National Governors Association

NGA PAPER

State Strategies for Global Trade and Investment

Executive Summary

Economic growth and job creation are at the top of every governor's policy agenda. As governors look for the best ways to strengthen state economic performance, they find one answer is to strengthen their states' connections to the international economy through trade and investment. Strong connections to the global economy are increasingly important to the economic success of states and the companies within their borders. Between 2009 and 2013, exports accounted for almost one-third of U.S. economic growth, in part because of growth in international markets and in part because domestic economic growth has been slow compared with previous recoveries. Foreign direct investment over the past decade has supported more than 5 million good-paying jobs.

States that want to benefit from stronger links to the global economy through trade and investment can focus on a strategy to overcome impediments to private-sector enterprises pursuing such activities—for example, a lack of connection to global supply and distribution networks. As governors develop more robust international strategies in conjunction with their state's overall economic development strategy, they can take the following three key actions:

- **Create an integrated long-term strategy and plan.** A state's strategy to capture the benefits of greater participation in the international economy is most effective when integrated with the state's overall economic development plans. Effective strategies build on a state's assets—notably, its natural resources, location, university system, and workforce. Most states want to take full advantage of the resources available from the federal government to promote exports and the investment of capital from abroad.

- **Develop tactics and tools.** States can bolster their capacity to identify worthwhile trade and investment opportunities by building relationships and collaborations with specific countries, subnational governments, and firms. Such network building can provide an opening for private sector relationships that lead directly to increased trade and investment. They also can provide appropriate export and investment-related services, such as training, trade missions, market analysis, and financial assistance, to exporters and create an easy entry point for foreign direct investment, among other activities.

- **Identify export-ready companies and potential foreign investors.** The needs of companies differ according to their product or service offerings, their size, and their level of experience with trade. In conjunction with decisions about export promotion and foreign investment services, a state should determine the types of companies or groups of companies on which to focus. States need a way to target limited resources toward companies that have the greatest potential to succeed and make the most from state assistance. Although large companies often provide the bulk of a state's exports and should not be overlooked, high-potential small and medium-sized enterprises and state-specific clusters of companies may be more in need of help because they have fewer resources to devote to exporting.[*]

[*] Clusters are geographical concentrations of firms in related industries that do business with each other and share needs for common talent, technology, and infrastructure.

Introduction and Background

Economic growth and job creation are at the top of every governor's policy agenda. As governors look to strengthen state economic performance, many find advantages in strengthening their states' connections to the international economy through trade and investment. Exports have made a significant contribution to the United States' post-recession recovery, accounting for almost one-third of the growth of U.S. gross domestic product between 2009 and 2013.[1] U.S. exports totaled nearly $2.3 trillion in 2013, a 44 percent increase in dollar value compared with 2009. The U.S. Department of Commerce estimates that those exports supported 11.3 million jobs.[2] Companies that export make a positive overall contribution to a state's economy; compared with nonexporters, they have faster sales growth, create more jobs, and fare better during economic downturns.[3] Between 2009 and 2013, 13 states reported export growth of more than $10 billion, while another 10 states experienced an increase of more than $5 billion.[4]

Because purchasing power is increasingly located outside the United States, companies in tradable industries often seek new markets and customers for their products in the global economy. Consequently, a key pillar of a state's economic development strategy includes a global component to help companies connect to international markets, customers, and investments. State policies and programs that advance that objective include everything from providing grants and financing plans for exports to offering market analysis and match-making services to sponsoring conferences, workshops, and networking opportunities. Several states have set goals to increase the number of companies that export. With the launch of its export initiative in 2012, **Washington** set a goal to increase the number of its companies that export by 30 percent in 5 years.

States also benefit from foreign direct investment (FDI) within their borders. FDI occurs when a foreign entity invests in or establishes an affiliate in the United States. FDI entails bringing new businesses and facilities to a location, expanding operations, or taking over ownership of an existing enterprise. That differs from other kinds of foreign purchases of U.S. equities or portfolio investments and more directly supports U.S. jobs. Employment by majority-owned U.S. affiliates of foreign companies held steady over the past decade, providing more than 5 million jobs that can pay up to 30 percent more than non-FDI-supported jobs.[5] In addition, foreign companies provide a customer for local suppliers and researchers. In 2008, foreign companies based in the United States bought $1.5 trillion in intermediate inputs from local suppliers and accounted for 13.8 percent of all American research and development (R&D) spending. Foreign investors who bring more cost-competitive production or production linked to a global supply chain also can increase exports.

