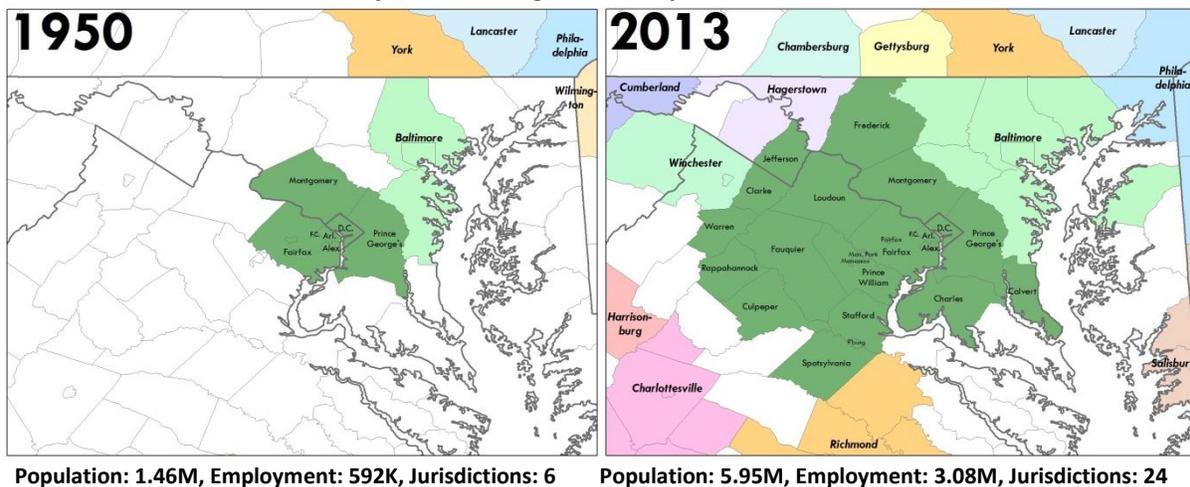


# Improving the Washington Region's Global Competitiveness

## EXECUTIVE SUMMARY: November 2014

The Washington DC Metropolitan Area (WMA) boasts many inherent advantages relative to its competitiveness in the global marketplace, most of which are rooted in Washington's status as the seat of the U.S. government. The expansion of the Federal government from World War II forward fueled the region's economic growth for more than 60 years. Between 1950 and 2013 the region's job base increased more than 400 percent and its population increased more than 300 percent. During this time the WMA evolved from relatively small and isolated metro area to an economic powerhouse located in the middle of a regional megalopolis that stretches from Maine to North Carolina.

*Evolution of the Washington Metropolitan Area, 1950-2013*



Although the region's economy has grown less dependent on direct Federal employment over time, much of its growth in recent years was driven by Federal contracting activity. From 1983 to 2010 the total value of Federal contracts performed in the region increased from \$7.0 billion to \$83.1 billion. From 2010 to 2013, though, Federal contracting activity decreased by \$13.5 billion, a 16 percent decline. This trend has both slowed job growth and shifted it to lower-wage sectors and occupations. With additional Federal cutbacks expected in the future these trends will likely continue unless action is taken to improve the region's ability to compete in the global marketplace.

The opportunities and challenges faced by the WMA were articulated in a 2013 study by the Brookings Institution entitled "The 10 Traits of Globally Fluent Metro Areas." This report examined the characteristics of the 100 largest U.S. metro areas and determined 10 commonalities among regions that have successfully increased exports, attracted more foreign investment, improved their workforces, and promoted innovation. A summary of the WMA's current status and future outlook relative to these 10 traits follows.

