BROOKINGS

QUALITY. INDEPENDENCE. IMPACT.

Greater Washington, D.C.'s Global Profile

Remarks by
Amy Liu
Senior Fellow and Co-Director
Brookings Metropolitan Policy Program

Global Cities Initiative Forum
November 5, 2015

Thank you, Peter. We are truly lucky to have Peter not only as a supporter and partner in the Global Cities Initiative, but also as a trustee of the Brookings Institution. He is a true believer in the economic power of cities. And through the many hats he wears, Peter has catalyzed enormous innovation in the urban field.

Today, we are releasing a new report, authored by my Brookings colleagues Nick Marchio and Alan Berube, that examines greater Washington's profile as a globally connected, globally competitive region.

This analysis comes at a time when this region's business, civic, and elected leaders are exploring ways to position this economy for a more sustainable future. It's clear in talking to them, that leaders are increasingly aware that status quo economic development is not working. So, how does greater Washington get past the competition for firms between states and jurisdictions and the heavy reliance on federal procurement? Our hope is that this new analysis will help provide answers to those hard questions and inform any new initiatives.

Let me start with some context. Greater Washington is a strong economy. This 15-county, tri-state metro area produces $403 billion in economic output, making this region the sixth largest metro economy in the U.S. and the 14th largest in the world.

This region's leadership as a services economy is even more dominant. Greater Washington ranks seventh in the world in the size of its business, financial, and professional services economy, larger than Chicago and Beijing.

Right out of the gate, Greater Washington IS a globally significant city.

The region's economic wealth translates to household wealth. This region has a much higher median household income and a much lower poverty rate than the U.S. as a whole.

Yet there is another economic reality: Greater Washington's economy has stalled. In the last four years, the region's slow economic expansion placed Greater Washington 93rd out of the 100 largest metros. Output growth is projected to lag even further behind other metros by 2020.

Where the federal government once cushioned the region from economic shocks, its belt tightening may now be a drag to short- and long-term prosperity. The outsized role of the federal government and its nearly 40 percent of the region's economy may be contributing to be the Washington area's economic sluggishness.

Given this backdrop, I want to reinforce why global engagement matters, how this region is faring as a globally connected economy, and what lessons from other metros may serve useful here.

Global engagement requires a focus on three integrated assets. Let's start with advanced industries. A region needs to be anchored by advanced industries if it is to prosper in the global economy. For advanced industries to grow, they must trade. They must sell products and services to customers, and in this global economy, those customers should be worldwide. The flipside of trade is in-bound investment. Advanced industries can also expand by attracting foreign capital and foreign firms that are eager to be part of an advanced industries ecosystem—think a Japanese supplier wanting to be part of Seattle's prized aerospace cluster. Advanced industries, trade, and investment form the foundation of a globally engaged and prosperous regional economy.

Let me expand on the importance of each.

Advanced Industries: To compete effectively on trade, you have to have good product. A region needs to the leading edge of product development and new discoveries. We call these advanced industries. They are "advanced" because they make relatively high investments in R&D and employ relatively high shares of scientists and engineers (STEM workers) who can translate research into commercial applications.

In a recent report, we found the U.S. is home to 50 segments of advanced industries that cut across manufacturing, energy, and services. And the services listed here are ones in which the Washington region has a competitive advantage, such as R&D consulting and software development.

Because of their emphasis on the latest technologies, advanced industries contribute the vast majority of exports, patents and private sector R&D in the nation, despite making up just 9 percent of all jobs. Due to their global leadership, advanced industries generate nearly one-fifth of U.S. output from this small base.

Advanced industries also generate good paying jobs, often offering wages that are twice as high as those found in other sectors. Further, these jobs are accessible, with one out of two advanced industries jobs not requiring a worker to have a college degree.

Now let's turn to the importance of trade.

First, the economy is globally integrated and becoming more so. The bar chart on the left shows how the volume of goods, services, and investments between countries has grown exponentially in the last 30 years.

Second, global trade matters because the bulk of future global economic growth—86 percent—will take place outside of the U.S. Despite the slowdown in emerging markets, the IMF still predicts that the world economy will continue to shift and expand.