Attracting FDI requires a strong focus on state strengths (for example, workforce skills, education, geography, and business climate), spending time on research-based opportunities, effective partnerships with cities and regions, and continued support to foreign companies that decide to locate in the state. Governors should be mindful that many factors affecting international trade and investment are beyond the control of state governments, including U.S. corporate tax policy, economic growth in other countries, and the value of the U.S. dollar relative to other currencies. The main reason to have an international strategy is to

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[1] U.S. Department of Commerce, Economics and Statistics Administration, International Trade Administration, *The Role of Exports in the United States Economy* (May 13, 2014), trade.gov/neinext/role-of-exports-in-us-economy.pdf (accessed June 11, 2014).
[2] Ibid.
[3] U.S. Department of Commerce, U.S. Commercial Service Marketing and Communication Service, *Winning the Future 2011: Connecting American Business to the World* (Washington, DC: U.S. Department of Commerce, 2011), http://trade.gov/cs/2011annualreport_web.pdf (accessed June 11, 2014).
[4] U.S. Department of Commerce, *The Role of Exports in the United States Economy.*
[5] David Payne and Fenwick Yu, *Foreign Direct Investment in the United States* (Washington, DC: U.S. Department of Commerce, 2011), http://www.esa.doc.gov/sites/default/files/reports/documents/fdiesaissuebriefno2061411final.pdf (accessed June 11, 2014).

understand the many factors that affect whether companies become successful exporters and determine whether, when, and how to provide assistance.

Why State Governments Provide Help to Exporters and Foreign Investors

Businesses that engage in international markets face more significant barriers than businesses solely in domestic markets. Those barriers, which economists term *market failures,* provide the impetus for government programs. In economic terms, market failures either raise the costs of or lower the benefits to private businesses or investors engaging in international markets. Many of those costs and benefits are related to the difficulty of obtaining good information and useful business contacts in a foreign setting. Knowledge of local laws, regulations, and practices is particularly important, as are connections to established networks of customers, distributors, or suppliers. Government programs that help reduce such costs (or raise benefits) will expand economic activity within their jurisdiction and reap corresponding rewards for their citizens and businesses.

An important justification for government action is that it can serve potential exporters and investors in ways that the private sector cannot do (or will not do). Private-sector providers of informational and technical services to businesses interested in engaging with the global economy tend to focus on larger enterprises already involved in international trade or investment. Small and medium-sized enterprises (SMEs) are typically underserved by the private market and may be unaware of the potential gains from exporting. In addition, the public sector may have unique abilities either to establish contacts through high-level official visits or to provide specific information about laws and regulations for which it has responsibility. Although such considerations do not exhaust the list of sensible government interventions, they demonstrate some of the value that government can provide in helping the businesses and citizens of their state realize the economic benefits from engaging in international markets.[6]

That is why governors increasingly are taking steps to assist the globally focused companies within their borders in finding new markets and customers. They are leading trade missions to China and other countries and taking advantage of federal export programs to support the growth of their industries and economies. Since 2011, for example, the National Governors Association (NGA) has organized and led two joint trade missions of governors to China, which led to a China–U.S. Governors Forum to promote subnational cooperation and a memorandum of understanding between NGA and the Chinese People's Association for Friendship with Foreign Countries. In addition, most states have applied for and received federal funding through the U.S. Small Business Administration's (SBA) State Trade and Export Promotion Program (STEP) to improve the export performance of SMEs. In addition, SelectUSA, an agency of the U.S. Department of Commerce, promotes direct investment from overseas into the United States and links potential foreign investors to state economic development agencies.

Three Actions to Help Guide State Strategies

For governors looking to develop well-balanced, robust international strategies that are integrated with their overall economic development strategy, it is important to consider the following three actions:

- **Create an integrated, long-term strategy and plan.** Activities to promote exports or attract foreign investment should be tied to the state's

[6] Other market failures that may justify a public-sector role include coordination failures, network effects, workforce externalities, and infant industry considerations. See, for example, UK Department of Business Innovation and Skills, BIS Economics Paper No. 13, *International Trade and Investment—The Economic Rationale for Government Support* (May 2011), https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/32106/11-805-international-trade-investment-rationale-for-support.pdf (accessed June 11, 2014).

overall economic development strategy. State strategies are moving from episodic export promotion activities and one-off FDI opportunities to a longer-term strategy that integrates trade and investment promotion efforts with state economic development resources and programs, and takes advantage of federal resources that are aligned with state interests.

- **Develop tactics and tools.** Most states would benefit from bolstering their support services for international trade and investment. In particular, states can play a critical role in supporting international trade and investment by building relationships and collaborations with specific countries, subnational governments, and firms. A state's service capabilities may include training, trade missions, market analysis, and financial assistance to exporters, as well as creating an easy entry point for FDI, among other activities.

- **Identify export-ready companies and potential foreign investors.** Because most states do not have the resources to meet the needs of all companies, they need to decide where to focus their efforts. Decisions about the types of companies and clusters on which to focus will determine the state's ability to carry out its strategic plan. A strong potential target is to work with SMEs that have the potential to export but are not already doing so, as well as companies that currently export but could increase their volume by expanding to additional markets. Other targets are the industry clusters already supported by state economic development programs.[*] Most states have strategies that encourage companies in a cluster to work together and with other companies, institutions, and public authorities to improve the productivity of the companies receiving assistance and of the state agencies that provide it.

