



The states of the USA meet the global economy and the IT revolution

BY EARL FRY

In reaction to globalization and the information technology revolution, almost all states and some municipalities in the U.S. federal system have decided that they must be actively engaged in the international sector in order to protect the interests of their local constituents.

Imports and exports now account for a quarter of U.S. GDP. Upwards of 18 million U.S. jobs are directly linked to the international economy, with 12 million tied directly to exports, one million to international tourism, and another 5 million Americans working for foreign-owned companies within the United States.

Indirectly, even more jobs are tied to the international economy because import penetration is at record levels and local companies must compete in their own domestic marketplace against goods and services originating from abroad.

Because such a large percentage of state and municipal government revenues is generated from local business activity, these governments consider that it is imperative to be engaged both nationally and internationally.

The international stage

U.S. states and major cities are potentially formidable economic players on the global stage. Ranked by their annual production of goods and services, three U.S. states (California, New York, and Texas) could be inserted among the top ten national economies in the world and twenty states among the top twenty-five nations.

The expansion of state government economic activities internationally has been impressive. Four states maintained offices abroad in 1970. Now, forty-two states and Puerto Rico operate 180 foreign offices in almost 30 different countries.

Many governors and big-city mayors lead at least one international mission annually, and state governments are allocating over 100 million dollars per year to their international programs, in addition to pledging billions of dollars in grants, loans, or tax holidays to foreign companies willing to set up subsidiary operations on American soil.

For example, California, with a population base of 34 million, a state production

base exceeding one trillion dollars annually, and a government budget approaching 100 billion dollars per year, maintains a dozen offices abroad and participates in numerous international trade missions, trade fairs, and other types of overseas activities.

Ohio has seven foreign offices plus three additional offices in Latin America jointly sponsored by several Great Lakes states.

Tiny Utah, with a population of only two million, has contracted with representatives in 25 different countries to provide special services to Utah-based companies and to assist in attracting new investment and tourists to the state.

Many states also enter into Sister State relationships and have periodic meetings with their counterparts abroad, especially with representatives from the neighbouring Canadian provinces and Mexican states. Some cities also sponsor international trade missions and, through Sister Cities International, 1,200 have paired with 2,100 municipalities in 127 different countries.

Economic globalization is intensifying with the international movement of goods, services, capital, technology, and people standing at record levels. World trade in goods and services is approaching seven trillion dollars (U.S.) annually, growing at a rate almost three times faster than the aggregate growth in national economies.

The growth in commercial services, international direct and portfolio investment, and international tourism is even faster than the expansion in merchandise trade.

McKinsey & Associates estimates that only one-fifth of world output is currently open to global competition in products, services, and ownership. However, within the next 30 years, McKinsey predicts that four-fifths of world output should be "globally contestable," leading to an even more dramatic expansion in global economic integration.

The pace of global and regional interdependence is quickening because of the Information Technology (IT) revolution.

The Encyclopedia of the Future estimates that scientific information is doubling every twelve years and general information every two and a half years.

Bill Gates predicts that more changes will occur in the world's business community over the next decade than during the past half century, and that **velocity** will be the keyword for the period between 2000 and 2010.

The IT revolution includes the proliferation of powerful computers, the rapid expansion of the Internet via cyberspace, digitization, wireless technology, miniaturization, fibre optics, and bandwidth expansion.

New technologies have solidified international production networks and perpetuated the 24-hour stock market and business cycle, roughly divided into 8-hour tranches in Asia, Europe, and the Americas.



The domestic agenda

At home, state and local governments are attempting to build internationally competitive economies, recognizing that globalization and the IT revolution may have an impact on one state or city far different from its effect on other states and cities in the U.S. federal system.

For example, Detroit has lost almost 70 percent of its manufacturing jobs since its peak years in the 1960s, whereas employment in Silicon Valley has increased by almost 1000 percent over the past two decades.

