

Caption for Artifact #1: Written Report

- Title: A Comparative Analysis of the International Economic Linkages of Georgia and North Carolina
- Written as an individual report for PADM 7190: Globalization and Governance
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The first artifact included in this portfolio was chosen because it demonstrates my understanding of the global economy and the effect globalization has had on the states of Georgia and North Carolina. The report describes the challenges faced by these two states as they attempt to increase participation in the global economy. Once the challenges are identified, the report proposes public policy solutions that could potentially lead to better economic practices and ultimately strengthen the economy of each state.

This writing sample demonstrates my ability to research large quantities of complex information and use that information to identify issues specific to each state. The strength of the analysis lies in the organization of issues and my creation of potential public policy solutions. I have demonstrated my knowledge of the global economy literature through the citation of 13 different sources. The report displays my skills in tackling tough economic issues that regularly face public administrators and using my research and knowledge to create and implement viable solutions to these issues at the state level of government.

A Comparative Analysis of the International Economic Linkages of Georgia and North Carolina

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Abstract

This report compares the economies of the U.S. states of Georgia and North Carolina in relation to their international market linkages. The issues of outsourcing and the impact of globalization on these two state economies are discussed. The proposed public policy solutions include implementing conditions to facilitate long-term employment and increasing the education and specialization of the work force.

Keywords: Georgia, North Carolina, agriculture, manufacturing, trade deficit, outsourcing, China, globalization, global political economy

The states of Georgia and North Carolina were chosen for this economic analysis because each state has historically relied on agricultural and manufacturing sectors to drive the state economy. The spread of globalization and outsourcing of these jobs to other global markets have led to decreased economic activity and high levels of unemployment. If these states are to repair their economies and continue to be competitive in both domestic and international markets, new solutions to economic issues must be created and implemented effectively. The following includes an analysis of the economic status of both states, including the extent of the state's international linkages to global markets. The success of each strategy will be evaluated and policy recommendations will be proposed to remedy the problems facing these struggling economies.

Economic Overview of Georgia

The U.S. Bureau of Labor Statistics' October 2015 review of export industries in Georgia describes the current state of the top six Georgia exports—aerospace products and part manufacturing; pulp, paper and cardboard mills; engine, turbine and other equipment manufacturing; motor vehicle manufacturing; animal slaughtering and processing; and basic chemical manufacturing (U.S. Bureau of Labor Statistics, 2015). Overall, the manufacturing prices have dropped since 2014; however, small increases can be seen in the engine, turbine, and aerospace products and parts industries.

Georgia's opportunity to connect with international markets is expanded by the Savannah/Hilton Head International airport, Hartsfield-Jackson International airport, Port of Brunswick, and the Port of Savannah (Petersen, 2015). These established transportation infrastructures allow foreign travel and importing and exporting of products to occur at an

increasing rate. This global travel infrastructure creates an environment that is suitable to increasing foreign trade.

International Linkages in Georgia's Economy

According to the state of Georgia's business resources web page, Georgia is a member of three international trade organizations: SEUS-Japan, SEUS-Canada, and the Regional Leaders Summit (RLS) (Georgia.org). The importance of global trade to Georgia's economy is emphasized through the International Trade Team that works to help local companies become globally competitive so they can lower their productions costs, create new job opportunities, and increase profitability. International representatives that can be utilized on behalf of companies in Georgia are located in Brazil, Canada, Chile, China, Colombia, Germany (EU), Israel, Japan, Korea, Mexico and the U.K. and Ireland (Georgia.org).

The state of Georgia recognizes that ensuring companies are able to become and remain globally connected is an essential part of a successful economy. This strategic goal is accomplished through the use of an online export directory, systems used to provide trade resources for companies, and updated trade opportunity alerts. Currently, there are over 3,000 international facilities located in Georgia and the government strives to increase that number in upcoming years (Georgia.org).

Both Georgia and North Carolina are similar in regards to the level of Chinese outward foreign direct investment (COFDI) deals located within the state (Walcott, 2014). Susan Walcott states that nearly all COFDI in Georgia is located in the metropolitan Atlanta area; this is likely a result of Atlanta's proximity to an international airport that schedules flights to several major Chinese cities. The large amount of Asian-focused legal firms, businesses, and other

cultural resources provide further incentive for Chinese business to invest in the area (Walcott, 2014).

Economic Overview of North Carolina

Historically, the three most important trades in North Carolina are textiles, tobacco, and furniture manufacturing. In the past, the state has benefited from capital mobility—the ability of companies to relocate to places that have cheaper production costs in order to maximize profit (Freyer, 2012). The job market's reliance on the 'legacy industries' of manufacturing and technology, which are currently the most likely industries to be moved offshore, is a reason why increased outsourcing to global markets has impacted the state negatively. The depletion of the manufacturing industry in North Carolina has left the state with a two-tiered economy comprised of low-wage and high-wage jobs with little in between (Freyer, 2012).