Exporting produces great benefits to a regional economy. It leads to higher levels of job growth, higher levels of output growth. And these are quality jobs. Exporting firms, whether in services or manufacturing, pay 20 and 17 percent more in wages than their non-exporting peers.

Going global is also good for businesses. Over the course of the Global Cities Initiative, participating cities have taken a keen interest in middle-market firms. Middle-market firms are those that generate $10 million to $1 billion in sales, so they have a proven product and the capacity to invest in market expansion. Across-the-board, the middle market firms that were more likely to see their revenues expand and add jobs were those that sold products abroad compared to firms that did not.

Research has also found that the more you export, the more you innovate. Firms that go global have to adapt to changing market preferences or are forced to strengthen their niche among global competitors. Going global helps a firm move up the value chain.

The flip side of exports is foreign direct investment, which is also a key component of many regions' global trade strategies. FDI includes foreign-owned establishments that move into a market and the infusion of capital into a firm, either through global private equity, merger, or acquisitions.

First, just like global trade, FDI is expanding worldwide, reaching about $1.3 trillion today. Meanwhile, the level of foreign investment in the US has essentially stayed flat since the 1980s. That means today, the U.S. is just home to 12 percent of global FDI, down from nearly half in the 1980s**.** There are simply more choices today for highly mobile firms and capital.

There are benefits from capturing more foreign investment. Like exports, foreign-owned firms in the U.S. create jobs: 5.6 million in 2011. These jobs also pay more, on average, than those found in domestic firms.

But the real promise of foreign investment is that foreign firms are major exporters **and major investors in R&D,** often bringing in new innovation and technologies to the U.S. that we wouldn't have otherwise. Toyota, for instance, brought lean manufacturing to the U.S. German firms, like Siemens, BMW, and Volkswagen brought a strong commitment to training and apprenticeships. Swiss pharmaceutical giant Novartis invested in a major medical research partnership with MIT, strengthening Boston's position as a hub of life science solutions. In short, foreign firms can increase our innovation mite.

So how does Greater Washington fare on these key factors of global growth and competitiveness?

Our report provides indicators of the region's performance in advanced industries, trade and investment, with skills and infrastructure included. Where possible, the report provides trends by county. It also compares the region to peer metros, which we have defined as those with similar size and industry composition.

First, this region has a high share of jobs in advanced industries, at 13.5 percent, putting you ahead of peers like Boston, Austin, and San Diego. Your advanced industry specializations are shown here, in computer systems design, engineering, and management and consulting.

And these advanced industries are found in every jurisdiction in the region. Yes you can find these high value jobs in the regional core such as Fairfax, D.C., and Montgomery County. But advanced industry jobs are also found in Alexandria and Prince George's County. Thus, advanced industries are a shared competitive advantage.

But here is the challenge: Your advanced industries are highly dependent on one customer … the federal government. More than two-thirds of the revenues that advanced industries firms receive come from federal contracts, which are becoming less reliable. Any business knows that being highly dependent on one customer is high-risk.

The bar chart on the right further reinforces the federal dominance. Most of the innovation capacity that drives advanced solutions – measured by patenting activity —comes by far from the federal government, likely within the defense, intelligence, and health research sectors.

Alongside innovation, access to STEM workers is a critical input for advanced industries. Yet despite the highly educated workforce that this region is known for, this region struggles to match its skilled-labor workforce with the needs of a tech-savvy, innovative economy. In fact, employers in this region have the hardest time filling STEM jobs, even more so than the Bay Area and Seattle.

For all the world class universities in this region, greater Washington is not a magnet for foreign students. This, despite a region that regularly attracts foreign dignitaries and foreign travelers. Foreign students matter because they are an important source of talent in a global economy and because their attendance counts as a service export, bringing revenue into this region.

On trade, this region is a major exporter, ranking this region 13th **in the U.S. in this regard.** Most of that export income comes from business travel and tourism, technology, and management and legal services. So your sectors do engage abroad.

