# 12

# Economic Diversification after a Disaster

# Chapter 12: Economic Diversification after a Disaster

## Introduction

Economic diversification offers an array of benefits to a region. A diverse region is more able to withstand a shock such as an economic downturn or a natural disaster. The term "portfolio effect"[1] describes how, in diversified economies, negative impacts on certain industries are cushioned by lesser (or improved) impacts on others. Because affected industries make up a smaller portion of the local economy, the risk to jobs, livelihoods, and company mortality is therefore distributed more evenly. Economic diversity increases regional resiliency and stability.

Amidst chaos, a post-disaster situation can present an opportunity for change. This chapter covers economic diversification as both a recovery strategy and a tool for communities to increase their resiliency to future disasters. The first part of the chapter discusses the steps that economic development organizations (EDOs)[2] use to plan for and create an economic diversification strategy. These include assessing the sectors that currently exist in a region and considering what latent sectors could expand and diversify. The second part will delve into how to implement economic diversification strategies.

### Regional Approach

Economic diversification works best in a regional setting. Economies don't typically operate within a single jurisdictional boundary. For many local economies, a variety of economic development functions must be approached with a regional mindset, like workforce development and labor sheds, transportation systems, and communication networks. The regional natures of economies and economic development emphasize the importance of regional collaboration for communities when it comes to economic development initiatives, like diversification. Similarly, natural disasters rarely strike a single, contained jurisdiction, so it is beneficial to proactively take a regional perspective. Working with regional players before a disaster strikes will make it easier to create task forces and recovery programs when time is a crucial factor.

1 Brewer, A. (1985, February). Trade with fixed real wages and mobile capital, Journal of International Economics, 18(1-2); Malizia, E. E., & Ke, S. (1993). The Influence Of Economic Diversity On Unemployment And Stability. Journal of Regional Science; Frenken, K., et al. (2007). Related Variety, Unrelated Variety and Regional Economic Growth. Regional Studies, 41(5)

2 According to the International Economic Development Council's Introduction to Economic Development Manual, "Economic development can be defined as a program, group of policies, or set of activities that seeks to improve the economic well-being and quality of life for a community by creating and retaining jobs that facilitate growth and provide a stable tax base." Economic development organizations include municipalities, neighborhood groups, chambers of commerce, universities, utilities, state governments, regional entities such as public-private partnerships, and the Economic Development Administration designated Economic Development Districts.

Engaging regionally does not mean ignoring local realities and priorities. On the contrary, local needs may be better addressed under a regional approach and an expanded pool of resources. Similarly, in the wake of a disaster, community economies are often forced to diversify. By engaging regional partners and planning ahead, a community is much better prepared for post-disaster recovery.

Most communities have limited resources, and therefore must work within existing systems to make incremental changes that improve diversification. This chapter provides guidance for communities at all stages on how to assess the regional economy, engage local partners, and choose and implement strategies for diversification.

# Cluster-Based Economic Development

Economic diversification is based on the theory of industry clusters, which are groups of firms that gain a competitive advantage through local proximity and interdependence.[3] Clusters develop because concentrations of competing and complementary firms within industrial sectors end up sharing workers, knowledge, and other resources. Efforts in cluster development should be based on data and analysis; clusters cannot be created artificially, but data can provide insights into new and existing industry groups.

In order to diversify, a community can both expand upon its existing industry clusters and anticipate and facilitate the emergence of new clusters that will add new firms to the region. Regional clusters foster innovation and knowledge-sharing through externalities, linkages, and spillovers. These externalities include technology transfer, access to specialized human resources and suppliers, pressure for higher performance (production and efficiency) due to proximity between firms, and the development of pools of employees with specialized expertise.[4] Clusters can be linked vertically through buyers and suppliers and horizontally through businesses that compete in the same market or share resources (such as technology, raw materials, or workforce).

Disasters can upend clusters through disruption of supply chains, workforces, and customers. Yet, disaster can also spur cluster development. Southeast Louisiana, for example, has seen the development of a water management cluster in the decades since Hurricane Katrina and the Deepwater Oil Spill. This has been catalyzed by federal investment through the Louisiana Coastal Protection and Restoration Authority (CPRA), which provides contracts for water mitigation to both large national firms and trusted local firms.[5] Local firms have seen growth, and more are competing outside the state, resulting in new contracts and new jobs.