During 1999, Internet-related jobs in California more than doubled, at a time when farmers in many other states were suffering from the loss of agricultural exports.

Five metropolitan regions, Los Angeles, New York City, Miami, San Francisco, and Chicago, are home to one-half of all U.S. immigrants, whereas many regions of the country have very few foreign-born residents.

The Washington, D.C.-based Progressive Policy Institute points out that state programs concentrate on five major sectors: knowledge jobs, globalization, economic dynamism and competition, transformation to a digital economy, and technological innovation capacity.

Many are attempting to develop technological centers, hoping to create a clustering effect and evolve into mini-Silicon Valleys.

California's Governor, Gray Davis, points out that Silicon Valley did not exist 50 years ago, the biotech industry did not exist 30 years ago, and the Internet did not exist a decade ago. The state government is now providing funds for California Institutes for Science and Innovation at several public universities, focusing on new discoveries in medicine, bioengineering, telecommunications and information systems, energy resources, space technology, and agricultural technology.

Many other states are following similar paths, perceiving that technological development will help ensure that their local business communities remain competitive domestically and internationally.

How are state and local governments doing?

The U.S. federal structure has both advantages and disadvantages in a period of globalization and the IT revolution.

In the latter category, state governments occasionally take different stances on international issues than the national government, such as Massachusetts' attempt to place sanctions on companies doing business with Burma, making it more difficult for the nation to speak with a unified voice in foreign affairs.

A second concern involves the billions of dollars in incentives offered by state and local governments as they compete to attract foreign companies to their respective areas of jurisdiction, in spite of studies indicating almost all foreign enterprises are prepared to invest in the United States without receiving government incentives.

A third problem is the duplication of activities and services as states open foreign offices or sponsor their own trade missions, even though coordination with other states or with the federal government might save both money and effort.

A fourth concern centers on the sporadic nature of intergovernmental cooperation in preparing for globalization and rapid technological change.

And finally, a fifth problem is linked to the relatively modest resources that state governments are actually dedicating to their international programs. By contrast the Canadian province of Quebec has a larger international budget than all 50 U.S. state governments combined (exclusive of investment incentive packages).

The major advantage in the U.S. federal system is related to an observation made by former U.S. Supreme Court Justice Louis D. Brandeis:

"It is one of the happy incidents of the Federal System that a single, courageous state may, if its citizens choose, serve as a laboratory and try novel social and economic experimentation without risk to the rest of the country."

Many state governments, working hand in hand with their private sectors, have been laboratories of innovation, especially in the development of new technologies.

State and local governments also bear the burden of developing world-class infrastructures and educational systems which are critical if their private sectors are to remain globally competitive. The flexibility and adaptability available in the U.S. federal system are major advantages in a period of unparalleled economic and technological change.

* * *

More than ever before, U.S. state and local governments are involved internationally and this activity should intensify as globalization and new technologies narrow the physical and psychological distance between local populations and the international arena.

Historically, the United States has been a rather parochial and insular nation, self absorbed and prone to navel-gazing. Perhaps the notion of "thinking globally and acting locally" will promote more constructive international involvement and underscore that many problems facing the world today cannot be solved singlehandedly by individual nation-states.

On the other hand, state and local governments have done little to promote expanded foreign language training and a better awareness of international affairs in public schools.

Unlike the Canadian province of Quebec, few U.S. states assist low-income families to acquire computers and log on to the Internet, exacerbating the digital divide between rich and poor.

And unlike the western Canadian province, Alberta, few states have serious plans to provide all rural communities with high-speed, broad-bandwidth Internet connectivity.

Perhaps even more importantly, only a handful of state governments have developed detailed strategic plans to cope with future challenges and opportunities in an era of globalization and the international technology revolution.

Without any doubt, the U.S. federal system must adapt more vigorously to a rapidly changing international environment, and new perspectives must be developed to enhance cooperation among the national, state, and local governments and the constituents whom they represent. 