Create an Integrated Long-Term Strategy and Plan

With increased attention to the importance of international trade and investment, states are likely to find that they cannot rely on the ability of isolated, one-off programs or international trips to solve how they help businesses within their borders expand, thereby generating additional employment, wages, salaries, and profits. Increasingly, it will be important to develop a strategy based on creating a comprehensive approach to building global relationships that involves state agencies and other organizations.

Take a Comprehensive, Integrated Approach

A strategy that strengthens a state's connection to the international economy will be most effective when integrated with the state's overall strategy for economic development. Factors that contribute to overall economic growth, such as location, natural resources, physical infrastructure, workforce training, and research universities, are critical to an international trade and investment strategy. Local companies are better able to export if the business services, talent, technology, and physical infrastructure are in place to get their products to market. Large corporations report that they locate in states that have strong K–12 systems, innovative universities, good infrastructure, and business-friendly regulations. For example, a Harvard Business School survey of U.S. companies found that 42 percent of all decisions about moving outside of the United States involved research, development, and engineering.[7]

Creating an integrated long-term strategy requires coordination among state agencies—for example, regularly convening cabinet secretaries whose departments deal with issues that have a global dimension. In **Maryland,** the Governor's Subcabinet for International Affairs brings agency heads and other partners together to ensure that their organizations' activities align with the state's global strategies in areas that sup-

[*] *Clusters* are geographical concentrations of firms in related industries that do business with each other and share needs for common business services, talent, technology, and infrastructure.

[7] Michael Porter and Jan Rivkin, *Prosperity at Risk* (Cambridge: Harvard Business School, 2012), http://www.hbs.edu/competitiveness/pdf/hbscomp-survey.pdf (accessed June 11, 2014).

port international activities.[8] The subcabinet is chaired by the secretary of state and includes the secretaries of agriculture, business and economic development, the environment, higher education, and transportation; the state superintendent of schools; and the lieutenant governor. Maryland also has a council focused on providing strategic direction for the state in the international arena. The Governor's International Advisory Council is a public–private partnership that makes recommendations to the governor and to state agencies regarding Maryland's international programs and strategies.

States can model their efforts on other countries' systems for coordinating international efforts, such as in Australia, where in-state coordination aims to prevent agencies from working at cross purposes. For example, without any coordination, multiple cities in a state—and the state itself—might be approaching the same entity about FDI, which is inefficient and potentially damaging to each entity's interests. Australia's Invest in Australia program is the top layer of a coordinated approach to attract foreign investment to the country. The agency works with state-level agencies such as Invest in Victoria or Invest in New South Wales, which then work with cities. Each level has assistance to offer, and the agencies cooperate to compete.

Know the State's Global Assets

Knowing the international connections that already exist in the state through universities, cultural institutions, the tourism industry, and financial institutions will help the state form a strategy that uses all of its assets. The Global **North Carolina** Heat Map provides snapshots of the global connections in each county that helps determine where to build on existing trade relationships and where to start new ones. The statewide map includes 53 international data points that were compiled from the U.S. Census Bureau, North Carolina state agencies, state education networks, and import/export databases. For example, the map can be used to pinpoint the number of jobs that foreign-owned companies provide, K–12 enrollment in Chinese language courses, the percentage of the

International Best Practice: Hong Kong's Comprehensive Services

The Hong Kong Trade Development Council is a prime example of an entity that provides a sophisticated set of services to internationally focused businesses. It helps companies find the right partners, assists them in marketing products and services, and provides information and solutions.[9] The council acts as a one-stop shop for small business information and resources, including trade services and ecommerce tools. Such services include a customized matching service that allows global companies to search, identify, and screen potential Hong Kong business partners. The council hosts an online marketplace that has more than 900,000 registered buyers and 120,000 Hong Kong–based suppliers. It promotes service exports in eight industry clusters and product exports in six industries. In 2007, the council made technology a third core stream of its promotion agenda, which includes commercialization and application of technology.

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[8] Subcabinet for International Affairs, Maryland Office of the Secretary of State Web site, http://www.sos.state.md.us/international/about.aspx (accessed June 11, 2014).

[9] HKTDC: The Hong Kong Trade Development Council Web site, http://www.hktdc.com/mis/ahktdc/en/s/abt-hktdc-about.html (accessed June 11, 2014).

population speaking more than one language, the number of companies importing and exporting, and the number of foreign-owned company sites for each county in the state. The state is planning to use the data to inform local economic development conversations and other local decisions, such as district-level explorations of foreign language offerings.[10]

Integrate Federal Resources with the State Plan

Another area that holds promise for states is better coordination with federal partners. Twenty federal agencies maintain programs to increase exports.[11] Prominent among them are the Foreign Commercial Service of the Department of Commerce, the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA), the STEP program of SBA, and the Export-Import Bank of the United States. In addition, SelectUSA, an agency of the U.S. Department of Commerce (DOC), promotes direct investment from overseas into the United States and links potential foreign investors to state economic development agencies.

USDA's FAS has the largest budget for exports and carries out five separate programs, including export promotion, technical assistance, financing, and subsidy.