3 **Rethinking Cluster Initiatives**, Metropolitan Policy Program at Brookings, July 2018.

4 **Clusters and Economic Policy: Aligning Public Policy with the New Economics of Competition**, Harvard Business School, Nov. 2007

5 **The Coastal Index: Tracking the development of the water management cluster in Southeast Louisiana**, The Data Center, April 20, 2015.

# Planning For Economic Diversification: Assessing the Region

Economic diversification is a deliberate process that requires strong partners with a shared vision, clear goals and objectives, and a well-crafted implementation plan. It requires that a host of competent partners work together to make the vision and the plan a reality. EDOs may undertake a specific plan for economic diversification, or it may be folded into an existing planning effort such as a Comprehensive Economic Development Strategy (CEDS).

## The Role of the EDO and the Roles of Partners

For diversification initiatives, the role of EDOs varies depending on strategy, partners, and resources. EDOs often serve as facilitators and conduits for resources already available within the community. For some strategies, however, the EDO has the internal capacity to be a service provider, for example, by establishing a revolving loan fund (RLF) to connect small businesses and entrepreneurs to capital. If business capital needs are already served elsewhere in the community, an EDO may be able to serve other roles, such as providing market research and guidance for business plans. When deciding what services to provide, EDOs should consider what is within the organization's capacity to provide and what resources are already established and available in the community.

An inventory of potential partner organizations and the services they offer should be part of planning efforts. Potential economic development partners and engagement opportunities may come from the local, regional, state, and federal levels. Partners can include the state, county, and city public agencies, public authorities, public-private partnerships, nonprofit organizations, planning departments, community development corporations, chambers of commerce, trade associations, business leaders, educational institutions, tribal nations, and others. These partners can then be mapped into groups that are focused on particular topics or services and engaged in plan implementation.

# Assess Existing and Emerging Clusters

A successful diversification strategy is grounded in a thorough assessment of the region. This assessment provides the foundation for a successful strategy by evaluating a region's strongest industries and identifying emerging sectors. This is accomplished through economic analysis, examining existing industries, and evaluating the workforce.

**PONCA CITY, OKLAHOMA**

Technology clusters are often part of a larger technology-based economic development strategy. Technology clusters benefit from support firms that bring technical expertise, consultants and lawyers and a robust network of financial institutions and venture capitalists. A university or core institution can support a technology cluster through research and workforce training. They also provide specific infrastructure.

Ponca City, Oklahoma, built a cluster around a technology lab after the departure of its major employer, Conoco Oil Company.[6] Ponca City had discovered a potential niche in sensor technology through a study done by Oklahoma State University and the Ponca City Development Authority. The city, university, development authority and ConocoPhillips partnered to develop a national sensor testing and evaluation center that would allow military, commercial, and university researchers to work on sensor technology in a single location, the University Multispectral Lab (UML). The lab has attracted more businesses in technology and professional services industries. Companies work with the UML to develop propriety products or use the lab space and other infrastructure for research.

6 Diversifying into Knowledge-based Industries in Ponca City, Restore Your Economy, International Economic Development Council

## Economic Analysis of Clusters

Cluster-based economic development relies on monitoring industry indicators to track existing clusters and identify emerging clusters. To measure clusters:

- **Inventory the region's assets**: Determine the natural fitness for certain kinds of industries (for example, research specialties of a university or college, uniquely skilled workforce, presence of a certain resource, etc.). Look into industries that are starting to export—these may indicate an emerging cluster.
- **Evaluate the economic base**: Use techniques such as location quotient, shift-share, input-output or a combination to identify exporting (basic) industrial sectors.
- **Engage the research community**: Understanding the research and innovation focuses of the area's higher education institutions can highlight growing sectors and identify commercialization opportunities.
- **Map groupings**: Once exporting industries have been identified, group and map them with their suppliers, intermediate goods and services, and raw materials related to their value chain.
- **Gather firm input**: Interview firms.

