

By Prof. Earl H. Fry, Ph. D.

For public officials, business executives, students and journalists, globalization means, “the world is only one second wide.” That is how former Columbus, Ohio Mayor Greg Lashutka described globalization during a conference he hosted on behalf of the National League of Cities (NLC) on the topic of economic competitiveness. For all practical purposes, it takes just a second for voice, data, pictures or money to travel from one side of the planet to the other.

Globalization has a number of dimensions. The rapid innovation and application of information technology is a significant force. The growth of international commerce – sales of goods and services – is a second component of globalization. Finally, the mobility of people (labor and entrepreneurship) and money (investment capital and purchasing power) constitutes a third side of the globalization triangle.

## The Information Technology Revolution

The pace of global and regional interdependence is quickening because of the information technology (IT) revolution. The IT revolution includes the proliferation of powerful computers, the rapid expansion of the Internet, digitization, wireless technology, miniaturization, fiber optics, and bandwidth expansion. Above all, knowledge has become the new basis for wealth, and interconnectedness and interactivity have reached unprecedented levels. In cyberspace, distance and regional or national borders are of little consequence. Simple geography is no longer the determining factor when identifying the nearest competitor or the nearest supplier. New technologies have solidified international production networks and perpetuated the 24-hour stock market and business cycle.

## Economic Globalization

Economic globalization is intensifying with the international movement of goods, services, capital, technology, and people having attained record levels. World trade in goods and services has reached 7.5 trillion dollars annually, growing at a rate almost three times faster than the aggregate growth in national economies. The growth in commercial services, international direct investment, and international tourism is even faster than the expansion in merchandise trade. For example, foreign direct investment in the United States surpassed 1.3 trillion dollars in 2001.

Roughly 60,000 transnational corporations and their 800,000 affiliates also produce sales of 15 trillion dollars per year, more than double the total international trade in goods and services. International currency transactions have also reached astronomical heights, averaging over 1.5 trillion dollars per day, and in the tourism realm, a record 715 million people visited other countries in 2002 and spent approximately 450 billion dollars.

Nevertheless, economic globalization may still be in its formative stages. In truth, the global economy is not at all global in terms of who is actually engaged. A few years ago, McKinsey & Associates estimated that only one-fifth of world output was open to global competition in products, services, and ownership. However, within the next three decades, McKinsey predicts that four-fifths of world output

should be “globally contestable,” leading to an even more dramatic expansion in global economic integration.

## How States and Cities Are Adapting

In reaction to globalization and the IT revolution, states and cities have decided that they must be actively engaged in the international sector in order to grow their local economy and sustain the quality of life expected by their residents. Imports and exports now account for a quarter of the U.S. gross domestic product (GDP). Upwards of 18 million U.S. jobs are directly linked to the international economy, with 12 million tied to exports, one million to international tourism, and another 7 million Americans working for foreign-owned companies within the United States (many of which also export).

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.

Globalization is also about the movement of people. Approximately one million immigrants entered the United States annually during the 1990s, and the pace accelerated early in the current decade. A record-level 32.5 million foreign-born residents were in this country in March 2002, including 26 percent of California's and 20 percent of New York's total populations. In communities throughout the country, over 550,000 foreign students also are enrolled in U.S. colleges and universities.

The “internationalization” of America is both a big city and small city phenomenon. A survey conducted by the National League of Cities on demographic changes in small cities between 1990 and 2000 shows a rapid rise in the growth of both Hispanic and Asian populations in all geographic regions of the country. The large influx of persons of Hispanic and Asian ethnicity contributed greatly to overall population growth patterns, especially in the Midwest and West. On the matter of economic growth, census data concludes that recent immigrants accounted for half of the new wage earners who joined the labor force between 1990 and 2000.

## The International Dimension

The basic building blocks of the global economy are the metropolitan-centered local economic regions. Often referred to as “citistates,” these regions combine a multitude of cities, counties and even states. Though their economic output is more difficult to define, they are, nonetheless, formidable economic players on the global stage. If one looks at individual states ranked by their annual production of goods and services, California, New York, and Texas could be inserted among the top 10 national economies in the world. Twenty states are among the top 25 nations, 37 among the top 50, and all 50 states, plus the District of Columbia and Puerto Rico, among the top 66 nation-states in terms of economic size.

