Metro Export Initiative, Sample Business Survey, Sample Business Interview Form.*



FDI RESOURCES

Ten Steps to Delivering a Successful Metro Export Plan: Since FDI planning follows essentially the same process as export planning, this guide can serve as a reference for both phases.

The 10 Lessons: Critical insights gleaned from recent research and early stages of on-the-ground exports and foreign direct investment initiatives in U.S. metro areas.

FDI in U.S. Metro Areas: Data on jobs in foreign-owned establishments by industry and mode of entry across the nation's 100 largest metro areas between 1991 and 2011.

Detailed guides and tools: *Guide to Writing a Global Trade and Investment Plan, Global Trade and Investment Market Assessment Guide, Sample Business Interview Form.*

Metro areas in the Exchange go through a two-part planning process. In the first year, they develop and launch an export plan. In a subsequent year, they create an FDI plan.

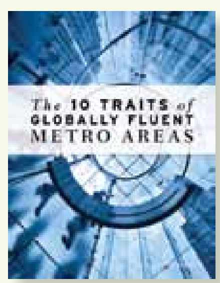
In addition to these planning resources, Brookings produced other guides and data to help metro areas evaluate their starting point and opportunities in the global economy.

These resources for global trade and investment planning can all be found on the Exchange website at:

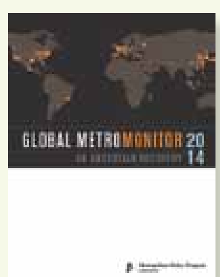
www.Brookings.edu/gci/exchange

GLOBAL INSIGHTS

The 10 Traits of Globally Fluent Metro Areas: A framework for each metro area to gauge its global starting point and establish a larger vision, based on a set of traits that have proven to be particularly strong determinants of a metro area's ability to succeed in global markets and secure its desired economic future.



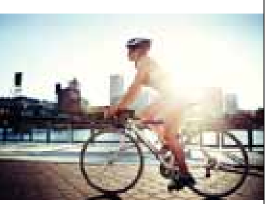
Other global research and data: *Global Metro Monitor, Metro North America, Metro Freight, Global Gateways* (international aviation), *Geography of Foreign Students in U.S. Higher Education*.



THE RATIONALE

The rationale for creation of the GCI Exchange revolves around three key points: globalization is changing the economic game for firms and places, metro areas must take the lead as the drivers of the U.S. and global economies, and now is the time to more intentionally engage:

- ***Why global:*** The basis is simple math and sound business sense. Economic growth is shifting from the developed Western world to the fast-rising Asia-Pacific and other emerging markets. By 2030, 66 percent of the global middle class is projected to be living in the Asia-Pacific region.[1] If the most capable U.S. firms want to better position themselves to compete, diversify, and grow over the long term, they must engage in global markets and their expanding consumer and business classes. To reap the benefits, regions have to play a role in helping firms adapt and thrive in this new environment.



- ***Why metros:*** The vast majority of the nation's economic activity takes place in metro areas, which are differentiated from each other by their unique industry clusters, assets, demographics, and geography. Metro area economic development organizations (EDOs) are uniquely positioned to connect to local companies through their on-the-ground networks. The top 100 U.S. metro areas sit on just 12 percent of the nation's land area but represent over two-thirds of its economy. Further, given increasing political gridlock and funding shortfalls in Washington, D.C. and many states, metro areas must assume the leading role in positioning themselves in the global marketplace.

- ***Why now:*** Rapid urbanization and globalization are not just long-term projections; they are powerful global forces that are occurring today that impact firms in all regions of the world. Metro areas must respond to this reality now or risk being caught unprepared in the near future. The need to diversify and pursue new economic development approaches is also clear: From 2000 to 2012 plant expansions and relocations (from all sources) of 50 jobs or more or at least $1 million in investment declined by 50 percent in the U.S.[2]

One of the main themes that emerged through the Exchange is that this type of work forces EDOs, which include government agencies, industry associations, and public-private partnerships at the state, metro, and local levels with an economic development mission, to completely re-imagine their roles. The global economy is a reality for all firms and places. Firms are becoming increasingly intertwined with international markets, but state and local economic development efforts are not keeping pace. Metro area leaders who engage and want to move forward with global plans soon realize that their economic development system is not structurally organized to act efficiently and effectively to capitalize on today's dynamics or direct resources toward areas of greatest opportunity. On top of this, metro leaders face resource constraints (or misallocations) and entrenched bureaucracies that prefer business as usual.

Progress on the global front, therefore, requires significant cultural, behavioral, and structural change in metro areas and much more complex, strategic, and unified economic development approaches. EDOs must earn the respect of businesses, demonstrate how they add value to businesses' efforts, provide higher-quality services than in the past, and adopt new definitions of success that take into account the aspirations of firms. Jobs and investment may be the desired ultimate outcomes for metro areas, but EDOs must lay the groundwork to achieve success on those fronts through a longer-term focus on what firms themselves are trying to achieve. They must know local firms and the dynamics shaping firms' market position and outlook. Successful global initiatives also require engaged cross-sector leadership from government, business, and nonprofit sectors with a willingness to champion new directions. This paper strives to provide these committed leaders with key insights to better position their metro areas for long-term success in a globalized economy.

10 LESSONS

Since global engagement is a long-term process, and participating metro areas are in early and varying stages of developing, launching, and implementing plans, best practices and recommendations based on proven models won't surface for at least a few years. However, the creation of the first known set of global trade and investment plans in U.S. metro areas produced critical insights that should prove valuable to other regions committed to a more intentional global agenda. Global trade and investment planning in GCI Exchange metro areas revealed that:

1. **The primary benefit of global trade and investment is increased competitiveness, not quick jobs.**
   Global trade and investment are critical to the long-term economic viability of firms, but the payoff in terms of employment takes time. The lack of "quick jobs" presents challenges to the structure of the existing economic development system.

2. **The most important firms are the ones you already have.**
   The foundation of a strong global effort is, paradoxically, an even more intense focus on local business retention and expansion (BRE).

3. **FDI and exports are closely linked.**
   The strong interplay between FDI and exports means they are best implemented in tandem under a global umbrella, even though they require distinct approaches.

4. **Leading with real specializations opens doors for firms.**
   Clusters and geographic connections give firms a competitive advantage and typically form the basis of export and FDI strategies.

5. **The middle market offers outsized opportunities.**
   Mid-sized firms represent the bulk of potential new global business activity that can be influenced by metros.

6. **Mergers and acquisitions are the dominant form of FDI.**
   For foreign firms, M&As are the preferred way to secure new product lines, technologies, and markets.

7. **Global engagement must be a demonstrated priority.**
   Metro areas, like firms, must institute intentional and committed international efforts to gain the full benefits of global markets.

8. **Global commerce is driven by relationships and networks.**
   Metro areas generate value for firms by developing strategic relationships in high-potential markets and by forming strong public-private and federal-state-local networks at home.

9. **Metro areas are unsure of how to harness emerging forms of global capital.**
   Investors under the EB-5 visa program, venture capitalists, sovereign wealth funds managers, and individual investors offer new opportunities to steer capital to local priorities, but they also bring risk and uncertainty.

10. **Competing on a global scale requires that metros intensify efforts on other critical economic issues.**
    Workforce, infrastructure, and economic inequality are the issues Exchange metros are most pressed to grapple with in coming years.

LESSON 1 THE PRIMARY BENEFIT IS INCREASED COMPETITIVENESS, NOT QUICK JOBS

Global trade and investment are critical to the long-term economic viability of firms, but the payoff in terms of employment takes time. The lack of "quick jobs" presents challenges to the structure of the existing economic development system.

After the Great Recession, U.S. metro areas faced high unemployment rates, an uncertain economic outlook, and declining business attraction prospects. The rapidly emerging global marketplace, and the opportunities it created in the form of exports and FDI, seemed to offer an antidote. The premise was that these new, largely untapped pursuits would turn the tide and provide quick and easy new jobs.

This premise, however, did not prove to be true. The opportunities that globalization provides for firms—access to larger consumer markets, new pools of capital, diversified supply chains—are coupled with intense competitive pressures that force metros to redefine firm success, and therefore their own success, as something other than job growth and new investment. Exporting is not easy. It takes time and commitment on the part of firms and economic development organizations alike. It can create jobs, but requires that firms take on considerable risk and make large investments first. Since exporters are highly productive, they can realize significant revenue growth through exports without necessarily increasing employment. This is reflected in the steadily declining number of jobs supported by $1 billion in exports (see Figure 1). Further, the bulk of FDI comes in the form of mergers and acquisitions, which for all their potential benefits do not typically create immediate new jobs (see Lesson 6).