DOC's International Trade Administration (ITA) has the largest program for nonagricultural trade assistance. The Foreign Commercial Service carries out ITA's main trade-promotion activities. Its specialists work with companies inside the United States and in 75 countries to promote U.S. exports. Services include market research, trade events, introductions to qualified buyers and distributors, counseling, and advocacy. DOC's Manufacturing Extension Partnership Program (MEP) is housed at the National Institute of Standards and Technology. MEP helps small and mid-sized manufacturers through various services and works with partners at the state and federal levels on programs that help manufacturers expand into new markets and create new products.

SBA STEP helps states improve the export performance of SMEs.

The Export-Import Bank is the official export credit agency of the U.S. federal government; it finances sales of U.S. exports to international buyers by insuring purchases of U.S. goods for customers unable to accept credit risk. The bank works with states and cities through its City/State Partners Initiative to match its finance assistance with the state or city's local market knowledge and outreach to companies.

Develop the State's Tactics and Tools

Most states seeking to boost exports or attract FDI will want to bolster their existing capacity to offer supportive services and consider expanding into additional areas.

Helping Companies Boost Exports

States generally provide a wide range of services to help companies boost exports, from assisting with market analysis and market access to providing chief executive officer and management training to offering financing for export growth to linking SMEs to global value chains and networks. Such activities may not be readily available to some businesses through the private market. Similarly, companies that are potential exporters may not on their own drive the activity to the full extent of its economic value to the state's economy.

Building Global Relationships

A global strategy should seek to connect all of the state's relevant actors to the international economy. Building relationships between U.S. and international companies and among U.S. and international universities, students, and entrepreneurs, is a key part of such a strategy. Governors who seek to promote

[10] The Center for International Understanding, "Global North Carolina Heat Map Shows What's Global in Every County," Press Release, May 16, 2012, http://ciu.northcarolina.edu/wp-content/uploads/2012/05/NEWS-RELEASE-CIU-Launches-Global-Heat-Map-May-16-2012.pdf (accessed June 11, 2014).

[11] Congressional Research Service, U.S. Government Agencies Involved in Export Promotion: Overview and Issues for Congress, January 31, 2013.

their states in the international economy should also consider developing relationships between state government and subnational governments in other countries.

The value of networks and relationship-building is well understood by the domestic and international business community. Business networks built on strong personal relationships enable easier communication of useful information about opportunities and commercial contacts. Such relationships are undersupplied by the private sector acting on its own, and state governments are uniquely qualified to fill the gap by acting as a trusted intermediary. Building a valuable, trusted network relationship takes time and planning, especially in an international context.

When established, a relationship can build into follow-on trade and investment activities. The relationship between the city of Toledo, Ohio, and a Chinese glass manufacturer provides a good example.[12] Over a seven-year period, following the purchase of glass from a Chinese company, ties between Toledo and China have led to additional Chinese investment in two hotels, a restaurant complex, and other properties.

Using Trade Missions to Build Long-Term Partnerships

Trade missions are most effective when they build on existing state–international relationships or when they are focused on building strong relationships between state organizations and foreign partners. A good example is the way **Massachusetts** built on long-term relationships to conduct joint R&D with Israel. The Massachusetts–Israel Innovation Partnership is a formal collaboration that encourages and supports innovation and entrepreneurship between Massachusetts' and Israel's life sciences, clean energy, and technology sectors.

The partnership came about as a direct result of Governor Deval Patrick's Massachusetts Innovation Economy Partnership Mission, a 10-day trade mission in 2011 that included travel to Israel, where a coalition of the state's leading business executives and senior government officials explored growth opportunities of common interest for Massachusetts' and Israel's innovation industries. The participants subsequently issued a joint solicitation that will distribute $2 million to partnerships between companies based in Massachusetts and Israel. Three participating Massachusetts agencies—the Massachusetts Life Sciences Center, the Massachusetts Technology Collaborative, and the Massachusetts Clean Energy Center—committed nearly $1 million in collective funding for state companies that are engaged in cooperative industrial R&D projects with an identified Israeli partner company. Israel's Office of the Chief Scientist is providing up to $1 million in matching funds for the corresponding Israeli partner companies.[13]

Using Universities and Other Connections

Universities are often an untapped resource when it comes to states' efforts to connect to the international economy, but they are an important exporter of services (education) as well as a vehicle for outreach.

Education and training are among the top 10 U.S. service exports.[14] International students contribute more than $21 billion to the U.S. economy through their expenditures on tuition and living expenses.[15] When they go back to their home country, some of those students become important public and private-sector leaders while remaining part of the university's

[12] Timothy Williams, "In Blue-Collar Toledo, Ohio, a Windfall of Chinese Investments," *The New York Times,* December 26, 2013.
[13] The Executive Office of Housing and Economic Development, "Massachusetts and Israel Unveil $2 Million Agreement to Finance Joint R&D Projects That Foster Economic Development," Press Release, June 29, 2011, http://www.mass.gov/hed/massachusetts-and-israel-unveil-2-million.html (accessed June 11, 2014).
[14] Francisco Sanchez, "No Better Export: Higher Education," *The Chronicle of Higher Education* (April 3, 2011), http://chronicle.com/article/No-Better-Export-Higher/126989 (accessed June 11, 2014).
[15] NAFSA, *Special Report: Economic Impact of International Students to the U.S Economy* (Washington, DC: NAFSA, 2013), http://www.iie.org/~/media/Files/Corporate/Open-Doors/Special-Reports/NAFSA-Economic-Benefits-International%20Students-2013.ashx (accessed June 11, 2014).

