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U.S. Department of Commerce
Economic Development Administration

EDA America

Quarterly Insights and Best Practices in Economic Development

Spring 2008 Issue

Welcome to EDA America



Welcome to the new look and format of the *EDA America* quarterly publication. As economic development professionals work to keep pace with the changing 21st century economy, we offer this new stream-

lined format in an effort to continuously improve the way in which we deliver information on cutting-edge economic development best practices and ideas.

Of course, efforts at the Economic Development Administration (EDA) to constantly focus on “what’s next” in economic development go far beyond this publication. For example, we focus on EDA investments that support the key pillars of successful 21st century economic development. These are:

- Advancing long-term, coordinated, and collaborative regional economic development approaches;
- Enhancing innovation and competitiveness;
- Supporting entrepreneurship; and

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North Dakota State University Global Outreach

By Erik Pages

America’s most prosperous regions seem to have a direct pipeline to overseas partners. It’s hard, for example, to think about Silicon Valley without reference to its global partnerships with entrepreneurs and companies based in China, India, and Taiwan.

In Fargo, North Dakota, North Dakota State University (NDSU) is trying to build similar connections for firms and entrepreneurs in the surrounding region. A case in point is NDSU’s India project. This initiative began in 2004 via a partnership between NDSU and the Ansai Institute of Technology (AIT), based in Gurgaon, India (outside of New Delhi). At the outset, the partnership focused on student exchanges with numerous AIT students coming to Fargo to further their engineering training. The first group of AIT students is set to graduate from NDSU this spring.

The project has blossomed from these simple beginnings. NDSU is now a popular destination for AIT students, with 318 Indian students now on campus. NDSU even boasts a popular Association for Students from India, that

helps provide a welcome local support network for students. NDSU has expanded this partnership to the graduate level via linkages with the India Institute of Information Technology (I2IT), located in Pune, one of India’s emerging high-tech sectors. And, the partnerships are not limited to India, as NDSU has formal linkages with institutions in, among others, Brazil, China, Sri Lanka, and Thailand. In fact, students from 80 different countries now attend NDSU.

Even better, the partnership is now branching out from its origins in simple student exchanges. Fargo has developed an international reputation as a center for Radio Frequency Identification (RFID) technologies. The NDSU Research and Technology Park is the home base of Alien Technologies, a leading producer of RFID tags. The Park is now in the process of developing partnerships with India-based technology parks that specialize in RFID and other related technologies. Moreover, several Park tenants, like John Deere, have offices located in Pune, and are thus able to capitalize on the links between NDSU and I2IT.

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- Linking regional economies with the worldwide marketplace.

A new reality in the 21st century is that we truly live in an integrated worldwide marketplace. Many regions still view economic development as a city vs. city, county vs. county, and state vs. state competition. EDA's goal, reflected throughout this edition of *EDA America*, is to help regions across America look beyond their regional boundaries to understand and capitalize on opportunities presented by successful engagement in the worldwide marketplace.

Consider this – 95 percent of the world's customers live outside the United States. The potential for American companies to expand in worldwide markets is limitless, and the benefits for regional economies tremendous. We realize at the Department of Commerce that, while successful economic development is driven at the local level, the federal government offers programs and tools through the Economic Development Administration and the International Trade Administration, among others, to help access and adapt to international trade opportunities. This edition of *EDA America* highlights strategies and potential partners for accomplishing this, in hopes of assisting you in your efforts to link your regional economy with the worldwide marketplace.

I hope you will find these articles useful as you continue to craft strategies that enhance your region's economic competitiveness and raise the standard of living for the people we serve.

Sincerely,



Sandy K. Baruah
Assistant Secretary of Commerce
for Economic Development

EDA America is a quarterly publication brought to you as a benefit of a partnership among the Economic Development Administration (EDA), the American Planning Association and DTI Associates. The partnership is designed to provide information about economic development practices and programs to economic development practitioners who serve distressed communities throughout the United States. It also provides telecasts and a monthly e-newsletter, *EDA Update*. For more information, visit the EDA Web site at www.eda.gov.

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Spotlight: Q & A



NDSU President Joseph Chapman shared some insights about these global connections:

Q: What led you to reach out overseas?

A: North Dakota has one of the smallest populations in the U.S., but we also have a growing high-tech sector. If we want this sector to grow, we need to attract talent to our region. We need to reach out globally for talent. NDSU has a critical role to play in generating new intellectual property but also in attracting talent to our region.

