



Western Governors' Association

GLOBAL COMPETITION AND THE WESTERN STATES

REPORT TO THE WESTERN GOVERNORS

Executive Summary

Prepared for:
International Competitiveness Task Force
Western Governors Association

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SRI International

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FOREWORD

During the past year, Governor Richard Lamm has chaired the Western Agenda which established task forces led by western governors and involving leaders from the region in an examination of three issues: international competitiveness, the changing regional economy and water efficiency. Governor Lamm asked me to chair the International Competitiveness Task Force and I accepted his invitation because I know future of the West depends on our ability to compete more effectively in the global economy.

Global competition affects the jobs and standard of living of every person living in the West. During the 1970s, western states experienced rising prosperity as agricultural and energy prices rose, high technology industries grew, and exports expanded. Now, each of those trends has reversed. The West, for the first time, lags behind the rest of the United States in the growth of personal income. The penalty we pay for failing to remain competitive in a global economy is stark: we are losing our high standard of living.

International competitiveness is often discussed as an abstract concept. But we see farmers leaving their land, mines and saw mills closed, layoffs at semiconductor and computer companies, forced bank mergers, record foreign trade deficits, and unemployment stuck at over 7% (and much higher in many rural areas). There is nothing abstract about these consequences of global competition. Furthermore, global competition is splitting the West into two economies: one is a declining resource-based economy that faces falling prices for agriculture, energy, timber, and minerals and the other is a growing but increasingly vulnerable technology-based and services economy threatened by fierce and swiftly moving foreign competition.

What is to be done? The Western Governors' Association decided to take on this issue by talking with private sector leaders and experts in the field in order to fashion a new response to the competitiveness challenge. Based on the discussions of its International Competitiveness Task Force, composed of western private sector leaders, and study of the issue by SRI International, the western governors have developed a positive response to the challenge of global competition. Instead of ignoring the problem, or blaming our foreign competitors and retreating to protectionism, the western governors propose a program for regaining our competitive position in the new global economy.

The western governors will mount a Campaign for Competitiveness to tell the public about the challenges we face and the need for positive action. The governors will create strategic alliances with the private sector to build a new foundation for competitiveness in the critical areas of technology utilization, education, and developing new foreign and domestic markets. A long-term commitment to change is required and governors working with private sector leaders must make that commitment in both public and private institutions.

The western governors will work with private sector leaders to gain the commitments required to build competitiveness. Because the journey will be long, the first steps must be taken now. The work of the WGA International Competitiveness Task Force (with the help of SRI) has paved the way. The report of the Task Force defines the challenge and draws a "road map" for next steps. Let's get started.

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Executive Summary

COMPETING IN THE GLOBAL ECONOMY: THE WESTERN RESPONSE

The western governors propose a positive response to the challenges of a new global economy--building a new foundation for competitiveness through strategic alliances with the private sector. The governors will mount a Campaign for Competitiveness to mobilize the actions that must be taken to promote technology utilization, education reform, and new market development required for a more competitive economy in the West.

The Changed World Economy

The world economy has changed and the United States must respond to the new global realities. Over the past 15 years, the U.S. competitive position has been slipping as a result of the globalization of the world economy, the rise of new foreign competitors, a new international trade environment, and a decline in the U.S. productivity growth rate. Our future standard of living depends on how well the United States applies its advanced technology, develops a skilled and flexible workforce, and makes critical investments in productivity growth to respond to the competitive challenge.

The reality of global competition is becoming increasingly clear, but there is no consensus on how to respond to the challenge. It has taken several years for Americans to recognize that we no longer live in a post-World War II world where the U.S. economy and technology were dominant. Most Americans now realize that we face global competition, but our initial reaction has been to try to find the cause--whose fault is it? Labor, corporations, education, and government have all received a share of blame, and we have found new targets in our foreign competitors--they are unfair. Instead of ignoring the ongoing damage or trying to place blame, we need to learn how to compete in the new global economy. It will not be the first time the country has faced a difficult challenge and taken the necessary steps to mount a strong public and private response.

A Campaign for Competitiveness

The western governors accept the challenge of global competition and are prepared to work with private sector leaders to build a new foundation for competitiveness in the western states. Rather than building barriers that protect us from foreign competitors or lowering expectations about our future standard of living, the western governors are prepared to lead a Campaign for Competitiveness to develop public awareness of the challenge and mobilize popular support for the actions that must be taken within the region to meet it.

The governors are mounting this campaign because competitiveness matters to the economic future of every resident of the West. This campaign, based on the recommendations from the Western Governors' Association International Competitiveness Task Force, will build a new infrastructure for competitiveness through strategic alliances with the private sector focused on three critical areas: technology utilization, education, and expanded markets.