The lack of immediate or easily measurable outcomes in no way diminishes the importance of global engagement. A key finding of the Exchange is that exports and FDI better position metro areas for the long term by allowing capable local firms to become more competitive, diversified, and sustainable. Firms relayed that if not for either an increase in exports or a new cash infusion from a multinational company, they would have downsized or would not be in a position to compete in the near future. The implication is that in order to seize globalization's opportunities, manage its downsides, and better ensure an economically viable region, metros must respond to the needs of firms that are, or could be, engaged in global markets—regardless of measurable job or growth outcomes.

This notion challenges the very structure of the economic development system. With few exceptions, EDOs are laser-focused on job creation and capital investment, with success measured on a short-term, project-to-project basis. From the outset of GCI efforts, metro areas acknowledged that exports (and many forms of FDI) represented a new activity, but nevertheless they expected that the outcomes would be the same as typical business attraction programs—in other words, clearly measurable job growth in targeted firms. As EDOs began interviewing and working with companies, a more complicated reality emerged in which helping firms go global resulted in harder-to-quantify results like firm resilience, innovation, and long-term growth diffused across supply chains.

EDOs that want to embrace globalization are therefore left to grapple with a system that does not encourage investments in long-term efforts aimed at firm competitiveness and that does not celebrate firm survival and sustainability as a success (even though this is a reality that companies face every day). Implementing global trade and investment strategies, therefore, requires not just new skills and programs but a deeper examination of priorities and performance measures. This does not mean that metros need to abandon job creation as a goal—it is still justifiably a primary objective of most plans—but it does mean that short-term job creation can no longer be the operating principle of all economic development activities. Ribbon cuttings can no longer be the primary marker of success. Global trade and investment efforts force EDOs to embrace firm competitiveness as a goal in itself.

METROS COMMITTING TO COMPETITIVENESS

Portland Plan

➤ "Goal: Through a heightened, intentional focus on regional economic growth, cluster development, exports, and FDI, Greater Portland will secure and strengthen its long-term position as a competitive, sustainable, and globally integrated economic region."

San Diego Plan

➤ "Goal: Maximize San Diego's economic competitiveness and prosperity through increased global engagement."

San Antonio Plan

➤ "Goal: For the long-term economic benefit of the community, establish San Antonio as a leading location for developing and attracting globally competitive businesses in aerospace MRO [maintenance, repair, and overhaul], bioscience, cybersecurity, managed hosting, new energy, and transportation equipment."

QUOTES

Manufacturer, Syracuse

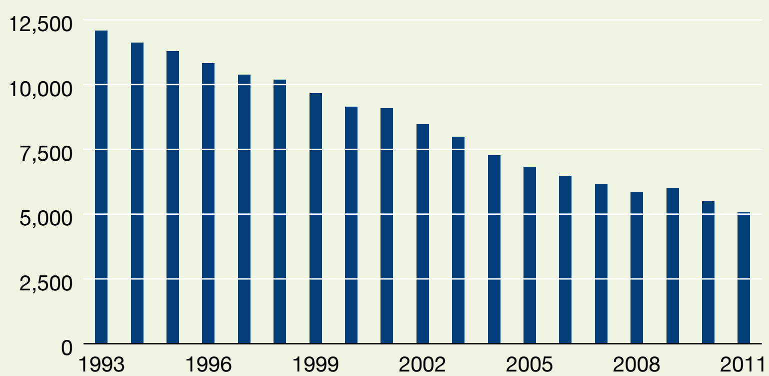
➤ "Exports take a while. You must have a long-term view."

DATA

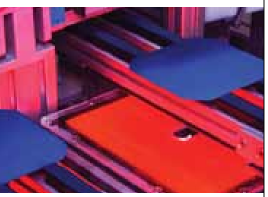
18 months: the average time it takes a firm to go from deciding to export to actually exporting.[3]

Increased productivity is leading to declining jobs per $1 billion in U.S. exports.
Reflecting broader trends, the number of jobs supported by $1 billion in exports has fallen by more than half in the last two decades, with a particularly acute decline in the manufacturing sector.

FIGURE 1. JOBS SUPPORTED BY $1 BILLION IN EXPORTS, 1993-2011



Source: U.S. Department of Commerce, International Trade Administration



LESSON 2 THE MOST IMPORTANT FIRMS ARE THE ONES YOU ALREADY HAVE

The foundation of a strong global effort is, paradoxically, an even more intense focus on local business retention and expansion (BRE).

When faced with a mandate to increase global engagement, EDOs typically respond by expanding their existing domestic business attraction efforts globally, increasing international travel to drum up new FDI leads. However, while attracting greenfield investment and building overseas relationships are important aspects of global marketing, Exchange metros each experienced a surprising 'aha' moment during the planning process when they came to a common realization: Successful global trade and investment initiatives, first and foremost, require EDOs to become experts on their own economies and firms. This expertise is acquired largely through a robust regional BRE program, which is anchored by ongoing engagement with targeted local firms and industry clusters.

The planning process revealed that the primary role of metro areas in exports is to generate a bigger pipeline of export-ready companies. Local practitioners are uniquely positioned to target and reach out to underexporting firms because they know their markets well, are engaged with local firms and networks, and run or engage with existing BRE programs that could be tailored to support exports. They can also coordinate efforts to groom emerging companies to become export ready. Identified export-ready firms can be referred into the existing export services system, including state and federal programs, for case management and connection to overseas markets. Export promotion and development is fundamentally a BRE function with a focus on helping existing firms compete and grow by expanding markets and revenues through global trade.

The primary role of metro areas in FDI is to attract new investment to the region and its firms. This comes in three primary forms (see Lesson 9 for emerging new forms): a greenfield investment, an M&A transaction, or expansion of an existing foreign-owned operation. A robust BRE program is critical in: (1) maintaining in-depth firm and cluster knowledge in order to market the location for new investment; (2) identifying and engaging with local firms that are likely candidates for expansion or acquisition (keeping abreast of what's likely or potentially for sale to support defensive and proactive tactics); and (3) providing immediate aftercare and maintaining relationships with both the local and foreign parent representatives of foreign-owned firms, as key near- and long-term decisions about downsizing and expansion will be made at both levels. Exchange metro areas identified more intentional and aggressive aftercare as the primary means of engaging with firms involved in M&A, since most of these transactions occur without previous local knowledge (see Lesson 6).

Exchange metros learned that to operate a successful global program, local practitioners must know their local firms and the challenges they face, and be prepared to respond to their needs more like businesspeople and not bureaucrats. They must know what firms are selling and how to connect them to potential buyers and investors in overseas markets. They must know their local economies, industry clusters, and available services better than anyone else, and add value by translating this knowledge to firms (see the Columbus sidebar).

QUOTES

Technology firm, Syracuse

- "The top economic development priority should be to work with existing companies to help them get bigger."

Foreign-owned manufacturer, Portland

- "Our biggest competitor is other locations of our company—our competitors are only going to produce so many units per year. We have to fight for our share of our own company's production."

San Diego Plan

- "Many companies operating in San Diego must regularly prove to their foreign headquarters that the site should be the center of consolidation activity and additional investment rather than the victim of efforts to reduce costs and streamline operations. This competition creates important business retention and expansion opportunities that require the same strategic approach dedicated to attracting FDI in the first place."

Columbus Plan

- "For many companies, survival is a matter of continued innovation and growth, especially in the face of global competition. BRE therefore cannot be about maintaining status quo, even if business is going well, but helping companies as they position themselves to where their industries will be in the future."

COLUMBUS: A NEW APPROACH TO BRE

In Columbus, the process of conducting company interviews as part of the Exchange project has led Columbus 2020 (the regional economic development partnership) to revamp its entire BRE effort. Team members found that not only did they capture critical information, but that firms were also eager to engage with them because discussions revolved around business competitiveness and potential new opportunities. Leading with the project-based topic of global trade and investment enabled them to secure meetings with top company officials, gain important insights about the firm that would not typically arise in a standard retention-call survey, and advance local market intelligence on global business. BRE outreach will now revolve around specific topics of interest and impact to local firms with the objective of sharing findings with interviewed firms through reports and presentations. This facilitates the opportunity to bring like-minded firms together for further dialog and for networking among firms and Columbus 2020.

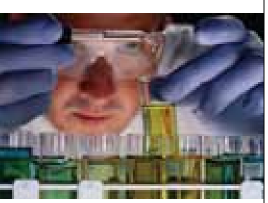
Successful global trade and investment initiatives, first and foremost, require economic development organizations to become experts on their own economies and firms.

LESSON 3

FDI AND EXPORTS ARE CLOSELY LINKED

The strong interplay between FDI and exports means they are best implemented in tandem under a global umbrella, even though they require distinct approaches.

Metro areas tend to approach exports and FDI as siloed "international" activities, separate not only from mainstream economic development efforts but also from one another. In creating global trade and investment plans, however, metro areas consistently found that the two topics are interconnected in fundamental ways. The substantial overlap means that while export and FDI programs each require their own distinct approaches and dedicated leadership, planning and implementation must ultimately be highly coordinated.