## The Washington, DC Metropolitan Area: A Global Fluency Scorecard

| Trait   | +   | -   | Status | Summary  |
|---|---|---|--------|--|
| <b>1. Leadership with a Worldview</b>         | <ul style="list-style-type: none"> <li>• Foresighted regional planning organizations</li> <li>• Strong public universities</li> <li>• Federal investment in advanced technologies</li> </ul>  | <ul style="list-style-type: none"> <li>• Legacy of weak/corrupt local government</li> <li>• Most authority at local level</li> <li>• Inward focus of business community</li> <li>• No regional public-private development groups</li> </ul>   | -      | Global orientation of region's leadership is just starting to emerge. Local focus makes regional leadership very difficult.  |
| <b>2. Legacy of Global Orientation</b>        | <ul style="list-style-type: none"> <li>• Federal government has always made Washington a global city</li> <li>• Rapid increase in foreign-born residents since 1970</li> <li>• Museums and cultural attractions are international destination</li> <li>• Federal government has attracted global business base</li> </ul> | <ul style="list-style-type: none"> <li>• History as bi-racial city with few international immigrants</li> <li>• Lack of manufacturing economy limited trade relations with world</li> <li>• Federal government expansions have stunted growth of private economy</li> <li>• Outward expansion has diluted role of Washington DC in larger region</li> </ul> | +      | Washington is very well established as a hub of government and tourism, but remains oriented to Federal government. Global orientation will depend on the nature of future business and land development patterns.                                     |
| <b>3. Specializations with Global Reach</b>   | <ul style="list-style-type: none"> <li>• Unparalleled access to the Federal government</li> <li>• Highly skilled labor force, especially in knowledge industries</li> <li>• Strong technology infrastructure and entrepreneurial climate</li> <li>• Excellent global and cultural connections</li> </ul>                  | <ul style="list-style-type: none"> <li>• Region remains very sensitive to Federal cutbacks</li> <li>• Very weak existing base of export activity</li> <li>• Leadership structure remains mainly oriented towards the Federal government</li> </ul>  | ?      | The region is highly specialized in knowledge and tech-based fields, but is equally specialized in low-wage service occupations. All key competitive advantages remain related to the Federal presence.  |
| <b>4. Adaptability to Global Dynamics</b>     | <ul style="list-style-type: none"> <li>• Federal influence has always made the region adaptable</li> <li>• The region has always flourished during periods of crisis</li> <li>• Changes over time have produced a strong base of jobs and human capital in knowledge and tech industries</li> </ul>                       | <ul style="list-style-type: none"> <li>• Evolutions have been a byproduct of Federal decisions with no local plan.</li> <li>• The post-9/11 period of Federal expansion has drawn to a close.</li> </ul>  | +      | The region has long been out in front of global change as a result of the strong Federal influence on its economy and workforce. With the Federal government's role decreasing, though, concerted local efforts are needed to maintain this advantage. |
| <b>5. Culture of Knowledge and Innovation</b> | <ul style="list-style-type: none"> <li>• Strong labor force participation and education attainment</li> <li>• Very strong concentration of R&amp;D activity</li> <li>• Region attracts well educated in-migrants</li> </ul>   | <ul style="list-style-type: none"> <li>• Federal government still attracts best educated workers</li> <li>• R&amp;D and patents are heavily driven by Federal spending</li> <li>• Training shortfall requires importing of skilled workers in most professional fields</li> </ul>   | ?      | The region has a highly skilled labor force and a robust base of R&D activity, but it still revolves around Federal activity. The regional educational system does not meet demand for skilled workers.  |