Q: How have the university partnerships benefited the Fargo-Moorhead region?

A: These partnerships have helped bolster NDSU's research enterprise which helps bring more research funding to our community. NDSU's research expenditures surpassed \$106 million in 2006. In addition, Fargo-based firms are building strong overseas partnerships. Finally, new students are leading to a major expansion at NDSU. As part of this expansion, we are in the midst of developing a new downtown campus that will help revitalize downtown Fargo.

Q: What has been the biggest challenge in this effort?

A: Overcoming misconceptions. In the U.S., North Dakota still has the reputation of being rural and isolated. People do not realize that our region is becoming a major high technology hub. We face some of these same misconceptions when we reach out overseas. But our international partners are much quicker to see the opportunities here and to realize that we are serious about building real and sustainable partnerships.

Federal Partnership Spotlight: EDA and ITA

Partners in Helping America Compete in the Worldwide Economy

The U.S. Department of Commerce's Economic Development Administration (EDA) and International Trade Administration (ITA) promote strategies for U.S. economic growth by helping to foster an environment in which American companies can actively engage in the 21st century global marketplace. EDA and ITA are each committed to building both domestic and international partnerships to help achieve their objectives.

EDA's core mission

To lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy. EDA is guided by the basic principle that distressed communities must be empowered to develop and implement their own economic development and revitalization strategies. EDA works in partnership with state and local governments, regional economic development districts, public and private non-profit organizations and Indian tribes.

EDA supports many ongoing economic development projects throughout the U.S., assisting with long-term, coordinated, collaborative regionally-driven investments that promote innovation, competitiveness and entrepreneurship and help to connect regional U.S. economies with the worldwide marketplace.

EDA investments encompass public works, economic adjustment and technical assistance. Additionally, the EDA Trade Adjustment Assistance Program helps manufacturers and producers affected by increased imports prepare and implement strategies to guide economic recovery. Through a national



network of 11 Trade Adjustment Assistance Centers, the program helps to increase the global competitiveness of firms that have lost domestic sales and employment due to increased imports of similar or competitive goods.

“Connecting regional economies with the worldwide marketplace is key to America’s prosperity in the 21st century”

ITA's core mission

To create prosperity by strengthening the competitiveness of U.S. industry, promoting trade and investment, and ensuring fair trade and compliance with trade laws and agreements.

With more than 2,200 dedicated individuals posted at U.S. embassies and commercial offices around the world, ITA works to:

- Provide practical information to help companies select markets and products;
- Ensure that companies have access to international markets as required by trade agreements; and

- Safeguard American firms from unfair competition from dumped and subsidized imports.

Additionally, ITA focuses on helping to attract foreign direct investment (FDI) in the U.S., which is a critical element of our economic strength. FDI serves as an important source of business innovation, exports and job creation. ITA's *Invest in America* initiative is the primary U.S. Government mechanism to manage foreign direct investment promotion. Efforts are focused on outreach to foreign governments and investors, support for state governments' investment promotion efforts, and addressing business climate concerns by serving as ombudsman in Washington for the international investment community.

EDA and ITA together

Connecting regional economies with the worldwide marketplace is key to America's prosperity in the 21st century. EDA and ITA are committed to being strong federal partners as America's regions, businesses and individuals transition into the global marketplace. For more information on EDA, visit www.eda.gov, and for ITA, visit www.trade.gov.

Economic Development in a Rubik's Cube World

How to Turn Global Trends into Local Prosperity

By Susanne Dirks, Manager, IBM Institute for Business Value
Global Center for Economic Development Research

There is an African proverb that says: "For tomorrow belongs to the people who prepare for it today." This simple piece of wisdom, while seemingly banal, is often forgotten and is especially true in today's fast-paced, globalized world, where tomorrow has often already happened somewhere else yesterday.

With this in mind, the purpose of this article is to examine the mega-trends that are evolving across the world and their impact on all the players in the game – from individuals, societies, governments, companies and countries to economic development organizations (EDOs) and investment promotion agencies (IPAs).

The world is changing at a more rapid pace than ever before, driven by six mega-trends: technological progress, globalization, the new consumer (omni-consumer), population trends, political uncertainty and the corporate social responsibility imperative. These forces, or mega-trends, will shape the world of 2020, and are the first dimension of the Rubik's Cube (see Figure 1). They are also driving the business innovation response, which is the second dimension of the Rubik's Cube world.