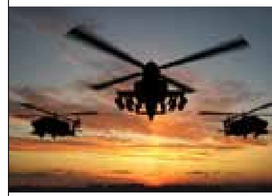


Traditionally, export promotion involved working with existing local firms (typically small ones) and referring them to a network of service providers to connect them to new global markets, while FDI focused on greenfield attraction of new firms (usually big ones) by selling the region in overseas markets. The Exchange planning process confirmed that attracting new FDI and providing export assistance each require a different set of connections and expertise. Further, key export and FDI markets often don't overlap (see sidebar), so overseas relationships and trips may diverge. This led Exchange metros to conclude that separate teams with dedicated leads should manage certain aspects of implementation.

However, the day-to-day work for both topics converges in several key areas. Increased awareness of the importance of M&A and BRE led metros to conclude that both exports and FDI involve developing long-term client relationships with local firms (not just prospecting for new sales in different markets). EDOs found that those clients are often the same firms. Data from Columbus illustrate the extent of this overlap: Of 28 foreign-owned firms interviewed, 18 both import and export and nine of the remaining 10 either import or export.[4] This is not uncommon. Foreign-owned firms consistently export and import more than their domestic peers.[5] Exporters tend to import more than their domestic counterparts, and are more likely to be targeted for acquisition by foreign firms.[6] Imports, on the other hand, can lead to future FDI opportunities as firms switch to in-market production. Another point of convergence is that the foreign-owned establishments that EDOs work with tend to be mid-sized, even if they are part of a far larger multinational firm, and domestic firms of that size also make the best candidates for export assistance (see Lesson 5). In order to avoid redundant and inefficient BRE efforts, export and FDI teams need to understand the interactions between trade and investment, particularly as they affect mid-sized firms, and seamlessly coordinate engagement with a common pool of local clients.

In addition, broader investments in key inputs should be coordinated. The clusters (see Lesson 4) that spin out exporters are also major draws for foreign-owned firms. Portland's plan describes this interaction as a three-stage cyclical process, in which innovation drives exports, thereby establishing global excellence in a cluster, which serves to attract FDI, which in turn reinforces innovation capacity.[7] And in interviews, both exporters and foreign-owned firms consistently reaffirmed the importance of workforce and infrastructure (see Lesson 10).

In reaction to the many interconnections between exports and FDI, each of the six metro areas that completed the FDI pilot created strategies that brought both activities under a single, highly coordinated global trade and investment plan with one goal and a common set of objectives. Undertaking export plans before considering new approaches to FDI (see sidebar) better enabled metro areas to pursue this unified approach. In most cases, implementation is led by a single organization, typically the regional EDO. Where two organizations are leading, they are closely aligned (see sidebar).



QUOTES

Foreign-owned manufacturer, Portland

➤ "We're a wholly owned subsidiary. We do what headquarters tells us to do, and they're pushing us to export to South and Central America."

Foreign-owned manufacturer, Syracuse

➤ "Since 2000, domestic sales for [our firm] have shrunk, while exports increased 400 percent. Our customer base moved, we had to move with them. Our entire existence is predicated on growing exports."

START WITH EXPORT PLANNING

While every region ultimately created a unified plan, there are reasons to divide planning into separate phases. Doing an export plan first proved to be a key factor in building regional interest and civic capacity. Exports are a new topic that local jurisdictions don't compete over, and are therefore nonthreatening. The export planning process reveals that global efforts are uncoordinated and underresourced, and lays the groundwork for new approaches to FDI (which every metro has embraced, even though most initially thought they already did FDI well). Another benefit of this approach is that it allows momentum to build: For most metros, it took two years to solidify public- and private-sector commitment and agree to roles and responsibilities.

COORDINATING ON THE GROUND

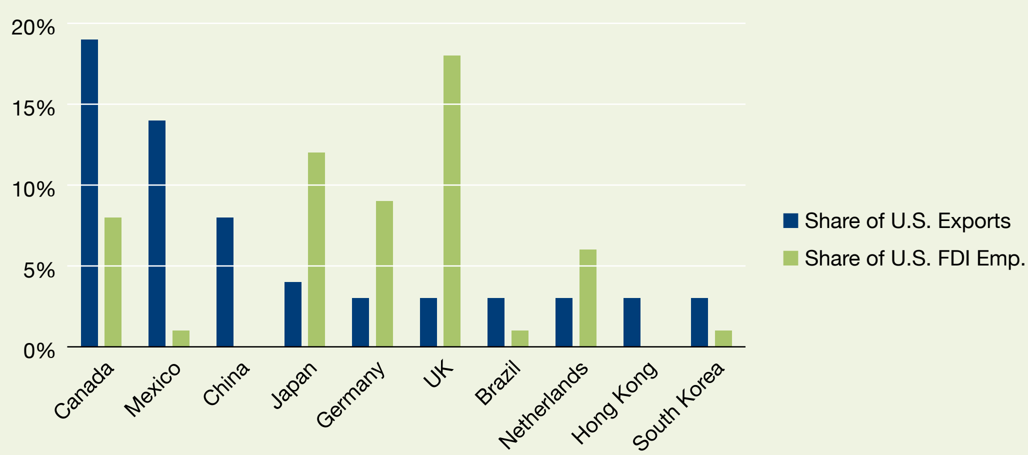
In Columbus, San Diego, and Portland, the regional EDO is coordinating and leading the global trade and investment effort. Several metro areas are experimenting with dividing export and FDI functions between organizations. In San Antonio, the regional EDO leads FDI activities while the Free Trade Alliance handles export assistance; in Minneapolis-St. Paul, the state and the regional EDO have each taken on both exports and FDI, in close coordination. In their day-to-day functions, these organizations must be totally in sync on key areas of overlap, especially BRE functions, which encompass export assistance and M&A.

DATA

Major export and FDI markets don't necessarily align

Developing countries like China and Mexico are major export destinations, but they are not yet significant sources of FDI (Figure 2). Likewise, many top FDI sources are not major export destinations. This wasn't universally true: San Antonio, for one, found a high degree of correlation between the two.

FIGURE 2. SHARE OF U.S. EXPORTS AND FDI EMPLOYMENT BY COUNTRY, 2012



Source: Census, Bureau of Economic Analysis

LESSON 4 LEADING WITH REAL SPECIALIZATIONS OPENS DOORS FOR FIRMS

Clusters and geographic connections give firms a competitive advantage and typically form the basis of export and FDI strategies.

Global trade and investment naturally enable and reinforce specialization within regions, and give rise to business relationships between metro areas through trade or complementary roles in production. The most promising metro areas recognize the value of these specializations and double down on them, focusing on turning their strongest clusters and international relationships into platforms that companies can use to distinguish themselves and form valuable partnerships.

Specializations are so deeply intertwined with exports and FDI that, for metros creating global strategies, they are practically unavoidable. Foreign-owned companies repeatedly said that they intentionally established beachheads in metro areas with clusters of similar firms in order to gain access to specialized knowledge, skilled workers, and dense networks of customers and suppliers. And firms are willing to pay a premium for this access—relatively high-cost San Diego attracts a steady stream of foreign investment because its top-tier universities and research institutions generate a pipeline of talent and innovation that firms can't afford to miss out on. Exporters also tend to emerge from clusters, as large global firms bring suppliers abroad and set an example that other firms in their industry can follow. And specializations need not be limited to clusters. Just as important, in many cases, are geographic connections. San Diego's binational relationship with Tijuana is a unique competitive advantage that draws firms across numerous industries. San Antonio offers unrivaled connections with northern Mexico, and Seattle attracts an inordinate share of investment from China.

Even if these specializations are naturally occurring and self-sustaining, there are reasons for metros to focus extra attention on them. Foreign investment is more beneficial for local firms when it takes root in a cluster than in an isolated plant, as spillovers of information and business practices diffuse quickly through tight-knit networks of firms and workers. And since the benefits of clusters are inseparable from place, firms that invest in clusters are more likely to stay or expand. As for exports, being part of a globally recognized cluster makes it easier for exporters to differentiate themselves in international markets. Architecture and urban planning firms in Portland, for example, are able to leverage the region's global reputation as a leader in the field (see sidebar).

All these benefits aside, going global forces metro areas to hone in on their true competitive advantages. First, it is a challenge to cut through the noise on the global scale. In the U.S., where there might be five or six metro areas with a legitimate biotech cluster, it is easy to be recognized as a leader. Worldwide, however, there might be several dozen such clusters vying for attention. Standing out in this environment requires a message that is unified, specific, and backed up by reality. For Minneapolis-St. Paul, this meant shifting from describing itself, both within the region and to global audiences, as a center of the generic "health and wellness" sector to a global leader in the much more specific "medical devices" industry. There are also cost considerations. Metro areas frequently profess to have 10 or more "priority" clusters, but realistically most can only afford one or two marketing efforts that are strong enough to make an impact on the global scale. Going global forces metros to prioritize—a difficult task made easier by rigorous and unbiased research that clearly reveals which clusters are world class and, as importantly, which are not.