    - Who are your major suppliers and buyers by industry?
    - What (approximate) percentage of your inputs comes from within the region?
    - What are your supplier preferences?
    - What percentage of your customers are located in the region?
    - What are the demographics of your customers?
    - Why has your company located in this particular area?
    - What critical resources are needed to support your business?
    - What are the trends in your firm's sales over the past three years?
    - Does your firm plan to hire additional workers in the next three years?
    - Do you engage in any joint ventures with nearby firms?
    - How much do you spend on R&D?
    - How many patents has your firm generated?
    - What kind of relationships do you have with local colleges and universities?

- **Analyze the competition**: Clusters exist due to competitive advantage. Understand how the region compares to peer regions by calculating industries' location quotients (LQs). Also calculate LQs for industries over time to see how strengths may be changing.

EDA also has sponsored the development of several cluster analysis tools. They are:

- **US Cluster Mapping** – The U.S. Cluster Mapping site provides over 50 million open data records on industry clusters and regional business environments in the U.S. to promote economic growth and national competitiveness. The project is led by Harvard Business School's Institute for Strategy and Competitiveness in partnership with the EDA.
- **Innovation Intelligence** – A tool from StatsAmerica to analyze innovation, clusters, and investment decisions. The tool uses location quotients to measure the strength of the industry cluster. Location quotients are an analytical statistic that measures a region's industrial specialization compared to a larger geographic area, typically the nation.[7] This project is funded by the EDA and produced and maintained by the Indiana Business Research Center at Indiana University.

7 What are location quotients? (LQs), Bureau of Economic Analysis, January, 2008

## Examining Existing Industries

A diversification strategy is the culmination of many small steps. Rather than simply trying to attract businesses in sectors the community would like to grow, a successful diversification strategy works *with existing businesses and figures out what they need for expansion*. EDOs should look for opportunities to help businesses expand and align them with growing industries by helping them use new technologies, take advantage of missing supply chain links, or seek new export markets. When pursuing cluster development, EDOs should consider the following topics related to business expansion:

- **Large employers**: Determine who the region's largest employers are using metrics such as the number of employees and revenue. Meet with these employers to learn more about their relevant successes, challenges, and any anticipated changes, such as a planned relocation or downsizing.
- **Current and future employment trends**: Use employment data and interviews with local businesses to analyze current employment by sector, determine the unemployment rate, and identify industries that are growing or declining.
- **Supply chains and key markets for local industry**: This information may clarify existing gaps (and opportunities for expansion) in industry supply chains, as well as which companies are already exporting or that are considering expanding to new markets.

## Evaluating the Workforce

Because cluster growth depends on a skilled workforce, a region's economic diversification goals must be aligned with workforce development initiatives. The second piece of the assessment, therefore, is evaluating the region's labor force. Identify:

- Existing workforce talents by industry and skill set: Develop an understanding of the regional workforce's strengths as well as areas of improvement.
- Local and regional training opportunities and providers: Inventory existing training and education programs and the capacity of those programs to train workers. Look for potential areas of alignment between skill gaps and these programs. Include community colleges, universities, technical colleges, etc.

This information can be obtained from the Bureau of Labor Statistics and through conversations with workforce groups (e.g., the local workforce investment board) and anchor institutions (e.g., the local university or community college.)

**UNITED STATES VIRGIN ISLANDS**

Tourism clusters often dominate coastal economies, and the disruption of this sector in the wake of a disaster can be enormous. In the U.S. Virgin Islands, Covid-19 threatened to upend the cruise-driven tourism economy when the US Centers for Disease Control and Prevention issued a no-sail order for ships in American waters and major industry body Cruise Lines International Association voluntarily suspended all operations. According to U.S.V.I. Tourism Commissioner Joseph Boschulte, prior to the pandemic 70 percent of the territory's 2.2. million visitors arrived via cruise.[8]

During the height of the pandemic, tourists were still coming to the U.S.V.I., thanks to a vaccine policy, which allowed all adults to be vaccinated and liberal quarantine requirements.[9] The U.S.V.I also benefitted from its neighbor to the east, the British Virgin Islands, much stricter Covid-19 measures.