The challenge is that this region is also a major UNDER exporter. Only 6.1 percent of your regional economy comes from trade, compared to more than 11 percent nationally. This places you 95th among the 100 largest metros. This region is simply not capitalizing on industry assets you have to diversify beyond the federal government and drive growth from new customers abroad.

The infrastructure you need to support a services economy is air travel. You're moving knowledge workers more than shipping manufactured goods on ships and rail. Interestingly, our data treats Baltimore and BWI as a separate metro so the blue part of the bar shows that this region is a leading hub of international air travel via Dulles and National. The white section of the bar includes BWI. The air travel destinations give you a good picture of where this region does business. It is a strong list that includes, London, Beijing, and Tokyo.

When it comes to attracting foreign investment, this region fares better than the nation in the share of its jobs in foreign-owned establishments. But the concern is that the foreign firms you are attracting are not adding to your advanced industry capability. Only one quarter of FDI jobs are in this high-value sector, ranking this region 50th on this score.

Finally, let me talk about the lessons from emerging innovations in other metros that have been adopting concrete strategies to position their economies for success in the global marketplace.

The one key shift that is happening in these markets is in response to this: You cannot grow your economy by focusing on business recruitment. In fact, the vast majority of job creation in states comes from existing firms and startups. Yet, far too often, that 2 percent dominates economic development spending and attention.

So business, civic, and economic development groups and elected officials in other markets are embracing exports as a key tool for business expansion. By doing so, these leaders are building stronger relationships with their companies, bringing real value to firms via new or existing services, and in the process creating new intraregional trust. Rather than poach each other's firms, leaders are working together to grow existing businesses in each of their jurisdictions that bring new revenue into the region and the local tax base.

So which regions are we talking about? Thanks to our partnership with JPMorgan Chase, the Global Cities Initiative is engaging at least 28 U.S. cities and metro areas, and a few international ones, like our guests from Toronto. These regions are at the vanguard of global trade and investment. These include markets as diverse as Atlanta, Houston, and Seattle.

You're going to hear more about regional lessons from the next panel shortly. Let me provide one example: Portland, OR, a bi-state region. Today, Portland has an integrated exports and FDI strategy that is embedded in a larger regional economic plan. But let me just focus on the exports piece, which is where their regional effort began.

Here is what is instructive of their plan.

First, it was led by the private and public sector. The co-chairs of their export strategy are Intel, their largest exporter, and the chair of Metro, which is their version of the council of governments. A regional public-private partnership group, Greater Portland Inc., served as the quarterback organization for the multi-dimensional effort.

Second, its plan had three core strategies that show the variety of interventions a region can develop. They wanted to leverage their primary exporting industry, computer and electronics. But a company like Intel didn't need exporting. What they wanted were ways to improve the supply chain network and clear up bottlenecks in the freight network that hindered their ability to connect to global markets. So the region is working on solutions for that.

Portland also wanted to diversify beyond computer and electronics. They packaged a suite of products and services from a mix of firms under the banner "We Build Green Cities." This involved sustainable land use, design, planning, and architecture, EV technology, clean energy buses and transit cars that were then sold to rapidly urbanizing cities around the globe. They matched their distinct competitive advantage in a sought-after global niche with a substantive marketing campaign.

The result: Portland has won contracts in Rio de Janeiro and cities in Japan. They literally "build green cities." Their strategic planning efforts helped Portland win two federal grants, including a federal freight planning and implementation grant to act on the needs of their computer and electronics industries.

Let me close with this: This is the world image of Greater Washington D.C., a concern of area leaders.

This is the global identity you can create. A global center of innovation, driven by the power of federal R&D and private sector entrepreneurship; a region that delivers leading-edge technologies and service for commercial applications world-wide.

Greater Washington has these capabilities. But leaders must shore them up and organize the firms and actors in these industries before meaningful marketing can take place.

The path to getting there is messy. Ask any regional leader involved in the Global Cities Exchange. But hard efforts in regional collaboration bring rewards: tangible short-term successes from firms securing new business abroad and a broader cultural shift of regional economic development toward high-value growth that lays the foundation for lasting and widespread prosperity.

Thank you.