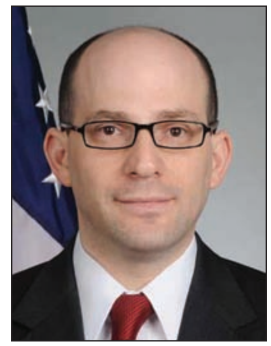
Economic Development

Ed Burghard, Chief Executive Officer, The Burghard Group interviews Jeff Finkle, President and Chief Executive Officer, International Economic Development Council (IEDC),and Aaron Brickman, Director, Invest in America (IIA)

EDITORS' NOTE *Ed Burghard is CEO of The Burghard Group and creator of the Strengthening Brand America Project (www.strengtheningbrandamerica.com), designed to help economic development professionals better understand the application of branding principles in order to further enhance U.S. competitiveness for capital attraction. To gain additional perspective on the challenges faced by U.S. economic development professionals, Ed interviewed Aaron Brickman, Director of Invest in America (www.investamerica.gov), and Jeff Finkle, President and CEO of the International Economic Development Council (www.iedconline.org). Both experts have unique vantage points from which to assess the challenges facing Brand America competitiveness.*

Ed Burghard

Jeff Finkle



Aaron Brickman

In what ways have changes in the global economy impacted economic development?

Brickman: The recent downturn has certainly created new challenges for economic development professionals. Due to its limited availability, global capital has become both more difficult to attract and more essential to access. Given the recent economic challenges, economic development organizations (EDOs) are compelled to identify additional sources for capital and job creation, and foreign direct investment provides healthy diversification. In the United States, affiliates of foreign investors employ approximately 5.3 million workers, and generate around 20 percent of all U.S. exports.

A number of EDOs are currently hampered by budget cuts, a challenging environment within which the creation of jobs and economic growth has increased in importance. In order to work within budget constraints, economic developers must continue to innovate and strategize in connecting with potential investors. EDOs must identify and promote the advantages of their communities and regions, and the United States as a whole. For example, the U.S. has a clear competitive advantage in its protection of intellectual property rights. As a result, the United States has provided, and will continue to provide, the ideal environment for research and development.

Finkle: Communities are suffering from unemployment and underemployment; city, county, and state budgets are being cut; homes are being foreclosed; and credit is tighter than ever. The economic slowdown is worldwide and, in general, economic developers need to recognize that it may take at least a couple of years before we really get a sense of a recovery, and along the way, some things may become worse, making the job of the economic developer even more of a challenge.

In order to tackle these global challenges, economic developers need to be defter, more adaptable, more strategic, and more creative than ever to be able to exploit available opportunities and keep their communities afloat and competitive. In addition to forging partnerships with the private sector, government, and universities, economic developers should be focusing on business retention and expansion (BRE), retaining those businesses already in the community and providing them with any support they can. They also should be fostering entrepreneurship and small business development more than ever, helping the multitude of unemployed in their communities find a way to sustain their livelihoods.

In terms of innovation, we see economic developers making use of social media as an effective communication tool; more EDOs are using social networking sites like LinkedIn and Facebook to promote their communities, and connect with residents as well as other EDOs. Some EDOs are seeking out-of-the-box solutions to deal with the financing gap and the use of the EB-5 visa program has become a way that some communities have acquired foreign investment. By taking advantage of the "Regional Center" status that a community or nonprofit can attain from the federal government, they can then use the center like an investment fund which pools investors and matches funds with projects. By doing so, an EDO can leverage these funds for infrastructure or construction projects. Also, many economic development professionals are learning to incorporate sustainability into their economic development strategies, such as targeting and promoting high performance, energy-efficient buildings and emerging industries such as renewable energy and recycling.

The need to be innovative is greater than ever and, at IEDC, we disseminate best practice information on our Web site via newsletters and publications so that the economic development community can learn from and emulate the successful initiatives of their peers.

Is the position of the United States in the global economy improving or declining? How competitive is the U.S.?

Finkle: The Global Competitiveness Report 2009-2010, released in September 2009, places the U.S. in the number two position, behind Switzerland. The U.S. ranked number one in the 2008-2009 report. There is no doubt that the weakening of the U.S. economy and financial crisis is largely responsible for the decrease in ranking. But ranking second in the world – in the scheme of things today – tells me that the U.S. is still holding a strong position globally. According to the Bureau of Economic Analysis, expenditures for foreign direct investment (FDI) in the U.S. in 2008 rose by 3 percent despite the slowing of the economy. However, in order for the U.S. to remain competitive and regain its first-place ranking, we as a nation need to address some core issues, such as investing in the workforce so we can continue to have a skilled and competitive labor supply, investing more in technology, and building up our infrastructure to match other developed nations.

Brickman: The United States is very competitive. Although the country ranking slip in the Global Competitiveness Report might seem cause for alarm, this change in position should be considered in terms of both its context and magnitude. The worldwide economic crisis has proved challenging to the financial

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markets and macroeconomic stability in all countries, including the United States. The foundations of the U.S. economy, however, remain wholly intact. The United States maintains its competitive edge even in the context of global financial tumult, as evidenced by a 16 percent inward FDI growth rate in 2008 versus 2007. As for the magnitude of the ranking change, the U.S. only shifted slightly in this difficult economic environment. In contrast, other developed countries fell multiple positions, a fact that speaks to the vitality of the American economy.