With the unavailability of cruise ships, the U.S.V.I. saw a large rise in its charter yacht business. In 2021, the economic impact of the charter yacht sector was predicted to be $88 million, nearly double that of 2019. Charter yachts have smaller crews and limited passengers, which allows for more vigilance around testing and vaccinations.

Oriel Blake, executive director of the Virgin Islands Professional Charter Association notes that the sudden surge in demand led to alliances and cooperation among companies in an effort to support the industry throughout the territory, for example, with fully-booked companies referring clients to others.[10] The U.S.V.I. Department of Tourism is exploring ways to support this industry, for example by partnering with the Office of the Governor to create a St. Croix-specific marine program with its own dedicated marketing platform.

If both the physical and human capital infrastructure is established, the pivot to charter boats will have lasting economic impacts. In 2021, the British Virgin Islands-based company Sunsail Yacht Charters invested in a new facility called The Moorings in St. Thomas, growing the fleet from five to 26 yachts over the course of a year.

The increase in demand for charter yacht cruising has led to a shortage of skilled crew and personnel to provide marine maintenance and technical services. To help fill this gap, the Charter Association has partnered with the Labor Department to offer a fully funded marine apprenticeship program.

## Cluster Development Strategies

Once the analysis and planning stages have been completed, a community can decide what interventions need to be made. Multiple strategies may be necessary to develop a well-rounded economic diversification plan, rather than relying heavily on a single aspect.

8 **US Virgin Island Eyes 2024 Return to Pre-Pandemic Cruise Levels**, Travel Pulse, April 28, 2022
9 **In Search of a Vaccine, Some Tourists Find Luck in the Caribbean**, New York Times, March 24, 2021
10 **Boating in the USVI: Recreational Boating Industry Thrives on St. Thomas and St. John**, The St. Thomas Source, Oct 7, 2021

## Align Economic Development Resources and Programs

It is valuable to have a database of existing economic development programs in order to determine the most effective role for the EDO to take on when implementing a diversification strategy. Programs and resources should be aligned both horizontally and vertically.

- *Horizontal alignment* means creating a full spectrum of resources and services across different organizations. For example, if the local chamber offers networking and training, the EDO could focus on financing or providing marketing information. Inventory existing resources from other organizations and develop a complementary, comprehensive strategy in how the programs can be administered.
- *Vertical alignment* means making sure that businesses are supported at all stages of growth and development. For example, that fledgling businesses have access to business plan assistance and mature businesses have access to worker training.

**FOUR CORNERS, NEW MEXICO**

In northwest New Mexico, coal mining and associated energy production industries have historically been key employers and sources of tax receipts. However, a substantial decline in demand for coal-related energy production has prompted many of these industries to divest from the region. Acknowledging the potentially devastating effect of these economic changes on thousands of families and the economic health of the region as a whole, economic development professionals sought new strategies to diversify, strengthening, and stabilize the economy.

The Northwest New Mexico Council of Governments (NWNMCOG), with support from the Economic Development Administration's "Partnerships for Opportunity and Workforce and Economic Revitalization" (POWER) program, funded a strategic planning process to quantify the impact of the industry loss in the region; identify and assess alternative industry clusters; and recommend actions for the region as a whole and for each of the individual counties (see the **report** here).[11] It was evident, however, that in order to realize the opportunities for diversification outlined in the report, broader support was needed from the surrounding states and Native American tribes of the greater Four Corners region.

*"It was evident when looking at the results of the recent POWER report that we needed to think from a regional perspective in order to address the threats to our economy from the declines in the coal and energy industries. As such, we need perspective from those that have forged regional initiatives before."*[12]

-Jeff Kiely, Executive Director of the NWNMCOG

Key partners were identified throughout the Four Corners region, including Four Corners Economic Development, Arizona Public Service Company, community leaders, EDOs and other stakeholders. In November 2017, these stakeholders gathered at San Juan College in Farmington, New Mexico, to take part in the "Future Forum." Nearly 140 experts, leaders, and other citizens discussed strategies to promote continuous development and diversification in the region, with 70 participants signing on to volunteer to continue cooperative, regional work. The volunteers met again in April of 2018 to establish action steps to engage the public, further involve multi-state stakeholders, and create action groups to help implement projects and strategies identified at the Future Forum.[13]

## Workforce Development

As part of an economic diversification effort, workforce development is an opportunity for economic developers to better align the needs of employers with existing workforce skills and educational programs. Workforce development efforts aim to improve the quality and skills of the workforce, help businesses meet their human resource demands, and provide channels for businesses and workers to connect.

