# STRENGTHEN FEDERALISM: Establish a Regional Export Accelerator Challenge (REACH) Grant Program to Boost U.S. Exports and Trade Capacity

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## Summary

To increase U.S. exports—particularly by the small and mid-size companies that drive domestic job creation—the federal government should initiate a short-term competitive Regional Export Accelerator Challenge (REACH) grant program to support public-private partnerships working to launch customized regional export plans. Metropolitan export strategies address a major need in the current export support system by leveraging the knowledge and connections of local economic development leaders to proactively identify firms and sectors with greatest export potential, coordinate fragmented export assistance providers, and focus limited resources for maximum benefit. This outreach to new and under-exporters is a necessary component of any broader effort to reorganize or restructure the federal trade system. By making a small investment at the metro level, the federal government can empower a network of regional leaders, working in conjunction with their states, to bring the benefits of global engagement to firms and workers in many regions of the United States.


## Background

As Congress and the Obama administration work together to put the United States on a sound fiscal and economic course, they must also ensure that the nation remains a strong force in the global marketplace.

New global dynamics, including the emergence of new markets, the rise of the global middle class, expansion of global supply chains, and increased international connectivity, present tangible opportunities for U.S. economic growth through exports and trade. The importance of trade in the global economy will only deepen as world markets become more integrated. The level of global trade between countries has tripled since 1950, and more recently, grew from $15.5 trillion in 2009 to nearly $18 trillion by 2011.

Boosting U.S. exports would directly benefit firms, workers, and the national economy overall. The small and medium-sized enterprises (SMEs) that export generally experience greater revenue growth than non-exporters and weathered the recession better than non-exporters. One study found that SME manufacturing exporters grew revenues between 2005 and 2009 by 37 percent while non-exporting manufacturers experienced a 7 percent decline in revenues during the same time period.

In addition, suppliers to exporting firms benefit from trade as well. Research shows that on average, U.S.-based multinational firms purchase $3 billion in goods and services from 6,000 small businesses each year. One net result: the production of exported goods and services preserves and creates jobs, both directly and indirectly in the supply chain, on the order of 5,400 jobs for every $1 billion in additional goods exports. Furthermore, export sector jobs pay well, with workers earning 10 to 20 percent higher wages than those in comparable non-exporting jobs for every $10 billion in sales in a metropolitan export industry.

Recognizing this global moment, government, business, and civic leaders in states and metro areas across the country are adapting their job creation and economic growth strategies to take advantage of the benefits of global trade.

To start, the Obama administration announced the National Export Initiative (NEI) in February 2010 with the stated goal of doubling exports from the 2009 level of $1.6 trillion to $3.2 trillion by 2014. To support this goal, the Trade Promotion Coordinating Committee has helped federal agencies work in alignment to promote trade and outreach, expand export financing, enforce fair trade, reduce trade barriers, and open new markets.

At the state level, many states have been able to preserve or expand their trade promotion programs, thanks in part to the congressionally-authorized State Trade and Export Promotion (STEP) program. STEP has enabled states to better connect small businesses to new customers outside the United States. In addition, states continue to play a critical role in exports, serving an umbrella function for their regions by providing resources, critical exports services and programs, and trade missions and events that complement and partner with federal programs. Governors act as important leads in heading delegations, representing state firms abroad, and opening doors to foreign markets.

Metro areas are also jumping into the export game. To date, there are at least four metro areas (Los Angeles, CA; Portland, OR; Minneapolis-Saint Paul, MN; and Syracuse, NY) currently executing metro export plans with the goal of doubling their exports in five years. Another dozen or more metro areas, including Charleston, SC; Chicago, IL; Louisville-Lexington, KY; and Tampa Bay, FL are in the midst of designing their own customized approaches to boosting exports and trade. Meanwhile, mayors are increasingly stepping up to facilitate relationships in key markets abroad.

Boosting exports in metro areas is necessary to national progress on this score. As the producers of the nation's traded goods and services and the gateways to global markets, metro areas are the starting point for trade expansion strategies. The 100 largest U.S. metro areas produced 65 percent of the nation's export sales in 2010, including 75 percent of services exports and 23 percent of agriculture exports.