As the business world of the future is being formed, so too are the winners among EDOs and IPAs — the third dimension of

the Rubik's Cube. To emerge as winners in the world of 2020, EDOs and IPAs need to not only understand the dimensions of the Rubik's Cube world in which we live, they need to act and respond to these changes now.

Six powerful mega-trends shaping the world of 2020

Globalization as a phenomenon is not new – but the pace and scope of the current wave is unprecedented. According to the World Bank, the proportion of goods and services that are traded increased from 40 percent to almost 60 percent between 1990 and 2005. Over the same period, statistics from the United Nations (U.N.) and the IMF indicate that the number of transnational companies doubled to 70,000, and in 2005, global capital flows increased to more than \$6 trillion, the highest level ever.

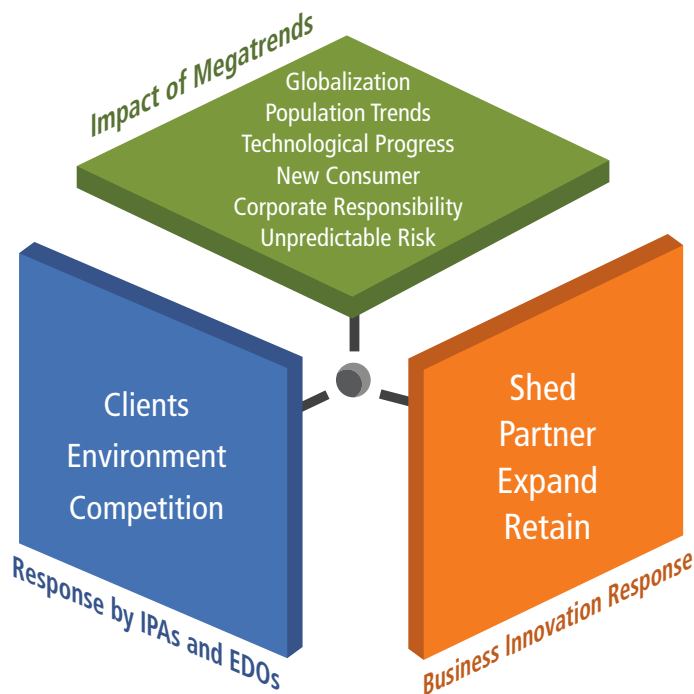
The global labor force is profoundly changing in age and location. In 2008, for the first time in history, more people will live in cities than not, according to the U.N.; and between 2000 and 2020, 94 percent of the 1.8 billion increase in the world's population will be in developing countries.

New technologies are spreading faster and wider than ever before, and are taking hold more deeply than ever before. Between 2000 and 2007, world Internet usage more than doubled to almost 1.2 billion people – by 2010, *Internet World's* statistics indicate it is expected to increase to two billion.

New consumers. Due primarily to technology, there is a much greater balance of information between producers and consumers. At the same time, the

Figure 1

The Rubik Cube of Economic Development



average consumer – the so-called omni-consumer – has a lot more to spend each year; and this is not just a “rich country” phenomenon. With consumers around the world having more money to spend, and more information from which to make their decisions, businesses can rise – or fall – in months.

Corporate social responsibility has evolved from a voluntary add-on to a corporate imperative. Businesses now face increased scrutiny from consumers and workers; this is reflected, for example, in the growth of the Fairtrade label, which according to the *Cooperative Bank’s Ethical Consumerism Report*, grew at 40 percent per annum between 2000 and 2007. The Fairtrade label is designed to allow people to identify products that meet agreed environmental, labor and developmental standards. Investors are also paying more attention to environmental and responsibility factors that affect long-term returns.

Unpredictable risks such as political uncertainties loom in the background of decisions being made that will shape the 2020 world. Perceptions surrounding how a country manages the risks of violence are of utmost importance. Almost two in five respondents in a *Lloyds of London* and *Economist Intelligence Unit* survey say they have avoided investments in certain territories, due to concerns about violence.