11 Four Corners Regional Economic Consortium, **Four States and Multiple Tribes Host Four Corners Future Forum**, Oct. 2017

12 Four Corners Regional Economic Consortium, **Four States and Multiple Tribes Host Four Corners Future Forum**, Oct. 2017

13 Gallup Sun, **Four Corners Future Forum: Expanding the Partnership**, June 2018

This ongoing process should be a continuous feedback loop among economic developers, workforce development professionals, major employers, local educational institutions, and other relevant stakeholders.

## Create cluster-based workforce training improvements

Cluster analysis sheds light on skill sets that are needed or need to be upgraded. A workforce development strategy should be developed with a consideration of workforce, industry, and market realities. Once an assessment of the existing workforce has been completed, economic developers can then ask:

- *What knowledge and competencies (existing or needed) are applicable across different industries?*
- *What knowledge and competencies are transferable across segments of the workforce?*
- *What are the institutions best suited to promote and instill new types of knowledge or produce patents?*
- *What metrics should we use to measure and validate the existence or growth of a new cluster in our region?*

Workforce development efforts should be collaborative, including representatives from the economic development, business, education, and workforce sectors. This effort should be organized and should tap into the unique perspectives of the different representatives. Possible workforce development objectives for this type of group include:

- Encouraging business participation in the workforce system. Business executives have knowledge about their industries and the direction in which they are moving and can provide valuable insight on the skills and training necessary for new jobs.
- Creating public-private partnerships between firms, labor unions, government agencies and educational institutions to expand workforce skills.
- Reorganizing economic development and workforce development to achieve better alignment.

Aligning workforce and economic development initiatives with education and training resources will help ensure that clusters targeted for expansion have the workers they need. This will help to make diversification efforts more effective, especially when communities look to expand into new industries or technologies. Universities, community colleges, and training centers can:

- Adapt education offerings to current economic conditions
- Tailor programs to local industry needs and labor shortages
- Work with private-sector partners to define needs
- Provide professional instruction, training facilities and advanced technologies
- Serve as a valuable source of information for the region

Conducting a cluster analysis in conjunction with a workforce development strategy will boost diversification efforts. A cluster analysis will help economic and workforce development practitioners identify the skill sets that are absent or need upgrading.

## LEHIGH VALLEY, PENNSYLVANIA

In the post-Great Recession recovery years of the early 2010s, Lehigh Valley, Pennsylvania, experienced strong economic growth. Between 2010 and 2014, over 24,000 new jobs were added, and projections indicated an additional 22,000 jobs would be created over the next five years. Growth was notable in a diverse range of sectors, particularly healthcare and social assistance; transportation and warehousing; finance and insurance; and professional, technical and scientific services. However, threatening this strong recovery were gaps between workforce supply and demand; 14 of the 55 top regional occupations were experiencing worker shortages.

To address these pressing workforce development weaknesses, stakeholders from regional schools, employers, and workforce agencies, led by the Lehigh Valley Economic Development Corporation (LVEDC), formed the Lehigh Valley Education and Talent Supply Council in 2015. The council, informed by a subsequent study funded through grants from the Commonwealth of Pennsylvania, recommended two strategies: 1) promote and expand internship programs to connect employers with talent in the pipeline, and 2) provide relevant career pathway information to students and educators to guide career choices. LVEDC met these recommendations by creating the Internship Toolkit, Internship Directory, and Hot Careers Guide.

The Internship Toolkit offers organizations guidance and best practices in creating and expanding internships, such as the characteristics of successful internship programs, the benefits of paid versus unpaid internships, how to market an internship program, and different types of programs such as virtual and micro-internships. To assemble the information, the LVEDC worked directly with the 11 of the region's colleges and universities. The 2021-2022 Lehigh Valley Internship Toolkit can be found **here**.