Honing in exclusively on core specializations can generate tension and unease, especially on the part of government entities that are dedicated to neutrality. But being selective at first might be the most effective way to create connections that are ultimately inclusive. Portland's experience (see sidebar) is instructive. Most metro areas don't have the benefit of immediate worldwide name recognition of a truly global city. A bold and unified effort to align limited resources behind real advantages can put a place on the map and boost exports and FDI in a variety of clusters.

QUOTES

Pharmaceutical firm, San Diego

- "Our location is key for collaboration and talent recruitment with institutions like UCSD and Scripps. These assets make San Diego an attractive place for foreign firms to establish U.S. beachheads."

Engineering and manufacturing firm, Seattle

- "We started in Seattle because it would be easy to attract talent. There's a skilled workforce due to industrial capacity left over from Boeing: chemists, engineers, and small manufacturers that support Boeing and have the skill to make high-quality metal products."

San Antonio Plan

- "Companies such as Rackspace have generated foreign investment interest and activity due to the development of an experienced workforce in managed hosting as well as cloud-computing-based research performed by local universities."

Minneapolis-St. Paul Plan:

- "Ten of 12 foreign-owned manufacturers interviewed located their U.S. or North American headquarters in our metro. Many of these manufacturers produce precision instruments or medical devices, so establishing their first American roots in Minneapolis-St. Paul was a self-described 'obvious' decision. Among interviewed manufacturers, workforce and proximity to major competitors, suppliers, and clients were the top two reasons for choosing our region over others."

PORTLAND: WE BUILD GREEN CITIES

Greater Portland is one of the nation's most export-intensive metro areas, with nearly 70 percent of its exports coming from its computer and electronics industry, anchored by Intel. A major focus of the region's export plan was diversifying its traded-sector economy, primarily through the We Build Green Cities marketing and business development platform for architectural, engineering, and clean-tech-product firms. This narrow focus caused some unease from the outset, because it neglected other emerging clusters, was seen as potentially excluding suburban firms, and risked the pitfalls of "picking favorites." But by throwing its weight behind a single industry, Greater Portland made a big impact, first by successfully connecting firms to major smart city and urban development projects in Japan. This seemingly narrow connection soon spilled over into other industries as We Build Green Cities served as a conversation starter for the region as a whole. Under the leadership of the Portland Development Commission, with a purposeful regional approach it helped generate interest in all things Portland, laying the groundwork for a subsequent trade mission focused on the region's athletic and outdoor industry, another major cluster, as well as an event that highlighted Portland's artisanal craft industry. If Greater Portland had spread its resources evenly across each of these industries to begin with, it's likely that none of them would have gotten the same attention.

LESSON 5

THE MIDDLE MARKET OFFERS OUTSIZED OPPORTUNITIES

Mid-sized firms represent the bulk of potential new global business activity that can be influenced by metros.

State and metro areas face strong pressure to create global strategies that leverage the power and growth potential of the largest firms and are also inclusive of small firms. However, research and experience gained throughout the Exchange planning process revealed that the real opportunity, and where metro areas can have the greatest impact on both exports and FDI, lies in the "M" in SME (small to medium-sized enterprises).

Large, U.S.-based multinationals do not typically need or benefit from metro area assistance related to exports or FDI. They already export intensively—just 2 percent of firms produce over two-thirds of all U.S. exports—and they have sophisticated in-house teams to manage global operations. Nor do these large firms need metro assistance in identifying sources of foreign capital or acquisition opportunities. If anything, they look to metro areas to advocate for federal or state policy action on matters such as free trade agreements, Export-Import Bank reauthorization, or infrastructure improvements.

This reality drives metro areas to focus on SMEs, where assistance is needed and where potential impact is perceived to be high. The fact that only 5 percent of firms currently export is taken as a sign that there is widespread untapped potential among SMEs. It is rarely considered, however, that the SME definition includes all firms from one to 500 employees, or 99 percent of all U.S. companies. Firms at either end of this spectrum have vastly different needs and capabilities and will produce different outcomes. With rare exceptions (notably in the services sector), small firms are simply not ready to export. Selling abroad is resource-intensive and fraught with uncertainty. Encouraging small, unprepared firms to export is not only unproductive, but potentially damaging.

Which leads to the middle market (see sidebar for size definitions). These firms have effectively self-identified as capable of competing globally. A firm with just 50 employees is within the top 4 percent of U.S. companies on that measure.[8] Export assistance might help a small firm make sporadic sales abroad, but mid-size firms stand out because they have differentiated products, enough capital to invest in market diversification, and the ability to use exposure to new business practices and consumer preferences to become more innovative, efficient, and competitive. Mid-size firms are good targets for export promotion because they have products that are already in demand globally, and they can therefore generate returns in relatively short order once they have received assistance accessing difficult markets or securing financing.

Mid-sized firms also emerged as the sweet spot for FDI strategies. They are frequently targets for mergers and acquisitions, as foreign firms look to gain a foothold in a market by buying companies that have proven products, a ready workforce, established customer networks, and export channels. A 2013 survey showed that 38% of mid-sized U.S. firms were either actively involved in M&A or open to the possibility in the next year.[9] As discussed in Lesson 6, many mid-sized firms actively seek to be acquired because they need the cash infusion and global reach of a multinational to remain competitive. And despite the occasional big new North American business attraction win, the vast majority of greenfield investments come in the form of SMEs, as foreign firms often initially enter the market with a small sales, R&D, or distribution center. San Diego found that the average greenfield operation at the time of investment had 27 employees.[10]

QUOTES

Technology and manufacturing firm, San Diego

- "Without being acquired by a larger firm, it wouldn't have been possible to maintain significant presence in foreign markets. Foreign ownership gives us financial backing, global manufacturing and logistics, access to more sophisticated R&D facilities, and cross-functional sales opportunities."

Columbus Plan

- "Middle-market companies represent a sweet spot for capability and potential to increase exports and invest in the Region. This strategy is not meant to exclude large, industry-leading multinational companies who can quickly move the needle on the Columbus Region's export and FDI numbers. However... smaller greenfield and M&A wins will build a broader and larger base of FDI and exports in the long run."

Los Angeles Plan

- "The majority of companies entering the export services system in the Los Angeles region are not export ready. This creates a bottleneck for export services providers that inhibits their ability to focus limited resources on those sectors and companies that offer the greatest potential to export."

MINNEAPOLIS-ST. PAUL: HERAEUS MEDICAL COMPONENTS AND THE MEDICAL DEVICE CLUSTER

Although foreign-owned firms benefit from multinational ownership in myriad ways, the local operation is often a fairly autonomous, mid-sized establishment that faces many of the same challenges as its domestic counterparts. This makes these firms prime candidates for assistance—if EDOs can help them overcome local hurdles, these firms are well-positioned to expand rapidly due to the backing of their global parent. Heraeus, a medical component manufacturing company in St. Paul, exemplifies this dynamic. In some senses, it's a highly competitive, global operation: It employs 400 workers, supplies industry-leading medical device firms, exports 25 percent of its output, recently ramped up local production of previously imported inputs, and has easy access to capital through its foreign owner. But there are underlying challenges. It is in competition for further investment with other Heraeus establishments in Puerto Rico, Costa Rica, and Singapore. Finding engineering talent is difficult, in part because it is not as well-known as its larger domestic peers. This opens opportunities for state and metro EDOs to help the firm justify the value of its location, diversify its export markets, and connect to training programs and universities.

WHAT IS THE MIDDLE MARKET?

National Center for the Middle Market (NCMM): defines the middle market as firms with between $10 million and $1 billion in revenues. These firms represent just 3 percent of U.S. companies, but created 70 percent of jobs in 2013.[11]

Threshold firms (Stone & Associates): defined as manufacturers that are moderate exporters (one to nine markets, less than 20 percent of sales) or high potential nonexporters that are ready to commit resources to global expansion.[12] A metro area of 2 million residents is likely to contain 500 or fewer such firms. While employee counts do not technically factor into the definition of middle-market or threshold firms, Stone & Associates recommends focusing outreach and assistance on firms with 20-499 employees.

Services firms: may be capable of successfully exporting with fewer employees and lower revenue than their manufacturing counterparts, so the "middle market" and "threshold" definitions should be adjusted accordingly.

LESSON 6

MERGERS AND ACQUISITIONS ARE THE DOMINANT FORM OF FDI

For foreign firms, M&As are the preferred way to secure new product lines, technologies, and markets.

M&A is the transfer of majority ownership to another firm and is the dominant form of FDI into the United States. It represented 87 percent of U.S. FDI capital inflows from 1992 to 2008, while greenfields represented just 13 percent. However, while most state and metro area EDOs are engaged in FDI, they typically don't engage with M&A because the transaction is often viewed negatively, and it is assumed that there is no real role for them to play. The metro areas in the Exchange quickly realized that M&A is a strong and common private-sector force that they must acknowledge and engage with if they are to better influence local economic results.