alumni network. Those who stay in the United States contribute to the economy, often as entrepreneurs. Researchers have found evidence of a link between first-generation immigrants and entrepreneurship: Although first-generation immigrants make up only 12 percent of the U.S. population, they represent 16.7 percent of all new business owners in the United States.[16] Immigrants play an important role in starting new science and technology firms, in particular. One study found that 25 percent of new computer and information technology firms formed between 1995 and 2005 had one or more immigrants among their founders.[17] Knowing the international connections that already exist in a state through universities, cultural institutions, the tourism industry, and financial institutions will help that state form a strategy that leverages all its assets.

Providing Market Analysis and Other Tailored Services

State trade offices often provide market analysis to help export-ready companies locate the markets in which they will be most successful. They also work to find new ways to connect companies to those markets.

Michigan's Export Now program posts products from selected companies in a special "Pure Michigan" department in the largest online shopping network available in China. The option removes the normal barriers companies face with the network's one-stop management of logistics from the U.S. seaport through customs arrival, warehousing, website management, and order fulfillment.[18]

Companies often need tailored support over a dedicated period to significantly improve export performance.[19] Providing that kind of tailored assistance is resource intensive and difficult for a state to scale. **Virginia** created a program that achieves that kind of tailored assistance at scale by working with a group of 25 companies over a 2-year period. The Virginia Leaders in Export Trade (VALET) program is a two-year business acceleration program that helps businesses develop international sales plans, assists with strategic planning for entry to international markets, and ultimately prepares businesses by providing the tools to increase international sales. VALET has built a number of partnerships with the private sector that provide the participating companies with specific services at no charge or at a greatly reduced fee, such as access to attorneys, Web designers, bankers, translators, and freight forwarders—all essential services for a company's export performance. In addition, an expense reimbursement of $15,000 through the Virginia Economic Development Partnership provides necessary capital to help a company meet its international exporting goals. However, the funds are dispersed only when the company develops a plan and is adequately engaged in the program, including group meetings and networking events. More than 170 Virginia companies have participated in the program since its creation in 2002. The 2012 program graduates reported an average export sales increase of 87 percent.[20]

Washington companies interested in expanding their sales to China can access the state's China Accelerator program, offered through the state's department of commerce. Based in Shanghai, the China Accelerator is a business incubator that gives businesses an affordable way to grow in China without making a commitment to set up an office or create a wholly foreign-owned operation. The incubator's services include market development, shared office space, back-office administration, and management oversight. The pro-

[16] John Bellows, "The Many Contributions of Immigrants to the American Economy," entry posted May 25, 2011, http://www.treasury.gov/connect/blog/Pages/The-Many-Contributions-of-Immigrants-to-the-American-Economy.aspx (accessed June 11, 2014).
[17] Vivek Wadhwa, Richard Freeman, and Ben Rissing, *Education and Tech Entrepreneurship* (Kansas City: Ewing Marion Kauffman Foundation, 2008), http://sites.kauffman.org/pdf/Education_Tech_Ent_042908.pdf (accessed June 11, 2014).
[18] "Export Assistance," Michigan Economic Development Corporation Web site, http://www.michiganadvantage.org/export-now (accessed June 11, 2014).
[19] Stone and Associates, *On the Threshold: Refocusing U.S. Export Assistance Strategy for Manufacturers* (Portland: Stone and Associates, 2013), http://nist.gov/mep/state-of-mfg/upload/US-Export-Assistance-Strategy-for-SMMs-6-20-13-Final-high-res.pdf (accessed June 11, 2014).
[20] Virginia Economic Development Partnership, "VALET Annual Update 2012," http://exportvirginia.org/wp-content/uploads/2013/01/VALET-Annual-Report-2012-FINAL-Copy.pdf (accessed June 11, 2014).

gram allows Washington companies to put people on the ground in China, which is an important first step in understanding and accessing a complex market. The state pays up to 25 percent of the cost for qualified Washington companies to participate in the program, using funding provided through the state's STEP grant from SBA.[21]

Providing Training

Companies that are starting to export often need training in a specific area, from business plan development to market-entry strategies and export logistics. The **Rhode Island** Export Management Training program allows companies to apply for up to $5,000 in matching funds to address their international training needs. Rather than providing the training, the state matches the company with the best provider for its specific need. In the case of a medical device manufacturer, the program helped the company upgrade to the latest standard for compliance with European Medical Device Directives to sell their products within the European Union.[22] The program is administered through a partnership between the Rhode Island Economic Development Corporation and the Governor's Workforce Board.[23]

In 2010, the **Washington** legislature allocated $3 million for export training and capacity building as part of the state's export program. The Washington State Department of Commerce awarded the funding to higher education institutions on a competitive basis to create six export training programs. One program is developing a Web-based guide on "what you need to know to export medical technology" for medical technology startup companies that are new to exporting.[24] Another is opening two new "export readiness centers" intended to serve the informational needs of the potential and new-to-export business community.[25] Washington is using the six training programs as a pipeline to prepare companies to apply for services offered through the state's STEP grant, which include participation in trade missions, accelerators, and vouchers that fund participation in trade shows and other trade-related activities. Companies that have completed one of the state's six training programs or are in one of the state's targeted clusters receive priority when applying for vouchers.