What impact does multinational merger and acquisition activity have on the ability of the United States to compete successfully for FDI attraction?

Brickman: Mergers and acquisitions (M&A) have in recent history formed the majority of foreign direct investment into the U.S., and our openness to FDI has ensured the United States remains competitive in terms of FDI attraction. Foreign corporations often wish to establish or expand a U.S. presence to access the resilient U.S consumer market. Given that exports to the United States have fallen during the recent economic slowdown, foreign firms would do well to establish or expand U.S. production capabilities to tap into our thriving consumer market – 42 percent of the global consumer goods market.

Finkle: M&As slowed worldwide from 2008 to 2009, but the U.S. is still in a good position for M&As. In fact, FDI in the U.S. increased 3 percent in 2008, and most of the investments were made by existing affiliates of U.S. companies that were either expanding or consolidating operations. M&As have typically been the primary way that corporations enter into the U.S. markets, and in this volatile economy, it is safer than establishing a new business.

In addition, for those that have the capital, the weak dollar makes the U.S. a bargain, and the need to consolidate in this tough market effectively fosters M&As and partnerships. Furthermore, the stimulus money (ARRA) being pumped into the economy opens the door to foreign investors who wish to join with the U.S. on big infrastructure projects. So while overall FDI, including M&As, may dwindle this year, I expect the U.S. market to continue to see fairly steady M&A activity.

What resources are there to enable economic development professionals to become even more competitive for FDI attraction?

Brickman: Economic development professionals certainly have a valuable resource in the International Economic Development Council, which provides important training courses, useful advisory services, and acts as a focal point for the community. In addition, Invest in America supports state and local economic FDI attraction efforts by connecting potential investors with U.S. investment officials in all 50 states, as well as the District of Columbia and U.S. territories. Through its ombudsman role, IIA works to address investor concerns involving federal agencies, and thereby better enables economic development professionals to provide guidance when investors have questions with regard to federal rules or regulations. Online investment magazines and journals, such as *Area Development*, *Location USA*, and *Site Selection*, can also provide useful information including recent U.S. investment news and case studies.

Finkle: IEDC helps economic developers through professional development, networking, and advisory services. Invest in America, through the Department of Commerce, promotes trade and investment and provides a myriad of useful information to the ED community, and the International Trade Administration helps U.S. entities to navigate foreign markets. State international offices and trade offices, as well as site selection research firms, can all guide EDOs, and online tools and databases like fDi Benchmark and private consulting firms can help economic developers identify markets and industries, as well as specific strategies for their communities. EDOs can additionally refer to the U.S. Chamber of Commerce, CoreNet Global, the U.S. Export-Import Bank, and the Organization for International Investment for information.

As you look ahead, are you optimistic or pessimistic about the ability of the United States to effectively compete for FDI?

Finkle: I am optimistic. The U.S. is already in a strong position, and I don't think that anyone in government, the private sector, or the ED community wants to see the country slip any further. International business has shrunk worldwide – it is not just a U.S. phenomenon – and as business picks up, the ED community will rally to keep investments flowing.

The financial sector in the U.S. is hurting, but the U.S. is still less risky than some emerging economies. Notably, the U.S. has competitive advantages in terms of intellectual property rights – that gives them an advantage for R&D ventures – as well as a large available talent pool, a good transportation infrastructure, proximity to major markets, and a weak dollar that makes doing business in the U.S. relatively inexpensive for many foreign investors.

Beyond concentrating on BRE efforts today to leverage the U.S. competitive advantages in IP rights and R&D, economic developers will need to maintain and foster partnerships, maintain an innovative business environment, promote the ease of commercialization and inventions, provide support in regulatory and business assistance issues, and voice concerns to leadership about the cost of litigation posing a risk to the nation's competitiveness

Brickman: Looking forward, I am confident that the U.S. will remain a strong competitor in attracting FDI. In spite of the global downturn, as well as increased competition from other nations, foreign investors clearly remain eager to invest in the most dynamic economy in the world. Foreign direct investment is well-established as a means to facilitate job creation and economic growth in the U.S. The current slowdown will likely catalyze market and policy innovation, and we will continue to provide a hospitable environment for inward FDI.

The United States also has a competitive advantage in terms of both market size and proximity to other markets. As a party to the NAFTA, CAFTA-DR, and other free trade agreements, the U.S also can serve as an effective export platform to these other markets, and beyond. Foreign firms should view the U.S. as a premier location for their production facilities.

In addition, the United States maintains a notably strong regime of intellectual property rights protection and enforcement. In contrast to many other countries, foreign investors can be confident that they will be able to effectively protect their intellectual assets. International firms can therefore undertake R&D projects in the United States with limited worry over infringement of their technologies. For these reasons, and many others, I contend that the United States will remain the best risk-adjusted return on investment globally. ●