At the state level, the expansion of international economic development activities has been impressive. Four states maintained offices



abroad in 1970, compared with 37 states and Puerto Rico, which currently operate 240 foreign offices in almost 30 different countries. Governors and many mayors lead, or at least participate in, trade missions and study tours abroad each year. In addition, both states and cities have pledged over the past several years billions of dollars in grants, loans, or tax abatements to foreign companies willing to set up operations on American soil.

City leaders have built their own international networks. Kansas City, Missouri took a very practical cost-sharing approach when the city partnered with the State of Missouri to share the international offices in Monterrey and Guadalajara, Mexico. Using a region-wide approach, Seattle has established a remarkable record of global interaction. Under the auspices of the Trade Development Alliance of Greater Seattle and the Greater Seattle Chamber of Commerce, a global study mission program has been operating for a decade, a program permitting mayors, business executives, educational leaders and the rest of the civic leadership of the Puget Sound region to explore how other cities around the world are remaining competitive in the global economy.

Although generally established as a means to foster international peace and cross-cultural understanding, thousands of sister-city relationships can prove to be useful spring-boards to commercial and investment ties between communities wanting to build their global economic competitiveness. This is especially true for smaller communities. Business investment and commercial opportunities are important parts of the twinning relationships created by Richmond, Virginia in South Korea, and by Saline, Michigan in Lindenburg, Germany. The bonds of trust established through twinning reap the benefit of business relationships later.

## The Domestic Dimension

Beyond building the global network of partners, comes the domestic challenge of providing the leadership, focus, innovation, policy direction and infrastructure necessary for job growth and prosperity. For example, encouraging certain kinds of businesses to locate in a region, that is, building an economic cluster, requires not only a strategic vision about a community's assets, but a commitment to bring together whatever land and facilities (water, roads, telecommunications links) are necessary to make the project succeed. A city like Mobile, Alabama can compete with Miami and New Orleans as a major port of entry for goods from Latin America as long as it continues to invest in upgrading its facilities. London, Ontario has the advantages of geography (proximity to the U.S. market) and a highly skilled labor force, both of which have contributed to that region's expanding automotive cluster.

In more rural areas, technology becomes the key to success. In eastern Kentucky, city leaders in Barbourville channeled investment through the locally owned utility in order to lay fiber optic cable for the whole community. The call centers that set up shop in Barbourville did so because they found the infrastructure, workforce and quality of life standards that they sought.

## Assessing State and Local Government Initiatives

The idea that states and cities are going to develop their own brand of

"foreign policy" is unsettling to many business leaders and national government trade negotiators alike. Although the U.S. Supreme Court has ruled in the matter of state economic sanctions aimed at a foreign government, that has not prevented subnational governments from taking purposeful positions on war, trade regulation and human rights.

Over one hundred states and cities adopted resolutions opposing war in Iraq. State and local governments, acting through their national associations, dissect international trade agreements searching for language that sets limits on local sovereignty in the name of increased global trade.

In the field of economic development, state and local governments continue to offer billions of dollars in incentives as they compete to attract foreign companies to their respective areas of jurisdiction. This in spite of studies indicating almost all foreign enterprises are prepared to invest in the United States without receiving government incentives. Even fundamental issues such as identifying the most significant economic competitor seem to be fraught with confusion. Neighboring communities would be far better off cooperating as part of a local economic region than using their proportionally smaller individual resources to compete head-to-head.

## Concluding Observations

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 greater international involvement and underscore that many problems facing the world today cannot be solved single-handedly by individual nation-states.

On the other hand, state and local governments have done little to promote a basic understanding of international affairs. Public schools offer little in the way of foreign language training. Provincial governments in Canada, such as Quebec, are far more aggressive in assisting low-income families to acquire computers and log on to the Internet, thus minimizing the digital divide between rich and poor. The province of Alberta has plans to provide all rural communities with high-speed, broad-bandwidth Internet connectivity. Only a handful of U.S. state and local governments have developed strategic plans to cope with future challenges and opportunities in an era of globalization and the IT revolution. Without any doubt, U.S. communities 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.

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