The **Internship Directory** is a comprehensive list of internship programs offered by Lehigh Valley colleges and universities, along with the contact information of program directors and counselors. LVEDC's Hot Career Guides are issued annually across the Lehigh Valley to educate students on what skills, training, degrees and certifications are required for the occupations in high demand among Lehigh Valley employers. The purpose of the guide is to spark conversations among students, parents, teachers, and guidance counselors about career options; matching interests and skills with jobs, showing students what level of education or certification is required by certain careers, and providing information on the earning potential of available occupations. According to LVEDC vice president George Lewis, to create the Hot Career Guide, LVEDC developed "a novel internal labor market analysis with custom regions, cross-referencing data with O*Net, and seeking input from local employers of the highlighted industries to validate the data presented." The 2021-2022 Lehigh Valley Hot Careers Guide can be found **here**.

LVEDC also hosts annual summits at which employers can gain further insight into best practices for starting and running an internship program and interact directly with internship and career coordinators from the region's colleges and universities.

LVEDC has received related several awards since the program's creation in 2015. In 2021, the International Economic Development Council named it one of nation's best talent development and retention programs. In the same year, the Pennsylvania Economic Development Association recognized the program as the best talent supply initiative in the state.

## Encourage Entrepreneurship and Support Small Businesses

Encouraging both entrepreneurship and small business growth can diversify and grow the economy from within. To strengthen emerging clusters, create an environment that supports spin-offs and related start-ups.

Although each small business employs a few people, as a class they represent a large share of employment and the majority of new net jobs. Small firms tend to be more flexible and innovative compared to larger firms, producing 14 times more patents than larger businesses or universities.[14] More of the money they spend stays local, recirculating in the regional economy at a higher rate. Locally owned businesses tend to generate two to three times the amount of local economic activity than national chains.[15]

Resources to support small businesses and entrepreneurs include:[16]

- **Space to grow in a supportive environment, such as a business incubator**. Incubators may focus on businesses in identified high-growth sectors (e.g., advanced manufacturing, technology) or they may focus on small businesses, such as microbusinesses, home-based businesses, and sole proprietorships, which make up the vast majority of entrepreneurs and which often need technical assistance to start up and scale.
- **Connect the research and development efforts of regional industries and universities with entrepreneurs and small business support services**. Research and development activities at universities can provide numerous opportunities for spin-off businesses. These generate additional local economic activity and may even help retain talented workers in the area. This strategy can be combined with an incubator; technology-focused incubators are often supported by universities. Frequently, communities will create policies for small business support that target high-technology clusters of small business. Additionally, tech transfer offices at universities can help university researchers that are looking to commercialize their products connect with business-focused partners and investors.
- **Provide supportive networks and structures for small businesses**. Examples include Economic Gardening (a type of technical support)[17], networking and educational events, and counseling for all stages of business growth.
- **Continue to develop and encourage "buy local" campaigns**. Such marketing campaigns are helpful to small retailers and service providers.
- **Connect small businesses and entrepreneurs to financing.** EDOs don't necessarily need to provide the financing themselves but should be able to connect small businesses and entrepreneurs to existing resources in the community.

14 Innovation and Research, US Senate Committee on Small Business, 2021

15 Why Buy Local? An Assessment of the Economic Advantages of Shopping at Locally Owned Businesses, Michigan State University Center for Community and Economic Development, Sept. 2010

16 Methodological Aspects of The Economic Diversification of Rural Areas and its Impact on Settlements, Patarchanova Emilia, , 2020

17 About Economic Gardening, National Center for Economic Gardening

## Increase Export Activity

The final economic diversification strategy discussed in this chapter is to increase exports from the region. Increasing export activity increases a region's resiliency to economic downturn. If a region is struck by disaster and experiences reduced local demand, markets outside international or even state borders provide an additional source of revenue.  An export strategy is two-pronged:

- Help companies that are already exporting reach new markets (if appropriate)
- Help companies to enter the export market

There are numerous resources available to businesses to help them export and EDOs can serve as a connector to these resources.

### Use Federal Trade and Export Programs

Export initiatives are complex, but national initiatives have opened up a variety of services to regions and businesses. Export initiatives can be combined with both cluster development and workforce development.