In its report to the western governors, the International Competitiveness Task Force found that the West faces a competitive challenge but that its location relative to the dynamic Pacific Basin also provides a strategic opportunity. The Task Force also found that states can play a critical role building a more competitive economy. The following summarizes some of the key findings from the Task Force report.

The Competitive Challenge to the West

The western states have become increasingly sensitive to changes in the global economy because the region is more export oriented than other U.S. regions. The unique mix of technology and resource based industries that served the region well in the 1970s and early 1980s has placed the western economy increasingly at risk as foreign competitors have moved into markets once dominated by U.S. producers. Other countries have gained the competitive advantage in areas critical to the western economy such as agriculture, energy resources, and electronics. While the West continues to prosper in fields

where it remains a technological leader, such as aircraft and financial services, even these face spreading foreign competition.

Two economies are emerging in the West as a consequence of global competition: one is a declining economy based on resource industries and the other is a growing but increasingly vulnerable economy based on technology, business services and tourism. The worldwide decline in commodity prices has particularly hurt regions that depend on agriculture, forest products, and energy resources. How public and private leaders in the western states respond to the competitive challenge will determine how the difficulties confronting the "two economies" will be resolved. For the west to prosper, competitiveness must be promoted in both economies.

The West's Strategic Opportunity

The western states are strategically positioned to take advantage of trade opportunities with growing Pacific Basin markets. As the locus of trade has shifted from the Atlantic to the Pacific, many observers have seen the coming of the "Pacific Century." To take advantage of our strategic opportunity, however, the West will have to be innovative and adaptive in designing and marketing new products and services for the Pacific Basin.

The West can draw upon several strengths in creating a new competitive advantage. Beginning with fur trappers and pioneers, innovation and entrepreneurship have been a long tradition in the western states where they have often been the source of new jobs and technologies. The population of the western states is younger and better educated; the people have shown a willingness to change, and take risks to achieve new opportunities. This openness to change combined with the ability to work together, will be critical to making the adjustments and investments required to compete successfully in the new global economy by building on its past strength, adapting its resource industries, and creating new opportunities in emerging industries.

The Role for the States: "Think Globally--Act Locally"

Responding to the competitive challenge will require states to "think globally and act locally." This means recognizing that our economy is closely linked to the world economy and that both business and public policy decisions made here must take the global economy into account. For business, these include investment production and marketing decisions and for government they include tax, regulatory, budgetary, human resources, and other major policies. We are no longer a "closed" domestic economy where companies market solely to domestic customers and government's internal decisions are presumed to have only domestic impacts.

To make the new global realities an integral part of decision making, however, it is essential to recognize that action can and must be taken at state and private sector levels to promote competitiveness. While steps must be taken at the national and international level to assure a more "level playing field" in exchange rates, trade barriers, and fiscal and monetary policies, achieving a "level playing field" is insufficient to make us competitive.

Public and private leaders at the regional, state, and local level can take actions to enhance competitiveness based on applied technology, a skilled and adaptable workforce, capital availability, and international marketing and entrepreneurship. In short, just as states have played a key role in building the physical infrastructure of roads, water systems, and schools required by our economy in the past, states together with the private sector must now make the investments in the "new infrastructure" required for a competitive, world class economy.

An Action Program for the Western States

To respond to the challenge, the Western Governors will mount a Western Campaign for Competitiveness aimed at building public awareness of these issues and creating new strategic alliances to address them. First, the western governors will take is to inform the public of the competitive challenge and what can be done about it. So far, public understanding of the

issue is limited to individual elements of the problem--the impact of imports on jobs in particular industries, loss of industries offshore, the all too frequent superiority of foreign products, foreign investment in individual communities, a declining standard of living in regions with resource-based economies. The public needs a better understanding of the relation between building a competitive economy and maintaining jobs, paychecks, and a way of life. This connection is already being made by some governors in one area required for the new competitive economy--education reform. The broad message that we have to improve our performance to remain competitive and we need to work together to do it must be communicated to the public clearly and directly.

Second, the Governors will create strategic alliances to build the new foundation for competitiveness. The International Competitiveness Task Force recommends action in at least three initial areas: technology utilization, education, and new markets. In each area, strategic alliances will be formed involving public and private leaders within the region. Each alliance will be led by a governor and a private sector leader.