Interviews with foreign-owned firms in the Exchange metros revealed that they find M&A to be a much easier and more productive way to gain traction in the U.S. market. Firms (primarily large multinationals) invest abroad to search for new products, secure strategic assets and proprietary technologies, gain access to specialized clusters, acquire market knowledge, seek cost-effective locations, and gain new distribution networks and export platforms (via proximity, existing clients, and trade agreements). M&A often provides the most immediate access to these factors (see the San Diego sidebar).

M&A can also provide critical benefits to the acquired firm. Leaders of local firms in the Exchange FDI pilot metros consistently stated that the existing operation had reached its limit (perhaps was even struggling) and needed the cash infusion, resources, and global distribution channels of a multinational parent firm to re-energize, grow, and compete. Many also praised the long-term vision and fairly hands-off attitude of the foreign parent toward the local operation. Those interviewed relayed that the acquiring firm doesn't necessarily need to be foreign, it just needs to be multinational—and an increasing number of those are foreign.

The broader impact of M&A on local economies, however, is less clear. If anything, these transactions are perceived to result primarily in the "loss" of local firms and jobs. However, while downsizing or closure is a possibility, M&A events frequently deliver positive outcomes over time. While some operations initially downsize to reduce redundant positions, this is often followed in later years by an increase in critical new functions and related jobs. Further, M&A provides the means for a region to attract large multinationals without having to provide incentives to lure them.

Even after metros acknowledge the potential benefits, a few major questions remain: How can EDOs become aware of a potential M&A transaction before it occurs, and who might the buyers and sellers be? How can they intervene to influence more positive outcomes? How can and should they engage given the potential

The metro areas in the Exchange quickly realized that M&A is a strong and common private-sector force that they must acknowledge and engage with if they are to better influence local economic results.

SAN DIEGO: THE LIFE SCIENCES CLUSTER

San Diego's life sciences cluster clearly demonstrates the potential benefits of M&A to the local economy and its firms. Multinational pharmaceutical firms, primarily from Asia, maintain global distribution channels but require a constant pipeline of new products to fill them. These products require intense R&D and take years to gain approval, so the focus is on buying biotech firms with proven products that are ready for market. Local biotech firms hit a point in their life cycle where they need a cash infusion and greater market access to grow. Further, early investors in biotech startups typically invest with the intention of selling for profit at some future point. M&A is a natural outcome of this dynamic. Interviews with many established, mid-sized firms confirmed that M&A events tended to result in local firm expansion because the foreign parent desires to have a U.S. beachhead and is drawn to the strong cluster, including research, workforce, and institutions. Through this project, the San Diego team recognized that it must continue to understand its local life science cluster and firms even better and establish robust aftercare programs that help local firms justify continued growth to their foreign parent.

for downsizing or closure? How do they deal with the negative perception of a foreign buyer acquiring a local firm or the loss of a local headquarters operation?

The Exchange metros accept that M&A involving foreign buyers, resulting in both positive and negative outcomes, is an economic reality that will happen whether they engage with it or not. They have identified a set of basic roles that they can and should play: (1) they can generate greater local awareness of the economic reality, importance, and impact of M&A; (2) they can build relationships with local legal and banking firms that often broker these transactions (see Lesson 8) to be on top of current and recent activity; (3) they need to know what is likely for sale, even if they don't know who the buyer is (information that is difficult to obtain upfront anyway); and (4) BRE programs can be strengthened and adapted to reach out regularly to targeted firms to determine which are likely M&A targets, and to build relationships and provide immediate and ongoing aftercare with newly acquired firms and the foreign parent, just as one would for a new greenfield location (see Lesson 2 for more on BRE and aftercare).

QUOTES

Manufacturer, Portland

- "All of the companies that do what we do are worldwide, or they can't make it—they can't afford to do the R&D. Competitors buy up market segments constantly."

Medical devices firm, Minneapolis

- "Through acquisition we gained leadership in a single product with national distribution, and grew our U.S. workforce from 100 to 600. We've brought value to a previously independent entity in terms of technology, management, and extensive training for the manufacturing workforce."

Medical devices firm, Minneapolis

- "Foreign ownership has made it much easier to expand than it would have been with banks."

COLUMBUS: WHAT'S FOR SALE (M&A FIRST RESPONSE)

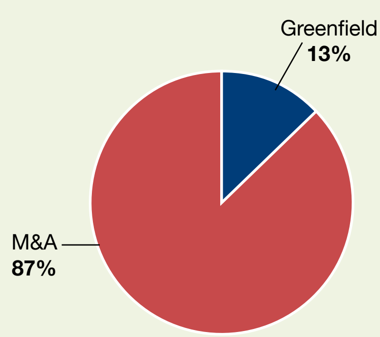
In meetings with foreign delegations, U.S. metro area representatives are often expected to know what companies and properties are for sale in their markets. As a test, during a recent mission trip to China the Columbus team put together lists of real estate and firms that were on the market. While the Chinese delegation did not express immediate interest in those assets, the dialog did provide the Columbus team with a response to the question, immediate credibility, and good discussions that actually surfaced new greenfield opportunities. Like other Exchange metros, Columbus does not intend to seek out specific targets in its region for acquisition but instead seeks to be ready to respond to inquiries by monitoring industries and M&A activities. This activity will also help the region be prepared for situations when an existing company is acquired.

M&A dominates capital inflows

The vast majority of inward FDI in the U.S. is in the form of M&A (see Figure 3). However, M&A transactions do not directly result in new jobs; instead they shift employment from domestic to foreign ownership. New jobs come from expansions of establishments that entered by M&A or greenfield or new greenfield investments.

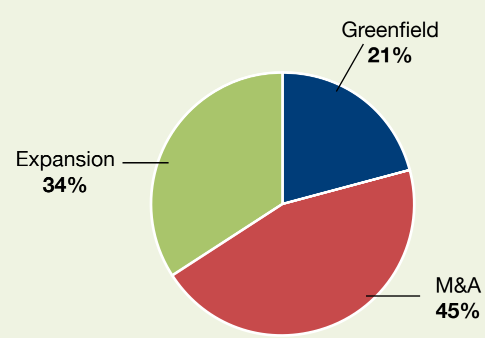
FIGURE 3

FDI capital inflows, 1992-2008



Source: Bureau of Economic Analysis

Sources of growth in employment under foreign ownership, average year, 1991-2011



Source: Brookings

LESSON 7 GLOBAL ENGAGEMENT MUST BE A DEMONSTRATED PRIORITY

Metro areas, like firms, must institute intentional and committed international efforts to gain the full benefits of global markets.

One of the most important messages that consistently emerged from project interviews with successful exporting firms is that, to enter and grow in global markets, firms themselves must be highly intentional and organized related to international business. Exporters stress the importance of four key basics firms must follow if they are to organize for success: (1) have a plan; (2) hire a dedicated international staffer to champion (internally and externally), coordinate, and manage global efforts for the firm; (3) secure and maintain the commitment of the CEO and senior leadership as demonstrated through consistent dedication of necessary resources and staff time, including their own; and (4) mainstream international business into the overall operations of the firm (global initiatives cannot operate effectively in a silo). Otherwise, given other established priorities and activities, the effort will likely lose steam and falter. Further, firms can't jump in and out of global business or target markets, as doing so risks all progress to date.

The same factors proved true for regions. However, regions represent a bigger challenge because they are not a single entity; they have many leaders and organizations that must each make global trade and investment a priority and commit to working together. At the center of the global effort in a metro area is an organization that can serve as a regional umbrella to engage all relevant partners and that understands firms and has existing relationships with them. Those metro areas in the Exchange that were most effective in the first year of implementation had good plans but they also shared other important attributes: the buy-in of regional leaders; the agreement of the regional EDO to lead the effort and an assigned staff person to be the regional quarterback; adequate funding to seed the first few years and prove the concept; good relationships among federal, state, and local partners; and a commitment to make global trade and investment a core pillar of regional economic growth efforts and not let it operate in a silo.

In cases where a World Trade Center or similar international organization is designated as a lead for exports and/or FDI, metros determined that these organizations must relate well with the regional EDO (or be housed within it), be financially sound, and have the resources and credibility to carry out the mission. Many international organizations have historically operated in silos, and Exchange metros determined that this has to change if the organizations are to play a leading role in exports and/or FDI. Further, particularly in larger metros, the leadership and engagement of the mayor or county executive of the largest city is valuable as he or she often represents the broader region to the outside world, can open new doors for firms, and can give the local effort energy and credibility. Like firms, metro areas that have not embraced each of these aspects are more likely to struggle from the outset.