More importantly, place-based strategies in metropolitan areas will make or break the effort to "move the dial" on U.S. export growth. In the emerging federal-state-local system of export service delivery, local officials and regional economic development organizations are filling a key gap, bringing new export-ready, mid-market firms into the export pipeline, expanding the role of services industries and institutions in facilitating trade, and changing the culture of economic growth toward greater global awareness and engagement. For instance, Portland is leveraging its dominant computers and electronics industry to grow the local supply chain and boost secondary exports. Portland's plan also calls for targeting a set of 10 to 15 mid- to large-size under-exporting manufacturers, with potentially high export sales volumes, and providing them with market analysis, coordinated access to federal and state resources, and a mentoring network to help them boost their export levels. Meanwhile, Syracuse is proactively connecting healthcare and education service providers with opportunities in Canada through a dedicated working group, marketing campaign, and efforts to assist foreign visitors and companies.

Although U.S. export growth has slowed in recent months due to the economic sluggishness of major trading partners such as Europe and China, the United States has made important strides toward its export goals, achieving a record monthly total of $187 billion in exports in September 2012, and surpassing 2011's record total of $2.1 trillion with $2.2 trillion last year.

Even still, more meaningful progress can—and must—be made to help U.S. metropolitan economies take advantage of the growth opportunities presented by global trade.

## The Problem

Despite the size and growth of foreign consumer demand, too many firms and too many parts of the United States remain domestically-oriented, thereby missing out on opportunities to innovate and expand. In addition, the national export service delivery system is too Washington-centric and does not embrace federalism's opportunities to work directly with leaders in regions, and their state partners, to globalize traditional economic development strategies.

The key problem is that both individual firms and entire regions under-export.

- **Too few firms are exporting and exporting regularly.** As of 2010, less than 1 percent of U.S. firms sell a product abroad, a much lower share than in other countries, including major trading partners such as Canada, Germany, and Korea. While the number of new exporting firms continues to grow (with 16,500 firms beginning to export between 2009 and 2010), that pace is slower than the creation of all new firms, keeping the overall percentage of exporting firms low. As of 2010, the United States has 293,000 exporters. However, only 188,000 firms exported in both 2009 and 2010, suggesting that approximately one-third of exporters may be "accidental exporters" that react to one-time demand from international buyers rather than integrating exports into their long-term sales and marketing strategy.

- **The nation itself remains a patchwork of exporting activity**. The share of the U.S. economy that is driven by exports is relatively small, at 14 percent. But even at that level, 74 percent of metro areas—and 86 of the 100 largest metro economies—underperform the national rate. Metro areas as large and diverse as Atlanta, Baltimore, Denver, Miami, New York, and San Antonio all generate less than 8 percent of their economic output through exports, placing them in the bottom quarter of performers among the largest 100 metro economies.

In addition, key market and institutional barriers are holding back progress.

- **Under-exporting starts with companies, many of whom fear exporting due to lack of awareness of global opportunities and high initial costs.** While large multinationals are wellversed in international trade and have the resources needed to overcome market barriers, SMEs are more comfortable focusing entirely on the domestic market. A 2012 Economist Intelligence Unit survey of mid-sized firms (defined as having revenue between $10 million and $1 billion) found that 55 percent operate entirely within the U.S. market. Further, many smaller firms avoid exporting due to various initial costs, required staff time, fears of intellectual property theft, and regulatory hurdles. As such, direct, ongoing engagement with local SMEs demonstrating high export potential is required to reduce fears and make firms aware of export opportunities and available support.

- **Companies are often confused by the currently fragmented export services delivery system.** Federal, state, local, and private and nonprofit alignment of export services on the ground is critical to easing the process for firms attempting to navigate the system. However, the nature and availability of export services vary by metro area and companies are often not aware of, or do not fully understand, the export services and programs available to them or where to look for help at different stages of the export readiness process.

Meanwhile, the federal export services infrastructure, as currently designed, fails to overcome these challenges.