| Trait   | +  | -   | Status | Summary  |
|---|--|---|--------|--|
| <b>6. Opportunity and Appeal to the World</b>                   | <ul style="list-style-type: none"> <li>US image remains strong with global capital markets</li> <li>Decreasing racial/ethnic segregation within the region</li> <li>Significant existing base of international students</li> <li>Good transportation access</li> </ul>   | <ul style="list-style-type: none"> <li>Negative views of US government are on the rise in past decade</li> <li>Residential segregation persists in parts of the region</li> <li>Region is not a major destination for international business travelers</li> </ul>   | +      | The region's image in the world remains mostly positive and Washington is seen as being open to the world, but it is not a major attractor for global business travel.                                     |
| <b>7. International Connectivity</b>                            | <ul style="list-style-type: none"> <li>IAD is major international airport; Silver Line will be big boost to connectivity to city</li> <li>Ports of Virginia and Baltimore are poised for strong growth</li> </ul>  | <ul style="list-style-type: none"> <li>Road connections to and from IAD are challenged by traffic congestion</li> <li>Washington is not a major player in air cargo or global shipping arenas</li> </ul>  | ?      | IAD has growth potential, and Silver Line will greatly improve its appeal. The region is unlikely to grow its shipping or cargo activity in the future.  |
| <b>8. Ability to Secure Investment for Strategic Priorities</b> | <ul style="list-style-type: none"> <li>Region has used innovative approaches to fund investments</li> <li>Localities have leveraged assets to attract corporations and private investments</li> <li>Good base of foreign investment, particularly in real estate</li> </ul>  | <ul style="list-style-type: none"> <li>Federal government can no longer be counted upon to fund projects</li> <li>Complicated, politicized processes for funding public investments</li> <li>Modest base of local financial and philanthropic institutions</li> <li>Foreign investment has little impact on employment.</li> </ul>  | -      | The region's financial system remains deeply dependent on the Federal government. New public investments require creative, often heroic efforts. Funding networks lag well behind other major U.S. metros. |
| <b>9. Government as Global Enabler</b>                          | <ul style="list-style-type: none"> <li>U.S. trade policies are largely positive towards global commerce</li> <li>Global development banks in Washington provide access to international markets</li> <li>Region is attracting significant amounts of FDI and international VC funding</li> <li>Public Universities have a range of global development initiatives</li> </ul> | <ul style="list-style-type: none"> <li>Gridlock in Federal government harms overall global trade situation</li> <li>Concerns over Federal espionage and immigration policies hamper high-tech industries</li> <li>Uneven taxation and regulatory situations among states</li> <li>Localities compete with one another for international investment, with virtually no regional cooperation</li> </ul> | ?      | Federal improvements to trade policy are unlikely, so it is up to state and local governments to step up. Leveraging existing resources and collaboration will be essential.                               |
| <b>10. Compelling Global Identity</b>                           | <ul style="list-style-type: none"> <li>The region's appeal to business and investment is clear and already well understood</li> <li>Local brands reinforce themes of innovation, lifestyle, and accessibility</li> </ul>   | <ul style="list-style-type: none"> <li>Region has failed to combat lingering negative images internally or externally</li> <li>Washington lacks a distinct brand apart from "The Nation's Capital"</li> <li>Jurisdictions have not collaborated to build common identity</li> </ul>   | -      | The region's global image remains negative and largely tied to "official Washington." Consensus exists about the region's strengths, but collaboration and better communication are necessary.             |

The region clearly has an uneven mix of strengths and weaknesses in regard to its global fluency:

- **Strengths (+):** Washington’s core strengths are related to the Federal government, which naturally orients the region towards the world and has proven to be an asset in helping its economy adapt to rapid change in the global political and economic situation.
- **Weaknesses (-):** The region’s major shortcomings are tied to the limitations of its public and private leadership networks in engaging the global marketplace and in collaborating for mutual benefit.
- **Mixed (?):** The region’s advantages related to its workforce, economic base, transportation network, and public institutions have historically been oriented towards the Federal government, so much work will be needed to maintain these assets as the Federal influence wanes in the future.