Given the newness of the topic, resource constraints, and local politics, many metro areas initially find it difficult to secure funding, agree on a lead agency or network partnering structure, and designate a new position for an everyday project staff lead. However, they also realize that they can't call exports and FDI regional priorities and then organize poorly or fail to resource their efforts. Portland was able to successfully kickstart its export effort because the Portland Development Commission assigned two full-time staff to exports and a number of local EDOs pitched in a total of $150,000 a year to seed a regional quarterback position at Greater Portland Inc. Columbus 2020 mainstreamed global trade and investment by making them a core pillar of the region's economic development plan and committing the organization and staff to the effort. In San Diego, the San Diego Regional EDC and more than 30 partners will lead a more mainstreamed and interconnected global trade and investment effort. In San Antonio, the Economic Development Foundation (the regional EDO) and the Free Trade Alliance have formed a partnership to jointly lead on FDI and exports. These are strong starts; however, to achieve desired outcomes, Exchange metros are attempting to secure longer-term funding (between $250,000 and $700,000 per year for staff, research, materials, and travel, depending on scope) for global trade and investment initiatives.

QUOTES

Medical technology company, Syracuse

- "We are completely global in a big way. And we have been very intentional about this. I personally have had to be committed to this. I moved to Europe to develop the business there. It is my life. Companies must be willing to take a risk and dip their toes in the water."

Portland Plan

- "While resources need to be set aside for relationship development and business development, what is really needed is a commitment at all levels of a company that exporting is an important facet of the company's culture and future."

San Diego Plan

- "Where there once was the belief that one organization should be responsible for promoting cross-border activity or equipping companies to expand their international footprints, now all groups are integrating global engagement into their efforts."

SYRACUSE: EFFECTIVE START

Early in the implementation process, the Syracuse/Central New York region determined it needed to do two things to energize its new export effort and establish a more sustainable and impactful global platform: (1) bring the region's international business group, Central New York International Business Association (CNYIBA), in closer alignment with CenterState CEO (the regional EDO) umbrella and have it serve as the board to the region's global initiatives; and (2) hire a full-time quarterback to lead and coordinate the everyday regional effort and serve as the executive director of CNYIBA. This full-time consultant is housed in CenterState CEO and targets and makes calls on local firms interested in exporting. The team's story and early progress enabled the region to secure over $550,000 in commitments and grants for targeted export efforts, with an additional $355,000 added through matching funds from CenterState CEO. The CNYIBA is carrying out a full slate of events and educational seminars; raises awareness through publicity and its website; manages the "Export NY" program, which provides training for new-to-export SMEs; serves as a city-state partner of the Export-Import Bank; and provides a mentoring program primarily for new-to-market companies. Based on the region's early and strong commitment, the local U.S. Export Assistance Center stated that over 50 percent of its new clients are generated from the new regional export initiative, and the CNYIBA has been reinvigorated through a clearer mission and dedicated staff leadership. Further, the early successes in Syracuse are helping to inform and drive increased global commitment from New York State, which is launching a new "GlobalNY" program.

LESSON 8 GLOBAL COMMERCE IS DRIVEN BY RELATIONSHIPS AND NETWORKS

Metro areas generate value for firms by developing strategic relationships in high-potential markets and by forming strong public-private and federal-state-local networks at home.

Even as falling trade barriers and technology open doors for more firms to participate in international trade and investment, the fact remains that relationships—between people, companies, and institutions—drive global commerce. Metro areas have fostered international partnerships for a long time. But most have been focused on cultural exchange rather than meaningful business linkages, and few have been reinforced with rich interaction between key global and domestic economic development actors. Through their planning efforts, metros are realizing that they need to identify and deepen real economic relationships, both at home and abroad, that provide firms with connections that matter.

For global relationships to create sustained economic benefit, they must be based on more than conventional wisdom. Often the data contain surprises. Minneapolis-St. Paul learned that the region contained very little Scandinavian investment, despite the deep cultural and diplomatic ties. Likewise, San Antonio was surprised to find that Canada was a larger export market than Mexico, despite Mexico's proximity and migration linkages. As a result of these types of findings, and given limited resources, metro areas are beginning to rethink how to respond to incoming foreign delegations based on whether they represent economic or purely cultural or political ties.

Metros also have to ignore the herd mentality. Every metro wants to be in the mix in fast-growing markets like China. That's in part justified by the difficulty that firms have entering those markets on their own. But developed regions such as Japan, Germany, France, and the U.K. remain critical partners for U.S. firms, even if their growth prospects are less sensational.

The most promising partnerships to emerge from this effort go beyond superficial geographic linkages and hone in on specific industries or other shared assets and networks. San Diego is looking to connect to other "smart cities" such as Cambridge, Stockholm, and Seoul that share similar concentrations of skilled workers and innovative firms and institutions. Portland is forging bonds with global metro areas that are in need of its green development expertise. Personal networks matter too, as many metro areas have diaspora populations, skilled migrants, and students that could offer a conduit to their home markets.

International connections matter little if metros don't foster good networks at home. Nearly every metro area realized that it had to better organize on the ground. Many found that they had sent numerous uncoordinated delegations to a single market in a year, on top of overlapping state and federal missions. Creating a shared calendar among economic development entities was a first step in several regions. Equally important is the task of tapping into private-sector expertise. Research in Columbus showed that foreign investors are more reliant on site selectors and other consultants to make location decisions than domestic firms are. For exports and M&A, service providers including lawyers, bankers, and freight forwarders play integral roles in the process and can offer insight and contacts to economic development efforts. Some metro areas are finding that they need to actively fill gaps in their networks. San Diego, for instance, plans to bring two new foreign consulates to the region and used the BIO International Convention to help firms connect with partners in priority markets.

While metro areas are playing a growing role in global commerce, including setting up their own trade offices abroad, they cannot go it alone. Every metro that created a global trade and investment plan came away with an appreciation for the interdependence of federal, state, and local actors and the key roles each is uniquely set up to play. As regions pursue differentiated approaches customized to their unique assets and specializations, they still depend on their states to provide resources and the power of the governor's office, and on federal entities, such as the U.S. Commercial Service and SelectUSA, to provide global reach and in-country expertise.

QUOTES

Technology firm, San Antonio

- "If San Antonio can be #1 in Mexico, it should double down on that. Being open to Mexico creates the perception that we're open to China and other countries with business cultures that differ from the U.S."

Columbus Plan

- Many of the exporters interviewed entered foreign markets in reaction to opportunities within their own networks and relationships. The presence of buyers, distributors, supply chains, or past connections were of greater influence than purely strategic considerations of market conditions.

San Diego Plan

- San Diego is one of only a few binational cross-border regions in the world. Global trends are making Mexico, and Baja California in particular, an increasingly favorable location for manufacturing. Their proximity to San Diego gives the region a clear competitive advantage.

SAN DIEGO, SAN ANTONIO, AND MEXICO

Both San Diego and San Antonio have for decades worked to foster their connections with Mexico and are now putting them to work to retain, expand, and attract investment. San Diego's relationship with Tijuana exemplifies the phrase "collaborate to compete." The region's strategy aims to promote the binational CaliBaja region as a competitive advantage for firms, in that they can take advantage of the R&D assets and manufacturing know-how of both San Diego and northern Baja, Mexico. But the relationship isn't just promotional—San Diego plans to expand workforce programs and grant opportunities to students and firms in Tijuana. San Antonio is every bit as closely tied to the manufacturing centers of northern Mexico (and Monterrey in particular). San Antonio operates three trade offices in Mexico. The region's Mexican Chamber has over 600 members. Geekdom, a startup incubator, is sponsoring a $500,000 prize for the organization that can bring the most Mexican startups to San Antonio. In both cases, EDOs have played a proactive role in strengthening and promoting these relationships over the course of many decades.

COLUMBUS: THE IMPORTANCE OF RELATIONSHIPS

Metro-to-business connections are important and attention-getting, but it is just as critical to form relationships with state and federal service providers, universities and research institutions, and private-sector actors. Columbus has benefitted from strong connections with each of these additional gateways to the global economy. Columbus 2020, the region's EDO, works to connect itself to the Commerce Department and its overseas offices; Ohio State University and Battelle; and a network of lawyers, site selectors, and consultants, as well as government agencies and service providers in foreign countries. Tapping into these resources has helped Columbus 2020 build and maintain a steady pipeline of leads and market intelligence.

LESSON 9 METRO AREAS ARE UNSURE OF HOW TO HARNESS EMERGING FORMS OF GLOBAL CAPITAL

Investors under the EB-5 visa program, venture capitalists, sovereign wealth funds managers, and individual investors offer new opportunities to steer capital to local priorities, but they also bring risk and uncertainty.

There is no shortage of viable projects in both the public and private sectors in U.S. metro areas that are in need of capital. Meanwhile, sources of global capital are rapidly multiplying and growing, and the U.S. remains a top investment destination. Yet despite this confluence of supply and demand, metro areas lack established models for how to connect global capital to regional priorities, and they remain wary and unsure of how to engage.