- **The current federal export services system is mostly reactive in nature and does not effectively assist first-time exporters.** Many federal programs are designed to minimize the barriers faced by exporters. Through the Department of Commerce's U.S. Commercial Service, the Small Business Administration, and the Export-Import Bank, the federal government provides valuable programs, tools, and case management to serve exporters. Export promotion, however, is a resource-intensive case management process and existing federal services providers are overwhelmed by demand from firms that are not export-ready and agencies lack the on-the-ground marketing capacity and networks needed to proactively identify and recruit export-capable SMEs into the local export services system. This has led the Commercial Service to focus on—and react to the needs of—current exporters, helping them expand into new markets or within existing markets. First-time exporters, by contrast, are being steered to Small Business Development Centers (SBDC), which are only sporadically prepared to manage these requests. Thus a new mechanism is required to recruit more qualified SMEs into the system and help them successfully navigate the exporting process.

- **Regional leaders and institutions lack the financial resources to reorient their economic development strategies toward global trade.** Metro area actors (particularly chambers, regional economic development partnerships, and engaged mayors) interact with firms regularly and demonstrate a high level of capability related to their economic development objectives. However, the transition to embracing exports as part of a broader economic development strategy is relatively new and as yet under-realized. Furthermore, with competing priorities for limited resources, the local return on investment from exports (as opposed to recruiting a new firm) has been under-demonstrated, leading regional leaders to view the diversion of funds from existing traditional economic development activities to activities focused on exports as a risk. As a result, the few metro export strategies now underway are being designed and implemented on a thin, tenuous thread of in-kind time and resource donations that could benefit from sustained, meaningful investments.

Finally, federal and state programs are failing to leverage the unique, emerging role of metro areas in the national trade system.

- **Existing programs rarely maximize the rich network of metro areas, where leaders are best positioned to identify and proactively bring new firms into the export system**. Metro areas know their local economies and companies best, especially through regional business-led civic groups or industry associations. Thus, they can bring new firms into the export fold and help them overcome market barriers through ongoing, one-on-one support.

- **Federal and state trade programs do not take advantage of metro leaders' ability to establish a more transparent, coordinated (federal, state, local, private, nonprofit), and efficient export assistance system** that is moving toward common economic goals. Metro areas routinely bring together networks of public and private sector organizations to work in partnership to promote economic growth. They are uniquely capable of coordinating and aligning the fragmented federal-state-local export services system, which has become a top priority for those metro areas now developing export plans.

- **Federal and state programs do not leverage the unique capability of metro areas to create the regional ecosystem to support a trade economy.** This includes better integrating exports and trade with strategies to boost the innovation capacity of firms and industries, improving the skills needed to support innovation and trade, and putting in place a modern efficient freight and logistics infrastructure. Metro leaders regularly strive to align multiple regional assets toward a common economic development strategy.

- **Federal and state leaders often do not partner with regional leaders, who can best facilitate the cultural shift (and create local "buzz") needed to embrace global engagement** by making exports and trade a regular part of regional economic development.

In short, although a number of metro areas are already demonstrating their eagerness and capacity to accelerate export-driven growth, Washington has yet to shift from the current centralized federal approach to a more dispersed federalist approach to exports capable of extending the benefits of global trade to more parts of the U.S. economy.

## Proposal

Given these challenges, the Metropolitan Policy Program at Brookings proposes the creation of a Regional Export Accelerator Challenge (REACH) grant program to support the development and start-up implementation of metro export plans. This new, temporary competitive grant program will operate most effectively alongside a reauthorized STEP or a similar program dedicated to increasing state capacity in the trade system.

The REACH program would be a modest $25 million grant program executed over three grant-making cycles. The structure of the grant would be as follows:

- **Planning Grants:** $2.5 million would be dedicated for two rounds (FY2013 and FY2014) of planning grants designed to support metropolitan areas working to prepare customized regional export strategies. Each selected metro area would receive up to a $100,000 grant, with a 1:1 cash or in-kind matching requirement. Funds can be applied to perform market assessments through data analysis, firm surveys, and provider interviews; research interventions; organize stakeholders to determine strategies and tactics; and prepare both a strategic and operational plan to ensure successful execution of the proposed strategies.

- **Early Stage Implementation Grants:** $22.5 million would be reserved for up to 35 metro export plan implementation grants, awarded in three competitive rounds (FY2013 to FY2015). Selected metro areas would receive up to $750,000 for a three-year project period, requiring a minimum 1:1 cash or in-kind match. Winning applications should demonstrate the existence of a regional export plan with a clear operational plan in place to ensure execution, accountability, and articulation of proposed annual performance outcomes. Eligible expenses and activities should relate to export promotion and development, including staffing, market research, web presence and technology tools, marketing and resource materials, educational or consulting programs, trade missions, and performance measurement and updating of the regional export plan.