Although state economies across the U.S. have been showing signs of recovery following the Great Recession, there has not been much increase in growth in the job market in North Carolina. Workers in North Carolina have increased their productivity by 1.5% but their wages have fallen an average of 4% (Forter Sirota, 2012). As a result of this job loss, the poverty rate in North Carolina is the 12th highest in the nation along with the 12th lowest median income in the U.S. (Forter Sirota, 2012).

With the most sluggish economy that North Carolina has seen in 30 years, there has been a trend of stagnant wages, especially for the middle class. As the availability of manufacturing jobs has decreased, there has been an increase in the food service and other minimum wage professions, which have added to the lowered ability to generate income for many people in the state. The proposed solution to this problem is to implement public policies that will facilitate

long-term employment and increase the education and specialization of the work force in North Carolina.

International Linkages in North Carolina's Economy

With the spread of technology and the boom of the global economy, the practice of offshoring and outsourcing jobs to countries with cheaper production costs has been both widespread and detrimental to the economy and job market in North Carolina. The trade deficit, which is defined as the difference between the value of U.S. exports to a particular country and the value of goods imported from that country, between the United States and global competitors (China in particular) has been a frequently discussed topic among analysts, policy makers, and the general public in recent years (Freyer, 2012). The re-admission of China into the World Trade Organization (WTO) in 2001 has had a substantial negative economic effect on many states in the U.S. In a recent polling of Americans, it was found that 61% of Americans believed that the expansion of China's economics was detrimental to the U.S. (All Change, 2011).

This demonstration of public opinion explains how the trade deficit has directly affected the labor force and consumers in the United States. The Economic Policy Institute (EPI) recently issued a report on the effect of increased trade with China on the U.S. as a study over the past decade since China re-joined the WTO. EPI found that the trade deficit with China caused a loss of jobs in every state, totaling 2.7 million job losses. This global issue is particularly important to the state of North Carolina because it was one of the hardest hit states in the U.S.; the 4th and 10th hardest hit districts were in North Carolina with a total of 110,300 jobs lost across the state (Scott, 2012).

Much like the international public policy programs enacted by the state of Georgia, North Carolina encourages local business who have products that are marketable on a

global scale to create partnerships with foreign markets. The North Carolina International Trade Commerce provides resources that demonstrate how to increase exports, supplies information regarding tax credits (especially in regards to shipping ports), creates connections with the organization's international offices, and provides any other assistance local companies may need to increase their appeal globally (North Carolina International Trade Commerce, 2015).

Comparative Analysis

As briefly mentioned in the introduction to this discussion, the economies of Georgia and North Carolina were chosen as the subject of analysis because they are both similar in terms of top export industries and levels and types of foreign investment. Leaders in both states have pushed the importance of foreign investment in recent years and have achieved similar levels of Chinese outward foreign direct investment. The similarities in economic challenges, as well as available opportunities for growth, allow for a stimulating economic comparison.

Susan Walcott utilizes a tristate data set (Georgia, North Carolina, and South Carolina) to come to a conclusion regarding the Chinese investor's motivation to directly invest in the southern region of the United States. Walcott lists the following motivations found in her study: 1) asset acquisition: natural resources, market share, and stock market listing via M&A name; 2) cost efficiencies: reduced shipping costs and time, shifts in relative currency, and wage spreads; 3) learning behaviors: management and production practices increasing global competitiveness, which enables moving up the value chain; and 4) development stage: providing services needed by a market initially based on manufactured goods (Walcott, 20014, p. 304). The discovery and study of these motivations are helpful because they can be used to create public policy that encourages foreign investment in Georgia and North Carolina.

Success of State Strategies

The spread of globalization and competition in a global economy has affected the economies of Georgia and North Carolina for decades. However, the recent financial crisis added an extra layer of complexity to the economic problems facing many state governments. Policies in place prior to the crisis had to be revised to account for the problems that arose following the burst of the housing market bubble. An analysis of the public policy strategies that were implemented to reverse economic damage must consider the additional time that it will take to confirm whether or not these policies have been successful. The following is a preliminary review of the effectiveness of economic recovery strategies that have been implemented in both states.

Georgia Governor Nathan Deal was interviewed for an article about the economic policies and public policy reforms that have been recently implemented in the state. The governor discussed the success of tax reforms that benefit the manufacturing sector, deregulation of industries, and the Quick Start work-force training program. According to Governor Deal, “Capital investors tell us the ideas we put in place are actually working” (Arend, 2015).

The leaders of Georgia recognize that the most influential factors for being selected as a location include: 1) Existing workforce skills, 2) State and local tax scheme, 3) Transportation infrastructure, 4) Utility infrastructure, 5) Land/building prices and supply, 6) Ease of permitting and regulatory procedures, 7) Flexibility of incentive programs, 8) Right-to-work state, 9) Availability of incentives, and 10) Access to higher education resources (Arend, 2015, p. 95). Focus on increasing these areas has proven to be successful, as demonstrated by the announcement of the attraction of film industries and plans to build several global automobile manufacturing plants.

North Carolina has managed to transition from an economy that was historically highly dependent on agriculture and manufacturing industries to one that emphasizes an increasingly skilled work force and specialization of manufacturing. Manufacturing and textile industries will likely continue to decrease but North Carolina's new economic policies seem to be moving the state economy in a positive direction (Walden, 2008).