Perhaps the most tangible source of global capital in metro areas is the EB-5 immigrant investor visa program, which grew rapidly during the recession and helped underwrite transformative projects such as Brooklyn's Navy Yard. Most EB-5 funding, however, is not strategically directed toward regional priorities, and instead goes toward private developments such as hotels and nursing homes. One reason is that EB-5 funds are raised and managed by "regional centers" that typically operate independently of the economic development system, and several high-profile scandals made metro areas wary of becoming directly involved. But a few metros are wading in. San Antonio is working to redevelop the closed Brooks Air Force Base in part using EB-5 funds. The San Diego Regional EDC is supporting the local regional center by conducting economic impact studies of EB-5 projects. The Portland Development Commission secured a regional center designation and is seeking to fund projects that are aligned with its mission. None of these actors have completed any deals, which can take three to five years to come to fruition.

Other sources of global capital—including private and institutional investors, sovereign wealth funds, and venture capitalists—are many times larger and more unpredictable than EB-5. Each of these, whether targeted at real estate or companies, typically works through private-sector channels that are outside the purview of most EDOs. Some metro areas are recognizing that they have an important role to play as credible sources of market insight, and early flickers of success are leading them to consider taking on a more formal and active role in attracting and brokering global investment. As investment opportunities continue to flow toward EDOs from an increasingly diverse set of institutions and emerging markets, they are faced with the considerable challenge of discerning which investors are serious prospects worth courting and introducing to local leaders and firms.

While none of the Exchange metro areas have yet committed to aggressively courting international capital investment, three broad strategies emerged. The first is to project a compelling global identity (see Lesson 4) that will naturally draw investment. For San Diego, this means telling the story of the innovation economy to attract venture capital. For San Antonio, it means promoting its proximity and cultural affinities with Mexico to become a destination of choice for Mexican investment. The second is to know the market exceedingly well (see Lesson 2). Even if investors are attuned to market dynamics, they still often come to city and regional EDOs for expertise on real estate opportunities and direct access to firms that have been vetted. This is especially true of top-down markets, such as China, that are accustomed to working through government channels. In these cases, practitioners need to know which companies in the region need capital and which projects are priorities. Finally, some organizations play a direct, proactive role in connecting firms with foreign capital, especially in sectors that are highly reliant on venture capital—San Diego's BIOCOM, for instance, actively matches life sciences firms with foreign investors.

Private foreign capital is already reshaping markets in U.S. metro areas. Economic development organizations are aware of potential opportunities, but they continue to grapple with how to steer investment toward regional priorities in a coordinated, systemic fashion. This reflects both the complexity and risk of becoming involved in global investment. But the prevailing wait-and-see approach will inevitably give way

to more active experimentation as global capital flows grow and metro areas gain a deeper understanding of their markets' needs and priorities.

QUOTES

Technology and manufacturing firm, Seattle

- "The benefit of foreign ownership comes down to three words: 'long-term thinking.' U.S. companies tend to be quarterly-driven, but the private equity firm that owns us has a 10-year plan for developing this technology. They have invested $225 million in building out our supply chain."

San Diego Plan

- "The lack of capital in San Diego compared to other leading global markets stifles the creation of startups and company expansions that drive job growth. Similarly, a decline in federal research funding has left the region's world-class research institutes under significant budget pressure. Foreign investment can provide the necessary resources to bridge the gap."

SEATTLE AND CHINESE INVESTMENT

Seattle, which has long boasted enviable connections with the Asia-Pacific region, has recently become a major magnet for Chinese investment. The region's EDOs are now faced with the task of figuring out how to deal with this sudden influx and steer it toward productive investments. One challenge is identifying opportunities before it's too late. A group of Chinese investors was interested in purchasing a 65-acre redevelopment project around the Port of Everett, but the project fell through when the investors tried to work through an inexperienced residential broker with whom they were familiar rather than contacting economic development officials. There are also challenges when investors do set up initial meetings with government—EDOs often have to scramble to vet incoming delegations and discern whether they are serious prospects that should be introduced to mayors and other public officials. Metro areas also find that foreign investors are searching for exceptionally large projects to invest in, making it difficult for small and mid-sized regions to assemble an attractive portfolio. Local firms are already reaping the benefits of Seattle's connections with China. UniEnergy Technologies, a smart-grid battery manufacturer, is an example. After UniEnergy's founders developed the technology at the Pacific Northwest National Lab, a Chinese private equity firm stepped in and bought a majority stake. This investor not only provided crucial early-stage funding when it was scarce in the U.S., but also a direct link to a Chinese production facility, critical supply chains, and customers.

DATA

EB-5 and sovereign wealth funds have expanded considerably in recent years

EB-5 visas issued:	Total sovereign wealth fund value:
2006: 802 (18% Chinese)	Dec 2008: $4.15 trillion
2013: 8,564 (81% Chinese)	Dec 2014: $7.01 trillion
Source: U.S. Department of State	*Source: Sovereign Wealth Fund Institute*

LESSON 10 COMPETING ON A GLOBAL SCALE REQUIRES THAT METROS INTENSIFY EFFORTS ON OTHER CRITICAL ECONOMIC ISSUES

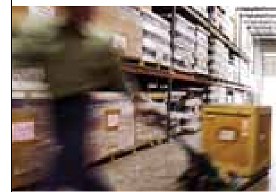
Workforce, infrastructure, and economic inequality are the issues Exchange metros are most pressed to grapple with in coming years.

Firms interviewed in Exchange metros welcome a heightened focus on global trade and investment, but argue that good intentions will result in little to no progress if the basic inputs are inadequate. Workforce and infrastructure have consistently surfaced as the two issues that are increasingly threatening the competitiveness of companies and regions. Firms in advanced industries and manufacturing, across all metro areas, report that there is not a large enough skilled workforce available to expand. Demographic trends portray a future where this situation will worsen without major intervention (see Figure 4). Other firms express concern over bottlenecks and delays (related to moving goods and people) within local and national transportation networks that can only be resolved through dedicated and strategic infrastructure investment. These issues are not new; however, their relevance is amplified when viewed through the lens of firms that must compete on a global scale.

At the same time, public officials and not-for-profits in certain Exchange metros express increasing concern over economic inequality. Whereas workforce and infrastructure are critical inputs to the economic system, this issue represents an economic outcome of today's economy that threatens to leave large segments of the population behind (Figure 5 illustrates the disconnect between U.S. economic output per capita and household income). It is not clear to what extent globalization exacerbates inequality or if it is an issue that is being raised as part of the Exchange planning process because it is already top of mind in certain markets. Either way, Exchange metros accept that the global economy is a reality and they must explore how to better manage the positive and negative impacts of it on all aspects of the regional economy.

While most regions have been grappling with the issues of workforce and infrastructure for years, constructive solutions have emerged in only isolated and sporadic cases. Regional and local EDOs have tended to keep an arm's length from these issues because they often are not tasked or resourced to engage in this way and doing so would take their eye off of their primary marketing mission. They instead depend on government and other designated organizations to focus on improvement of key regional assets and inputs. In reality, these issues are tough—it's not clear what the right solutions are, and (as with global trade and investment initiatives) those that might succeed require risk taking, new and greater funding sources, multi-agency and multi-jurisdictional approaches and partnerships, a long-term outlook, and the political will (at the federal, state, and local levels) to make it all happen. EDOs increasingly realize they must assume a greater role on these fronts because, through more dedicated efforts to understand and connect with local firms, they are confronted by the fact that workforce and infrastructure issues threaten their ability to generate firm expansion and attraction.

Exchange metros are responding to these imminent threats through their global trade and investment plans and early implementation. Portland has released a local freight plan that responds directly to the needs of its trading firms and that helped secure a $10 million federal TIGER (Transportation Investment Generating Economic Recovery) grant. San Diego has made workforce and infrastructure two of the top strategies in its plan, and it includes a focus on the needs of advanced industries and reducing bottlenecks on the local U.S.-Mexico border. In Syracuse, CenterState CEO is expanding on nationally recognized workforce programs to support manufacturing and exports. Seattle has committed to engage on the issue of economic inequality and how to better manage the positive and negative impacts of globalization on all populations. The point here is not that these metro areas have found the ultimate solutions, although there are some emerging models with potential, but that their local EDOs are now determined to engage, partner, and provide leadership on these issues that most threaten a competitive, sustainable economy.



Manufacturer, Columbus

- "Workforce is our main challenge. Three-quarters of manufacturing firms struggle with skilled labor.... Many of those in two-year tooling and mechanical/electrical engineering programs are hired before graduation. They receive three to six months' training here then leave."