Many other U.S. metro areas have a key advantage over the WMA: a public-private partnership dedicated to regional economic development. Such organizations have proven to be integral to regional development efforts around the country. A case study review of 12 regional development partnerships documented the following conclusions:



- Most of the organizations were formed in direct response to a period of crisis.
- Strong leadership from existing regional business groups and/or elected officials was a critical element in the founding and ongoing success of each organization.
- All of the groups have representation from both the public and private sector, and most are predominantly funded by local jurisdictions within the region.
- Each organization works to market the region as a whole; this approach requires individual jurisdictions to put aside historical rivalries for the betterment of the entire region.
- The most successful organizations are those that focus their efforts on a small number of industries and/or initiatives that leverage the strengths of individual jurisdictions and members.

Another aspect of the WMA’s competitiveness is its position relative to key indicators of economic, business, workforce, and quality of life factors. The region was compared with the top 20 U.S. metro areas across 16 benchmark measures:

- **High-ranking benchmarks:** Highest concentration of Professional & Business Services employment, highest levels of educational attainment, attractiveness to young migrants, low crime rates, highest median income level, top concentration of Federal R&D spending.
- **Low-ranking benchmarks:** Highest level of dependency on government, low concentration of population in the central city, slowest growth rate in Professional & Business Services since 2010, very small export base, limited assets in community foundations/major philanthropies.

Based on the above findings, the George Mason University Center for Regional Analysis has prepared an “agenda for global fluency” that aims to build on the region’s strengths and overcome its weaknesses. This agenda is summarized below.

## **An Agenda for Global Fluency in the Washington Metropolitan Area**

### **Item #1: Explore Targeted Opportunities for Public-Private Partnerships**

The most successful global development initiatives in other U.S. metro areas have all been products of partnerships among local elected officials and each region's business leaders, with most initiated by the private sector. Given the historical rivalries among local and state governments in the District, Maryland, and Virginia, the private sector will most likely need to take the lead. Early efforts should focus on building consensus around specific topics such as workforce development, international commerce, or airport-area development (see also Item #5).

### **Item #2: Improve Connectivity among Business and Financial Communities**

The region's private sector has a largely vertical structure, under which each company interacts mainly with Federal agencies and has few horizontal connections with other businesses or investors. Growing the region's private economy will necessitate shifting the attention of the region's business leaders to resources located within the area. A true region-wide platform is needed for businesses to interface with one another, as well as with investors, higher education institutions, and local governments.

### **Item #3: Reinforce the Region's Competitive Advantages**

The Washington region has many advantages over most other U.S. markets, including: an educated workforce, a positive entrepreneurial climate, international connectivity, excellent public transit, and Federal government access. Maintaining these advantages will require cooperation between the public and private sectors. More importantly, none of these advantages can be properly maintained at the local level—cooperation among the region's state and local governments will be essential to future efforts related to labor force, R&D, regulation, and infrastructure.

### **Item #4: Develop a Sustainable Funding Model for Infrastructure Investments**

Nearly all major infrastructure projects built in the region over the past 30+ years have required extreme political and financial measures in order to be realized. Future infrastructure investments are likely to be even more expensive and contentious. As such, executing future investments in transportation or other infrastructure will require a broad consensus and a reliable source of funding that addresses the long-term needs of the entire region. Without this level of collaboration, each future project will prove increasingly difficult to realize.

### **Item #5: Maximize Impact of Washington Dulles International Airport**

Dulles Airport is one of the region's most important assets and is central to the region's global development prospects. However, it remains a long way from fulfilling its potential in terms of passenger service, air cargo, or economic development. Harnessing the airport's full potential will require a broader effort than has been previously undertaken. The future development of the Dulles area represents an excellent opportunity for a public-private partnership (see Item #1).

### **Item #6: Develop a Regional Messaging and Marketing Approach**

The experiences of many other regions have demonstrated the value of putting aside past differences for the benefit of the greater region. The idea of regional collaboration in Washington may not be as challenging as it may appear for two key reasons. First, the messages currently being used by state and local economic development groups are remarkably consistent with one another. Second, successful regional partnerships are often born from times of crisis not unlike Washington's current economic struggles. The conditions are now favorable for building a regional development strategy, but strong leadership will be needed to achieve this outcome.