M.L. Walden predicts that based on the current economic trends in North Carolina, the economic future will likely include both a decrease in already stagnant industries and an increase in foreign direct investment (2008). The author warns that an increase on foreign investment will be dependent on access to airports and key centers of research, technology, and development. Overall, the policy changes that have been made over the past few decades in North Carolina have been successful in stalling rapid economic decline at worst and beginning to improve the economy at best.

There are many similarities between the problems facing both Georgia and North Carolina and the solutions that have been implemented as well. However, each state takes a slightly different approach; Georgia plays to the strengths of its international travel structures to attract foreign investment, while North Carolina attempts to move towards refining its industries and labor force. Both states realize the importance of emphasizing education and training in order to compensate for the cheaper labor that is available in developing countries. Although it is still too early to tell whether or not these policies will continue to promote economic growth, preliminary evaluations seem to show positive lessons in how to strengthen a struggling economy.

Policy Recommendations for Georgia and North Carolina

Although it is difficult to compete with foreign countries who have different labor laws that result in cheaper production costs, there are a few things that state governments can do to increase stability of their job markets. Alexandria Forter Sirota suggests that the cheapest prices are not always the only consideration for companies looking to buy products; the author states that a solution to the job losses would be to compete through high quality labor and increasing the efficiency and skill of workers (2012).

Public policy to lead to job creation. In addition to creating a quality work force, the Budget and Tax Center for North Carolina suggests that a solution to this problem of outsourcing would be to create jobs in the immediate term while facilitating long-term opportunities for employment and advancement through the company. The government must minimize cuts to the public sector work force, enable wage subsidy programs to help people stay employed, and to ensure that the funding for these programs are well spent (Forter Sirota, 2012).

Support for the unemployed, wage standardization, work support. The implementation of programs to help support employers and employees would minimize the need to cut jobs and would slow the increase of unemployment. There should also be an increase in minimum wage along with the development of programs to increase employment opportunities in high-growth industries (Forter Sirota, 2012). These steps can help to slow job deficits and encourage the economy and the labor force to move in a positive direction.

Increase education and specialization of work force. In 2011, the North Carolina Technology Association (NCTA) proposed a plan that would support the economy in NC through job creation, educational excellence, and government efficiency (Politics and Governments Week, 2011). According to this plan, jobs would be created through a tax structure that provides

incentive for investment and employment opportunities, supporting environmentally conscious companies, and encouraging entrepreneurship in the communities of North Carolina (Politics, 2011).

Georgia's Quick Start program has been ongoing since its creation in 1967 and is credited with increasing the specialization of Georgia's work force. Georgia's deputy commissioner for global commerce, Tom Croteau, attributes improvement programs like Quick Start with preparing the work force to be globally competitive and attracting foreign investment. According to Croteau, the program has assisted over 325,000 people and 3,100 business since 1967. The recent attraction of one of India's largest textile manufacturers (who plan to build its first U.S. based plant in Georgia) is an indication that this plan to improve the qualifications of the work force will likely be successful in the long term (Mercer, 2014).

Additionally, the job crisis could be alleviated by emphasizing educational excellence across the state. In order for workers to be hired at more expensive salary rates than outsourced labor, the workers must provide some incentive for employers to want to pay the extra money to hire them. Workers who emphasize learning and career education will have a competitive edge compared to cheaper outsourced labor.

Marsha Mercer gives the following statistics in her article in USA Today:

“More than a third of all textile jobs were located in Georgia and North Carolina in 2012, and that's where many of the jobs are being created. The new plants are nothing like the dusty, noisy mills of the past. These highly automated plants require far fewer — but more tech-savvy — workers who earn higher pay than their forebears. The average textile wage in the U.S. in 2012 was \$37,900, compared with \$60,496 for all manufacturing jobs. In North Carolina, the average textile wage was \$33,219, up from \$28,216 in 2002” (2014).

The NCTA intends to work to increase high school graduation rates through the integration of technology and improvement of math and science curriculums (2011). Finally, the

NCTA proposed that they would support increased government efficiency through improving technology used by government organizations in order to create more employment opportunities. The NCTA believes that an information technology organizational structure implemented state-wide would improve the efficiency of the government and allow the creation of more jobs.

Conclusion

The rapidly changing global economic environment has led to many unprecedented issues that face the public sector and public administrators. In an uncertain environment that has changed to include networks of different organizations that must work together to be successful, public administrators need to be able to create novel solutions through public policy. The economies of Georgia and North Carolina have responded to these unique challenges by taking action and becoming dynamic participants of globalization.

Through the implementation of public policies designed to create more employment opportunities, along with the education and specialization of the workforce, it is likely that the current economic climate in Georgia and North Carolina will continue to improve. It is imperative for policy makers in the both states to study all aspects of global issues that are sure to have an effect on state governments. Although there are many different issues that need attention, the issues discussed in this report are important because they have an immediate effect on current public policy and future issues facing the state governments of Georgia and North Carolina.

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