Alliance for Technology and Competitiveness

The first strategic alliance will bring together private industry, universities, state government officials, and representatives of federal labs in the western states interested in promoting improved technology diffusion. Clearly, if the West is to meet the competitive challenge, technology must be better harnessed to drive economic growth. While the United States continues to lead in the invention of new technology products, U.S. industries lag in the application of technology in the manufacturing process. Advanced technologies can be applied more effectively to enhance both products and production processes in a range of industries from agriculture and forest products to electronics, computers, telecommunications, and office and factory automation.

This alliance would involve both suppliers and users of new technologies and would explore new mechanisms and strengthen existing mechanisms for better linking technology activities. A number of efforts are now under way within

several western states to improve technology utilization; examples include efforts by federal laboratories, university-industry cooperative initiatives, and special innovation/incubator programs. The alliance would examine the full range of current efforts, identify opportunities for new efforts, and encourage more innovative cooperative initiatives. Examples from other states and regions would be examined, including new technology extension service models in Massachusetts and Georgia, the Midwest Technology Institute (a cooperative regional effort), and the Tennessee Technology Corridor.

Alliance for Education and Competitiveness

The second strategic alliance will link the numerous education reform activities taking place in the West to focus attention on critical issues affecting competitiveness. Most education reform to date has focused on issues related to student and teacher performance in K-12 schools. Students must learn how to learn so that they can adapt to the ever changing work demands. While such reforms are a necessary first step, education and training efforts must be extended to upgrading employee performance, retraining the adult workforce, and improving adult literacy. Eighty percent of the labor force needed in the year 2000 is already working. The only way to meet changing requirements is to provide the opportunity for today's workers to expand their skills. A focus on community colleges as a vehicle for retraining may be required.

Beyond basic education reform, states must encourage their institutions of higher education to incorporate the reality of the global economy in their programs. Business schools, law schools, engineering schools, education and language departments, social studies all should build their curriculum with the assumption that graduates will be functioning in an international setting. Linking colleges and universities more closely with industry to apply new technologies and create new enterprises will be critical to the economic future of the region. The variety of efforts under way to create "centers of excellence" and applied research initiatives in partnership with industry should be reinforced and, where possible, state efforts should be related to each other within the region as a whole.

This initiative would include public and private sector leaders involved in education reform efforts in the various western states to help chart a course for state and possibly regional actions. A variety of regional and national organizations now involved in education reform efforts would be invited to participate.

Alliance for Expanding Markets

A third strategic alliance will be established for more concerted efforts to expand foreign and domestic markets and adopt new approaches to marketing our products and services. A new way of thinking about markets and marketing is required for both the resource and technology products of the West. Competing on the basis of quality and value-added is an increasingly important alternative to simply competing on the basis of price and low cost. The challenge in agriculture is growing and marketing new specialty crops and high value products, not simply producing more commodities. Likewise, we need to make and market forest products and minerals in new higher-value forms rather than increasing raw material production. In microelectronics, the challenge in semiconductors is designing new types of customized chips. The opportunity offered by foreign markets, especially in the Pacific Basin, will be realized only if we learn more about those markets and design our products to meet their special needs and tastes. The age of mass markets is being replaced by more diversified, rapidly changing, specialized markets, and western industries must adjust to the change. In addition, we need to learn how to adapt our way of doing business to the practices of other countries.

This strategic alliance would bring together industry marketing groups from such areas as agriculture, forest products, mining, and technology areas along with state and university marketing experts to explore the design of new approaches to high-value product marketing in a new global economy. While much is now taking place within specific industries and in particular states, this alliance would explore common areas for learning and action.

A Western Voice in Trade Policy

The views of the western states need to be represented in Washington trade policy decisions. While the federal government must take the lead in establishing trade policy for the nation and promoting the necessary "level playing field," the states should have a voice in trade policy discussions. Hence, in addition to taking action at the state and regional level to build the new foundation for competitiveness, the western governors need to establish a Washington presence on trade and competitiveness issues. A representative of the western governors should provide a trade policy voice in Washington and should be actively involved in the preparation for new rounds of negotiation for the General Agreement on Tariffs and Trade (GATT). Action is needed so that what the region achieves is not lost as a result of inadequate national policy toward trade.

The Need for Action Now

Competitiveness is the key to the economic future of the West. Without concerted efforts now by both the private and public sectors, industries in the West will be increasingly vulnerable to strong foreign competition. The West can no longer take its economic future for granted--the economic forces that fueled its growth of the 1970s no longer exist in the 1980s. The West must build a new competitive advantage on its strengths in technology and in resource-based industries, and on its strategic location in the Pacific Basin. Action taken now to apply modern technology in a range of industries, to train a skilled and flexible workforce, and to open up new markets for our products and services will help the West create this new competitive advantage and thereby ensure a continued growth of jobs and income and a rising standard of living for westerners.