Businesses are responding to the mega-trends by looking at their core competencies in new ways and becoming globally integrated enterprises

The mega-trends shaping the 2020 world are having a real impact on the EDOs and IPAs. Businesses are focusing on the activities that give them a sustained competitive

Figure 2

Matrix of end-to-end activities involved in providing value to customers

| | |
|--|--|
| <p>Utility Component (Shed)</p> <ul style="list-style-type: none"> • Use of external specialists to reduce costs and free up resources; outsource (potentially offshore) • Divest non-strategic interest | <p>Strategic Component (Retain)</p> <ul style="list-style-type: none"> • Source of competitive advantage • Retain and recognize within firm (e.g. relocation of shared services) • Optimize, consolidate |
| <p>Partner Component (Partner)</p> <ul style="list-style-type: none"> • Necessary alliances to meet critical business needs • Currently have: continue to partner • Currently do not have: develop alliances | <p>New Strategic Component (Expand)</p> <ul style="list-style-type: none"> • New source of sustained competitive advantage • Use of R&D and internal assets, relationships and capabilities • External sources (M&A) |

advantage. This focus on core competencies means businesses need to look at their activities and decide which activities to retain, to shed or outsource, to partner for, and to expand into (see Figure 2).

The company practice of spinning off current functions is now almost evenly divided between offshoring (foreign) and outsourcing (domestic). A report by Frost and Sullivan forecasts that the value of the global outsourcing market is expected to increase by 54 percent to \$1.43 trillion between 2006 and 2009.

Partnerships, collaboration and cooperation are key channels through which businesses add value. In a recent *Economist Intelligence Unit* report, for example, more than half of the executives say that they have changed their business model over the past three years to take greater advantage of collaborative partnerships.

Businesses are increasingly using Research and Development (R&D) internally, and

Mergers and Acquisitions (M&A) externally, to expand their core competencies. Between 2000 and 2005, Organization for Economic Co-operation and Development (OECD) statistics show R&D spending by firms in developed countries increased from \$370 billion to almost \$500 billion. The *Economist Intelligence Unit’s World Investment Prospects Report* shows that M&A activity has grown steadily since 2003 and could top \$1 trillion again in 2007.

Companies are retaining the activities they do best, but are looking for new locations for these activities.

As reported in the 2007 *U.N. World Investment Report*, the number of Greenfield projects increased by more than 25 percent – to almost 12,000 projects between 2003 and 2006.

IBM’s Plant Location International Global Location Investment Database shows that developed countries remain the source

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for the bulk of projects, while the rate of growth in projects coming from developing countries was as fast as those from the U.S. (23 percent). Developing and transition countries now comprise the destination for the majority of investment projects, hosting over 55 percent of new projects, and over 60 percent of the estimated jobs created in 2006. In addition to these geographical changes, the typical project is also changing with service activities now rivaling manufacturing in number.

The fundamental and rapid innovation in business models in response to the mega-trends is heralding the era of the globally integrated enterprise. With the globally integrated enterprise, the “production process” (be it manufacturing or service operations) is being moved to the best global location. This results in the integration of production and value delivery worldwide. These changes are fundamental, and of great consequence to EDOs and IPAs.

EDOs and IPAs responding to the challenge

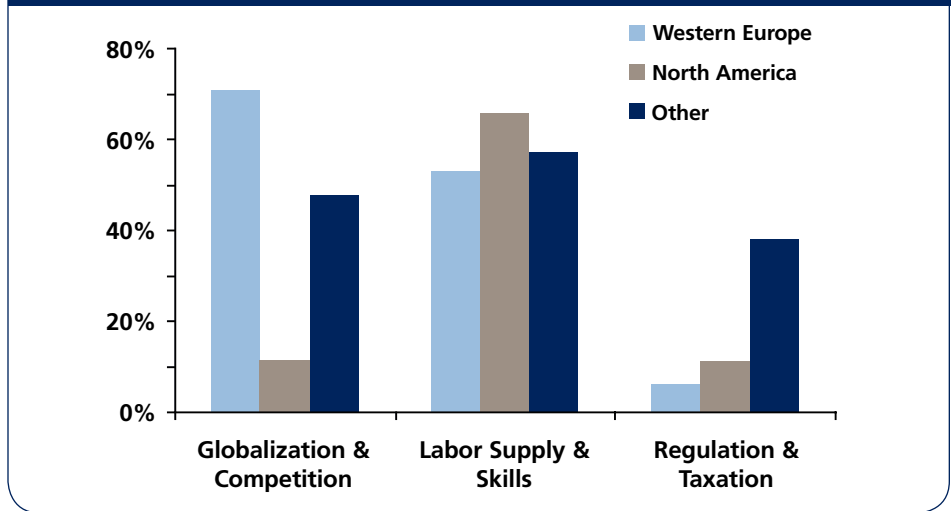
For EDOs and IPAs, the winners in the world of 2020 won't be the most knowledgeable; rather, they'll be the best at execution. There are three aspects of their business that EDOs and IPAs need to understand and respond to 1) their clients; 2) their environment; and 3) their competition.