Providing Access to Financing

Smaller companies often need financial assistance when they are new to exporting. That assistance might cover the cost of traveling to trade missions or third-party technical services needed to access a new market, such as modifications to their product or processes to meet foreign standards. Most states connect companies to federal financing assistance, such as export loan programs offered through SBA or loans, guarantees, and insurance offered by the U.S. Export-Import Bank.

Attracting Foreign Direct Investment

States also can provide services to foreign companies or entrepreneurs to encourage them to set up business in their state. Strategies for attracting FDI range from facilitating market entry to creating easy entry points to providing after-care and monitoring performance.

Facilitating Market Entry

Many states have a range of services they can provide to companies interested in opening a facility in that state. Staff in trade offices that are based either in the state or internationally can connect foreign companies to customized site searches; access to programs for workforce recruiting and training; and information

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[21] "China Business Development," Choose Washington Web site, http://choosewashingtonstate.com/i-need-help-with/international-trade/china-business-development (accessed June 11, 2014).
[22] Commerce RI Web site, http://www.riedc.com/files/GWBsuccessMar08.pdf (accessed June 11, 2014).
[23] "Export Express Program," Commerce RI Web site, http://www.edc.ri.gov/resources/international/export-training.php (accessed June 11, 2014).
[24] Washington Department of Commerce, "CERB Export and STEP Grant Briefing," Presentation to Washington State Legislature (December 7, 2011), http://www.leg.wa.gov/JointCommittees/LOCTP/Documents/Demerice.pdf (accessed June 11, 2014).
[25] Ibid.

about operating costs, taxes, potential suppliers, and financial incentives. In **Georgia**, the FDI team also provides an international business liaison service to incoming foreign executives to help them address some of the challenges of immigration, such as connecting with the home country's community in Georgia, setting up a bank account, and applying for a driver's license.[26]

Creating Easy Entry Points

Both **Arizona** and **Maryland** have unique incubator programs that provide an easy entry point for international companies. Arizona State University's (ASU) SkySong incubator focuses on launching and accelerating new companies. SkySong has a robust set of market-entry services that it provides to global startup companies. Staff will provide market analysis, identify potential clients, and make investor connections. SkySong is currently working with 19 global companies, most of which are part of one of SkySong's target clusters.[27] The target clusters—information communications technology, education innovation, and sustainability—were selected to leverage ASU's capabilities.

The Maryland International Incubator (MI2), dedicated to foreign-owned companies, was launched in 2009 by Maryland's Office of International Investment and Trade, the University of Maryland, and China's Ministry of Science and Technology. The incubator houses foreign companies that come to Maryland through the state's FDI attraction efforts and operates a joint University of Maryland–China research park. The incubator gives foreign companies direct access to university R&D and a one-stop shop for Maryland service providers to work with companies on issues such as complying with state taxes, visas, and incorporating in Maryland. MI2 targets collaboration in five market segments: health care, environment, agriculture, energy, and fire protection. Currently, 13 foreign companies are connected to the incubator.[28]

Providing After-Care and Monitoring Performance

After a company has decided to locate in a state, that state can provide "after-care" to facilitate retention and generate further foreign company leads. After a foreign company opens a location in **Pennsylvania,** the state continues to check in with the company to provide assistance, including connections to financing, networking, and suppliers. Doing so also provides an opportunity to leverage connections that the company has to other companies in its home country.

Pennsylvania also evaluates its services to companies. The state uses monthly benchmarking reports and performance-based compensation to monitor performance and provide information about state return on investment (ROI). The Pennsylvania Center for Trade Development developed a system to set performance standards for its field offices and to demonstrate the state's ROI in its export assistance program. The system measures a variety of standardized data about the services each field office delivers to client exporting companies. That data include the number of new clients and active clients, the number of work orders filed, the number of export actions, the number of exporting companies, and the value of the export sales each office helps facilitate. The system uses the information to score the offices, and those scores are adjusted to account for regional differences between rural and urban areas. The system is linked to a performance pay scale for the trade consultants the centers employ.