Several federal funding sources are available for the promotion of exports. One is **the State Trade and Export Promotion (STEP)** program, through which the Small Business Administration provides funding to states and territories to assist small businesses with export development. Michigan's STEP program, for example, is managed by the Michigan Economic Development Corporation and has established offices in Canada, Brazil, and China. Small and medium-size enterprises looking to export or expand their exporting can receive reimbursements for 75 percent of related costs up to $15,000.[18] Michigan has used these funds to successfully connect exporters to foreign markets through business counseling and funding.

Activities funded by the STEP program include:

- Overseas trade mission participation
- International or domestic trade show participation (such as hotel costs)
- Foreign market sales trips
- Website and marketing material translation services
- Agent, distributor and customer searches
- Foreign market research[19][20]

The International Trade Administration (ITA) a bureau within the U.S. Department of Commerce, provides many programs that help and advocate for American businesses around the world. One of these programs is the **U.S. Commercial Service**, which staffs trade specialists in U.S. Export Assistance Centers (USEACs) throughout the U.S. and the world. USEACs are intended to be "one-stop shops" for small to medium enterprises that are new to exporting or want to expand their exporting activities. For a fee (that is often able to be covered with a STEP grant) they provide export counseling, planning, and financing services, such as working with firms to identify target markets, to formulate marketing strategies, and to identify export financing options. In addition to the Commercial Service, the USEAC network also includes participation from the SBA, the Ex-Im Bank, and USDA.[21]

18 **International Trade**, Michigan Economic Development Corporation, 2021
19 **Office of International Trade Resources**, US Small Business Administration, 2021
20 **Export Assistance: Export Promotion Program**, Business Oregon, 2021
21 **USEACS Part 1: What are they and how can they help you compete globally?** Export Finance Solutions, Export-Import Bank of the United States, 2022

## GOODYEAR, ARIZONA

Foreign-trade zones (FTZs), administered by U.S. Customs and Border Protection, are another conduit for attracting foreign direct investment. Foreign or domestic material moved through an FTZ is not subject to U.S. Customs duties, affording corporations operating there a variety of logistical and cost-saving benefits. Additional benefits accrue from state and local policy. For example, companies that develop a facility in an FTZ located in Arizona are entitled to exemptions that can reduce real and personal equipment and property taxes on investments by over 70 percent.

In 2010, the city of Goodyear, a suburb of Phoenix, Ariz., had lingering high unemployment after the Great Recession. In an effort to spur investment and boost employment, the city turned underutilized, tax-exempt farmland into Foreign trade zones (FTZ)s. The city's goals were to:

1. Attract high-quality employers that could create thousands of jobs, in especially advanced manufacturing, and spur regional infrastructure development
2. Establish premier advanced manufacturing and logistics industrial parks and employment corridors
3. Establish sites where investors and developers were confident enough to build speculative industrial buildings
4. Increase the tax base by attracting capital-intensive employers

The initial investment to create an FTZ, however, presented a major obstacle. Goodyear leaders understood that costs to establish the FTZs would be high. In their research, they had talked to another metro Phoenix municipality that spent over $200,000 on consulting services to prepare the application. Due to the Great Recession, Goodyear had cut budgets and laid off employees, and lacked the resources to hire this type of help. To overcome this issue, the City proposed a tax policy to the landowners of the sites. This policy included the requirement of companies to enter into a PILOT Agreement (Payment in Lieu of Taxes) that ensured tax benefits to fund additional investments in the FTZ. Due to the favorable tax benefits, landowners agreed to pay for the cost of establishing the documents to file with the FTZ Board.

As of 2020, nearly 5,700 jobs have been created or announced, with over $1.3 billion in capital investments, in Goodyear's FTZs. Thirty-three percent of these jobs and 58 percent of the capital investment stems from advanced manufacturing companies. The capital investment has boosted the tax base significantly, as virtually all the land was previously tax-exempt property.

## Export Financing, Counseling, and Services

There are multiple avenues for financing exports. In addition to STEP assistance from states, funding sources include:

1. Export loan programs (SBA, Export-Import Bank)
2. Export-Import Bank Loan Guarantee Program
3. Export-Import Bank export credit insurance policies
4. U.S. Trade Development Agency grants

The Export.gov website is a useful resource for regions and businesses looking to export. It provides assistance with creating export plans, lists export information by industry, and lists available financing opportunities and service centers.