Understand your clients, businesses

- With investing abroad easier and cheaper than ever, offshoring is increasingly a tactic for small and medium-sized enterprises. EDOs and IPAs thus need to consider widening their focus to include firms of all sizes.
- With the growth of outsourcing, businesses that previously invested in activities offshore may look to external

Figure 3

Causes for concern: What do EDOs and IPAs see as the main challenges for the next five years?



Source: IBM Institute for Business Value Survey of EDOs and IPAs (2007)

specialist service providers. EDOs and IPAs need to ensure that their efforts include targeting those providers.

- EDOs and IPAs should consider taking an active role in helping firms form partnerships. While the benefits are real, evidence from EDOs and IPAs suggests that facilitating strategic partnerships is not currently given the priority it should be given.

EDOs and IPAs – in the age of globally integrated enterprises – can develop new and stronger value propositions by working together. Currently, EDOs and IPAs in Western Europe are more likely to work together with neighbors than organizations in other areas.

Understand your environment, the changing investment market

As a result of globalization, the market for foreign direct investment is becoming fiercely competitive, creating new challenges and new opportunities. A survey done by the Institute for Business Value in 2007 shows that many North American EDOs and IPAs do not yet fully appreciate

how globalization and increased competitiveness is, and will be, impacting their business (see Figure 3). For example:

- The U.S., Germany, the United Kingdom, Japan and France remain the source for more than half of all projects. EDOs and IPAs need to build and maintain a presence in key markets that are the main sources of foreign direct investment and maintain regular contact with decision-makers.
- A focus on key markets needs to be balanced with recognition of new and emerging sources of investment. The number of projects originating in Brazil, Russia, India and China increased by almost 30 percent between 2003 and 2006.

Best-in-class EDOs and IPAs are now successfully targeting new countries as well as identifying “new” sectors, such as renewable energy and water treatment. Projects are also concentrating around activities as well as sectors, with one in six projects now in activities such as R&D, HQ and shared services.

Understand your competition, and what you're being measured on

- In a world where competition for projects is more intense, EDOs and IPAs need to stay alert. Regions in contention for investment projects are benchmarked across a range of categories. This means EDOs and IPAs need accurate and reliable statistics on all major aspects, and to use these as benchmarks.

“A focus on key markets needs to be balanced with recognition of new and emerging sources of investment.”

- Like businesses, EDOs and IPAs must develop a unique sales proposition – what makes their location unique – in order to leverage the new priorities in location decisions. However, many EDOs and IPAs currently stress the same key strengths, so it is important that regions can differentiate themselves clearly.
- EDOs and IPAs need to rise to the opportunities and challenges presented by technology. Modern technological infrastructure is a prerequisite for newly mobile service activities, the growth area for investment projects.

However, few EDOs and IPAs see their information and communications infrastructure as a selling point.

What is your plan for 2020?

To rise to the challenge of the megatrends, EDOs and IPAs need to start working now to prepare for the world of 2020 and consider some key questions:

- What are the factors that make your location truly unique?
- What markets, based on sustainable sources of competitive advantage, will your location target over the coming years?
- How will this take account of the growth in activities-based projects, rather than sector-based projects?
- What are the most important benchmark criteria for those markets?
- Who will be your primary competitors?
- Will smaller and medium-size companies be a target?
- Will you seek to partner local outsourcing service providers with companies looking to shed non-core activities?
- Will you forge new relationships with previous competitor locations to strengthen your value proposition and add value in new ways to clients?

The study on which this article is based was written by the Global Centre for Economic Development, in Dublin, Ireland, a part of IBM's Institute for Business Value, in collaboration with IBM PLI Global Location Strategies. To learn more about this IBM Institute for Business Value study or the Centre in Dublin, please contact us at susanne_dirks@ie.ibm.com.

You can also browse a full catalog of our research at: ibm.com/iibv

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Check out EDA's upcoming regional conferences including:

May 12-14, 2008, Cleveland, Ohio

EDA's Chicago and Philadelphia regional offices will host "Beyond Innovation: Partnerships and Comprehensive Strategies for Transforming our Regional Economies"

September 9-10, 2008, Denver, Colorado

EDA's Denver and Seattle regional offices will host "Achieving Peak Performance"

For more information, visit: <http://www.eda.gov/NewsEvents/EventsMain.xml>

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