Identify Export-Ready Companies and Potential Foreign Investors

When states have decided how to focus their overall economic development strategies more globally and who is responsible for implementation, they can make a series of decisions about which firms to target and

[26] "International Investment," Georgia Department of Economic Development Web site, http://www.georgia.org/business-resources/Pages/fdi-foreign-direct-investment.aspx (accessed June 11, 2014).
[27] "Driving Economic Development and Corporate Engagement," ASU SkySong Web site, http://skysong.asu.edu/global-companies (accessed June 11, 2014).
[28] "Participating Companies," Maryland International Incubator Web site, http://www.mtech.umd.edu/mi2/companies.html (accessed June 11, 2014).

the types of services and tools to offer. They also can coordinate access to the portfolio of available federal resources.

The needs of companies differ according to their size or their level of experience with trade and their industry sector. Larger companies generally do not need assistance with exporting but can play a key role in state trade strategies by providing strategic direction and opening doors for the state and its smaller companies. Smaller companies often do need assistance with exporting, but the type of assistance they need and the likelihood of such assistance making a difference vary according to several factors, with the number of employees, level of exporting experience, and their relation to a state's industry cluster being perhaps the most important.[29] Thus, states need a way to decide which companies or set of companies should be the focus of international trade assistance.

States looking to improve export performance may want to focus on two kinds of high-potential SMEs: companies that have the potential to export but are not already doing so and companies that currently export but could increase their volume by exporting to more than one market. They can start by identifying the SMEs that are part of traded sectors of the economy. States' economies are made up of traded and nontraded industries. Companies in traded industries have goods and services that they can sell beyond their immediate geographic location. They typically face strong competition in most markets. In international markets, they may be competing with companies that receive direct government support.

Most states have already identified the traded industries in their economies through cluster analysis. Although geographic clustering does happen in non-traded sectors, most states have focused on identifying industry clusters that are competing globally and are, by definition, export oriented. Many consider cluster analysis a foundational step for international trade strategies, but not all states are using it to inform and direct their trade and exporting strategy. In some cases, states have done cluster studies and know the traded industries that exist in their state but do not have good data on the trade-related performance of those industry clusters. For example, they might not know what percentage of companies export, how many markets they export to, or how much FDI has been attracted in that particular industry. As they target assistance toward specific companies or clusters, states can start to collect data that gives them better information about the performance of these clusters.

Cluster analysis can also be useful as a way to target which foreign investor a state might choose to focus on. The existing cluster can provide a new foreign investor with access to economies of scope and scale that allow the investor to produce at a lower cost or high value in proximity to competitors, suppliers, and institutions in the cluster and in proximity to U.S. customers. For example, an existing cluster may have already developed specific training programs or research assets that would benefit the investor in addition to being able to provide links to potential suppliers.

Identifying High-Potential Small and Medium-Sized Enterprises

When focusing on companies that have the potential to export, states should know that of the approximately 28 million small companies in the United States, only about 2 million have goods or services that can

[29] According to analysis done by the Organization for Economic Cooperation and Development (OECD), in a large number of OECD countries, SMEs have a much lower propensity to export than larger firms. Specifically, the number of firms selling abroad is driven by firms that have more than 249 employers. The relationship between firm size and export propensity holds when differentiating among micro, small, and medium-sized firms. The share of exporting small firms (10–49 employees) is larger than that of micro firms (1–9 employees), while medium-sized firms are by far the most exporting subgroup of SMEs. This pattern suggests that SMEs as a whole display substantial differences in their propensity to export. Organization for Economic Cooperation and Development, *Fostering SMEs' Participation in Global Markets* (2013), http://search.oecd.org/official-documents/publicdisplaydocumentpdf/?cote=CFE/SME(2012)6/FINAL&docLanguage=En (accessed June 11, 2014).

be traded outside of their local markets.[30] However, it is often the case that many of these small companies that have the potential to export are not doing so. For example, one estimate finds that of the 262,000 small and medium-sized manufacturers in the United States, about 193,000 do not export at all.[31]

For a state to help companies start exporting or increase their exports, it first needs to know which kinds of companies it is working with and what their primary needs are. Companies not already exporting vary in their readiness to do so. Many nonexporters may only need basic information about markets and opportunities, help finding access to buyer or distribution networks, financing, or training about legal or logistical barriers to trade. Others may be challenged by a lack of entrepreneurial desire or a capacity to innovate, as evidence suggests that innovating and noninnovating businesses behave differently in terms of the level and probability of exporting.[32] Companies that are already exporting have a different set of barriers to increasing their exporting activity. Those barriers tend to be more specific to their business or to a particular market they are interested in entering.

The following are examples of how states are making decisions about the focus of their export-promotion efforts.

- **Rhode Island** uses an export-readiness assessment to classify companies as new to market or new to export. The readiness assessment evaluates several export-related factors, such as the company's tolerance for risk, ability to sustain long sales cycles, experience with partnerships, and overall business priorities.[33]

  Some states have developed a system to act as an open door for all companies while identifying the ready-to-export companies that often need a small amount of targeted support to start or expand exporting immediately. States can focus their efforts on the highest-potential companies while connecting the companies that need more introductory support to other entities in the state that provide more basic services.