GREENVILLE-SPARTANBURG: INVESTING IN ITS GLOBAL FUTURE

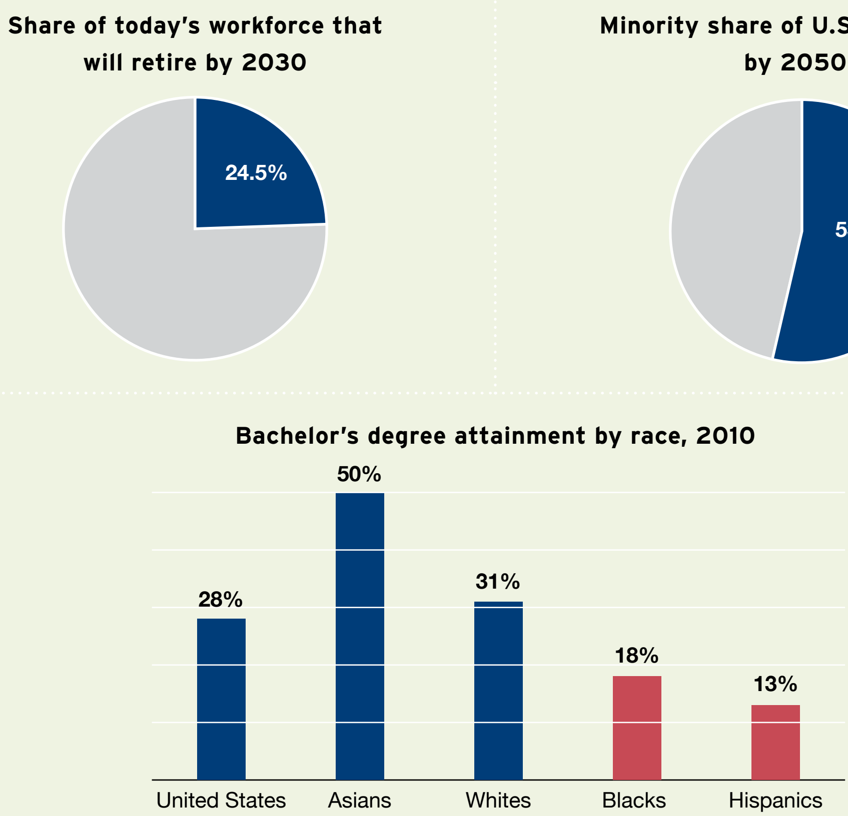
Major recent investments in research, technical training, and a new inland port demonstrate the high priority South Carolina has placed on supporting the workforce and infrastructure needs of its manufacturers, many of which are foreign-owned and/or are exporters. The $46.5 million South Carolina Inland Port opened in Greer in October 2013, extending the Port of Charleston's reach 212 miles inland. It increases efficiency and access for container movement for exporters, such as BMW, that shipped over 350,000 cars out of the Port of Charleston in 2014. The facility is positioned on the Interstate 85 corridor between Charlotte and Atlanta and is served by a main rail line of Norfolk Southern. On workforce, Apprenticeship SC, the Center for Manufacturing Innovation (CMI), and the Clemson University International Center for Automotive Research (CU-ICAR) stand out as nationally significant models. Through Apprenticeship SC, run by the state technical college system, firms such as BMW and Bosch have brought the German apprenticeship program to South Carolina. Started in 2007, the program has served over 670 companies and 11,000 apprentices. Ground broke in early 2015 for CMI with a focus on increasing the number of skilled workers for manufacturing. CMI is being established through a partnership between Clemson University, Greenville Technical College, and local manufacturers and will fully integrate manufacturing education throughout the K-20 spectrum, with a focus on enabling stackable credentials. CMI is located next to CU-ICAR; it started in 2003 and is now one of the premier centers in the U.S. for automotive research, innovation, and education.

Workforce and infrastructure have consistently surfaced as the two issues that are increasingly threatening the competitiveness of companies and regions.

DATA

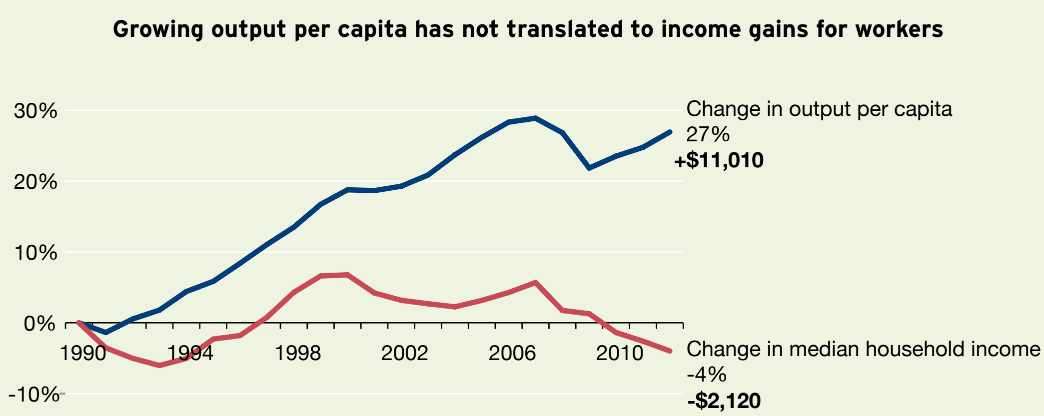
Demographic trends point to workforce challenges that will threaten metro competitiveness

FIGURE 4. DEMOGRAPHIC SHIFTS AND EDUCATIONAL ATTAINMENT



Source: Brookings analysis of 2010 Census and American Community Survey data

FIGURE 5. CHANGE IN OUTPUT PER CAPITA AND MEDIAN HOUSEHOLD INCOME, 1990-2012



Source: Census, Brookings Analysis of Moody's Analytics data

CONCLUSION

Economic development organizations in U.S. metro areas are keenly aware that the global economy is rapidly growing and evolving. They are on the front lines of fundamental, ongoing shifts in which an ever-increasing number of international metro areas are becoming both competitors and partners in trade and investment. Local leaders know that they must respond. They know that doing so requires a heightened commitment to focusing on clusters, developing relationships, investing in critical inputs like infrastructure and workforce, and helping firms adapt and thrive in an ever more competitive environment. This paper seeks to capture lessons from the 21 metro areas that have begun this process as part of the Global Cities Initiative, with a focus on the five that have completed and adopted comprehensive global trade and investment plans. When paired with other GCI guides and research, these critical insights offer a roadmap for leaders in other metro areas that are ready to adopt more complex, strategic, and unified approaches to economic development. While strategies developed to date are showing early results and hold promise for transformative impact in the future, their ongoing success greatly depends on engaged cross-sector leadership that is willing to make global engagement a long-term priority.

ABOUT THE GLOBAL CITIES INITIATIVE

A JOINT PROJECT OF BROOKINGS AND JPMORGAN CHASE

The Global Cities Initiative equips city and metropolitan area leaders with the practical knowledge, policy ideas, and connections they need to become more globally connected and competitive.

Combining Brookings' deep expertise in fact-based, metropolitan-focused research and JPMorgan Chase's market expertise and longstanding commitment to investing in cities, this initiative:

- Helps city and metropolitan leaders better leverage their global assets by unveiling their economic starting points on key indicators such as advanced manufacturing, exports, foreign direct investment, freight flow, and immigration.
- Provides metropolitan area leaders with proven, actionable ideas for how to expand the global reach of their economies, building on best practices and policy innovations from across the nation and around the world.
- Creates a network of U.S. and international cities interested in partnering together to advance global trade and commerce.

The Global Cities Initiative is chaired by Richard M. Daley, former mayor of Chicago and senior advisor to JPMorgan Chase. It is co-directed by Bruce Katz, Brookings vice president and co-director of the Brookings Metropolitan Policy Program, and Amy Liu, senior fellow and co-director of the Brookings Metropolitan Policy Program.

Launched in 2012, the Global Cities Initiative will catalyze a shift in economic development priorities and practices resulting in more globally connected metropolitan areas and more sustainable economic growth.

Core activities include:

INDEPENDENT RESEARCH: Through research, the Global Cities Initiative will make the case that cities and metropolitan areas are the centers of global trade and commerce. Brookings will provide each of the largest 100 U.S. metropolitan areas with baseline data on its current global economic position so that metropolitan leaders can develop and implement more targeted strategies for global engagement and economic development.

CATALYTIC CONVENINGS: Each year, the Global Cities Initiative will convene business, civic and government leaders in select U.S. metropolitan areas to help them understand the position of their metropolitan economies in the changing global marketplace and identify opportunities for strengthening competitiveness and expanding trade and investment. In addition, GCI will bring together metropolitan area leaders from the U.S. and around the world in at least one international city to explore best practices and policy innovations for strengthening global engagement, and facilitate trade relationships.

GLOBAL ENGAGEMENT STRATEGIES: In order to convert knowledge into concrete action, Brookings and JPMorgan Chase launched the Global Cities Exchange in 2013. Through a competitive application process, economic development practitioners in both U.S. and international cities are selected to receive hands-on guidance on the development and implementation of actionable strategies to enhance global trade and commerce and strengthen regional economies.

GLOBAL CITIES INITIATIVE

ENDNOTES

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This report is made possible by the Global Cities Initiative, a joint project of Brookings and JPMorgan Chase. The Global Cities Initiative equips city and metropolitan area leaders with the practical knowledge, policy ideas, and connections they need to become more globally connected and competitive.

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