# Forming a Public-Private Partnership for Economic Diversification

Some communities may find it advantageous to create a public-private partnership (PPP) after a disaster to facilitate economic diversification. A PPP can lead or assist with the planning and implementation of a diversification strategy.

A PPP may be established as a nonprofit corporation, public benefit corporation, or authority – or simply as an agreement or informal partnership - and receive funding and expertise from the private and public sectors. PPPs typically are guided or led by a board of representatives from the public and private sectors.

A PPP is more financially and strategically flexible than a purely public EDO. Characteristics of a successful public-private partnership include:[22]

- A clearly defined mission that addresses the concerns of both the private and public sectors
- Consensus among members regarding how to implement the mission
- Commitment reflected through funding and resources that help to achieve goals
- A system to monitor performance, determine program modifications, and justify continued support and funding

22 Managing Economic Development Organizations (2011) [Manual]. International Economic Development Council. Washington, DC.

Public-private organizations minimize many of the problems and retain many of the advantages of organizations in the for-profit and government sectors. For example:

- The goals and direction of the PPP reflect a consensus of the local government(s) and the business community, thus ensuring broader support for programs and initiatives.
- PPPs have a greater degree of freedom in hiring, firing, and setting salaries than public agencies.
- PPPs can access public resources and often are not constrained by as many limitations or processes as public agencies (e.g., a public process, citizen review, and civil service restrictions).
- Public-private organizations are free to expand their activities beyond that of local government(s) since they are not restrained by a city charter or county legislation.
- A PPP may be able to draw on a broader range of expertise than either sector might normally afford or traditionally use. Working together builds upon and creates new skills and understanding.

In addition, there are a variety of financial advantages to organizing as a public-private partnership:

- Public-private organizations can mobilize both public and private resources and are financially flexible.
- Public-private organizations can invest in a private business venture using their own funds, whereas public organizations will normally have to demonstrate a clear public purpose.
- The local government debt ceiling is not affected by a public-private organization's borrowing. (However, note that local government financing is often required for major projects, such as infrastructure.)
- Public-private organizations are able to accept donations due to their tax-exempt status, thereby offering advantages to those seeking tax deductions through charitable donations.
- A public-private organization can insulate governance from financial risk and liabilities through incorporation laws.
- Lastly, a public-private organization may eventually be financially independent through management and service fees, and/or membership dues, thus eliminating the need for continued local government contributions.

PPPs also facilitate communication between different service providers in the region. This is an important attribute for the next section.

FEMA created a guide to help communities build their PPPs, **Building Private-Public Partnerships**. This guide provides recommendations and best practices to build and maintain partnerships. It is one part of FEMAs efforts to expand and update the National Response Framework. The update focuses on how non-governmental capabilities can help communities during and after a disaster. PPPs fit into the updated framework as FEMA discussed the importance of aligned efforts between governments and the private sector, stating that PPPs reflect the interconnected and complex environments that emergency mangers work in.[23]

# Conclusion

Diversification requires regional planning, numerous partnerships, and long-term strategies. Ideally, it is a strategy that is enacted prior to a disaster, as it enhances the resilience of a community and pre-emptively addresses disruptions. Yet, disasters can also jumpstart cluster development, providing an opportunity to grow new sectors.

Although presented separately, the strategies in this chapter should be used together.  Different communities will have different timeframes and access to information. Similarly, no community has unlimited resources for implementation, so it is important to prioritize based on local and regional considerations. Organizational capacity, resources available, timelines, and how the strategies interact with each other are all relevant considerations for prioritization.

Ultimately, economic diversification is not a process easily conceived or implemented. Given the economic, educational, and social shifts required, it may take decades of continual efforts. However, the resulting economic robustness and resiliency are indispensable to the health of any community.

23 New FEMA Guide Helps Build Private-Public Partnerships (2021) Federal Emergency Management Agency https://www.fema.gov/blog/new-fema-guide-helps-build-private-public-partnerships