Both the planning and implementation grants must be awarded to a consortium of cross-sector leaders or organizations in metro areas or multijurisdictional regions, with the consortium designating one lead coordinating entity to be the grant recipient. The regional consortium should include government leaders (e.g., city, county, and/or state governments), business groups (e.g., chambers of commerce, economic development entities, or industry associations), institutions of higher education, public/private export service providers (e.g., local Commercial Service offices, freight forwarders), and key non-profit entities (e.g., sister cities organizations, immigrant or ethnic business groups).

The lead entity may be a unit of government or a public or private non-profit organization. Although the export plan is focused on a sub-state region, a state's economic development agency or trade office could serve as the lead entity, if the consortium determines it to be best situated. Additionally, for implementation grants, the program should preference those applications that have non-governmental entities (such as a regional economic development organization or chamber of commerce) serving as regional lead, given the importance of promoting continuity and cross-jurisdictional reach in implementation.

The REACH program should be administered by the Department of Commerce, led by the Economic Development Administration (EDA) in partnership with the International Trade Administration (ITA). These agencies have experience in designing and administering competitive economic development planning and implementation grants that go directly to regional entities or industry associations. Alternatively, the Department of Commerce could broaden and repurpose its Market Development Cooperator Program (MDCP) to support this regional exports program. MDCP provides grants and technical assistance to non-profit industry groups to help them enhance their industry's competitive position.

## Budget Implications

REACH grant awards as proposed would require funding of $8.75 million in both FY2013 and FY2014, and $7.5 million in FY2015, totaling $25 million over three years. Outlays would be spread over five years. For comparison, this level of funding represents approximately 5 percent of total EDA Planning Program funding in FY2012. EDA has discretion to direct funding to REACH activities from its annual appropriation for economic development assistance programs, but Congress should increase EDA's annual appropriation to allow for this program, with the increase potentially offset by application of unobligated balances or excess fee collections.

## State of Play

There is broad, bipartisan support for generating economic growth and jobs through a more intense focus on exports, as evidenced by Congress's decision to approve free trade agreements with South Korea, Panama, and Columbia and reauthorize the Export-Import Bank. Institutions such as the Heritage Foundation and the Cato Institute are strongly supportive of market-oriented efforts to facilitate export growth. Furthermore, numerous business and manufacturing organizations, such as the U.S. Chamber of Commerce, Business Roundtable, Coalition of Service Industries, and National Association of Manufacturers have recently voiced their support for export promotion efforts and free trade agreements. In addition, the president remains committed to the NEI.

There is also increasing recognition of the critical role that metro areas can play in meeting U.S. export goals. In June 2011, the President's Export Council, made up primarily of national business leaders, issued a letter to the president calling for greater intergovernmental collaboration and cooperation on exports, including the creation of a program for individual metropolitan areas to develop export strategies that take advantage of their distinctive assets and optimize the interaction between state, local, and federal authorities. More recently, the 2012 National Export Strategy issued by the Trade Promotion Coordinating Committee called for strong federal support for metro area export planning efforts.

Finally, the U.S. Conference of Mayors has made exports a major platform and in the summer of 2011 called for at least 25 mayors to commit to convening metro area leaders in their respective markets for the purpose of creating local export plans. Since that challenge was issued, a number of mayors, in conjunction with their regional partners, have announced commitments to boost exports, including in Chicago, IL and Louisville-Lexington, KY.

## Implementation Requirements

The REACH program does not require new statutory authority if administered by the EDA, pursuant to the Public Works and Economic Development Act of 1965 (42 U.S.C. § 3121 et seq.) under the Planning Program (42 U.S.C. § 3143) and/or the Economic Adjustment Assistance Program (42 U.S.C. § 3149). These existing authorities allow for all anticipated eligible applicants. Some greater flexibility regarding Economic Adjustment Assistance (EAA) fund use, especially regarding determination of distress, would be helpful to maximize achievement of REACH objectives, and clarification could be provided by EDA legal interpretation or Congress through appropriations report language.

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