- **North Carolina** identifies companies that have the potential to increase their exporting, works with the companies that have the greatest potential, and then connects most of the other companies to a unique provider in the state. The North Carolina Department of Commerce's International Trade Division describes itself as a "portal to available trade support services." The state has a strong emphasis on reaching out to new companies that have never exported but could with some support. To find those companies, the International Trade Division runs an annual road show, a seminar series on exporting that is offered across the state to connect companies with services that either the division or others in the state support. In many cases, the state works directly only with those companies that are most ready to export or that are part of one of the state's targeted industry clusters. The state might help those companies with market research, access to financing, or a targeted trade mission.

  North Carolina's business development managers act as connectors and work with companies to determine which available resources will meet each company's specific needs. Companies that need more introductory support are connected to other entities in the state. Community colleges provide basic education and training to companies that are new to exporting in cooperation with the Small Business Center Network and the North Carolina World Trade Association. When a company has completed basic training, the trade division might connect it with business

[30] Stone and Associates, *On the Threshold.*
[31] Ibid.
[32] Organization for Economic Cooperation and Development, "Fostering SMEs' Participation in Global Markets."
[33] Chafee Center for International Business, "Export Services for Rhode Island Companies" http://web.bryant.edu/~univrel/step.pdf (accessed June 11, 2014).

school consulting to find new market possibilities.

The state often connects companies to programs that SBA and MEP run. SBA's Export University program provides new exporters with the basic information they need to begin an export initiative. It also provides moderately experienced exporters with in-depth information on preparing for export, finding new markets, logistics, export documentation, getting paid, and legal considerations while exporting. MEP's ExporTech program works with small and medium-sized manufacturers to develop a customized international growth plan.

Making Clusters a Platform for Trade Development

One way a state can target a group of companies is to focus services on the state's industry clusters. As a collection of similar or related businesses that share needs for common business services, talent, technology, and infrastructure, clusters provide a critical mass of customers, making it easier for agencies to develop special expertise and programs tailored to fit their particular needs. Focusing on clusters allows states to scale from supporting individual companies to building systems that enable many companies in one cluster to become more competitive together.

By having an ongoing dialogue with a specific set of companies, states can ensure that trade efforts focus on long-term, sustainable strategies instead of one-shot participation in trade shows or missions. For example, based on ongoing dialogue with its cluster of furniture manufacturers and their suppliers, **North Carolina** has a set of resources aimed at supporting exporting, including targeted market research for the cluster and coordinated trips to furniture trade shows. Focusing on clusters can also promote better collaboration between smaller and larger companies in a particular cluster. The larger companies in the cluster can open doors to international opportunities for smaller suppliers.

Several states are focusing federal funding received through SBA STEP on specific clusters. Most states are using STEP funding to support SME participation in trade missions and trade shows, and at least 14 states direct funding to companies within state-identified targeted industry clusters. **Oregon** is allowing trade associations and cluster organizations in the state to apply for up to $5,000 in STEP grant funding to help them organize and lead an international business mission for their member small businesses.[34]

States are finding that clusters provide a way to focus on service exports such as business and financial services. Promoting services exports has often been a challenge for states because of lack of state-specific data on companies that are exporting services. If a state has already identified concentrated clusters of services, those clusters can provide a starting point for states to measure and increase service exports.

Colorado's advanced industries cluster serves as a focal point for connecting companies to global opportunities.[35] Advanced industries—identified as aerospace, advanced manufacturing, bioscience, electronics, energy, infrastructure engineering, and technology and information—account for about 30 percent of the state's total sales revenue and nearly 35 percent of exports. Colorado's Advanced Industries Export Accelerator Program has three elements: export grants, a global consultant network, and an export training program.

The advanced industries grant program provides up to $15,000 in grant assistance to aspiring and current SMEs in the advanced industries cluster. Grant recipients are required to match at least 50 percent of

[34] "Oregon STEP Program," Business Oregon Web site, http://www.oregon4biz.com/Grow-Your-Business/Export-assistance/STEP-Program (accessed June 11, 2014).

[35] Colorado Office of Economic Development & International Trade, "Advanced Industries Export Accelerator Program," http://www.advancecolorado.com/international-business/advanced-industries-export-accelerator-program (accessed June 26, 2014).

approved costs for any project related to business development and marketing costs associated with exporting. In addition to other requirements, companies must be deemed "export ready" by the Colorado Office of Economic Development and International Trade (OEDIT). Export readiness is based on an evaluation of the company's ability to meet and service customer needs in a target market.

Colorado companies in advanced industries also have access to a network of international consultants assembled by OEDIT. Consultants provide market research specific to particular markets and help to open doors through access to in-country networks, understanding of local regulations, and other specific knowledge.

Colorado's OEDIT and the World Trade Center–Denver also provide export training and acceleration programs for businesses to learn the basics of exporting and international marketing. Programs are geared to the needs of specific industries within the advanced industries cluster.

Conclusion

As governors look to develop more robust international strategies, they can take three actions that will focus the state's international trade policy:

- Create an integrated, long-term plan;
- Develop the state's tactics and tools; and
- Identify export-ready companies and potential foreign investors.

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