

How Cities Navigate the New Economic Order

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An Economy in Transition

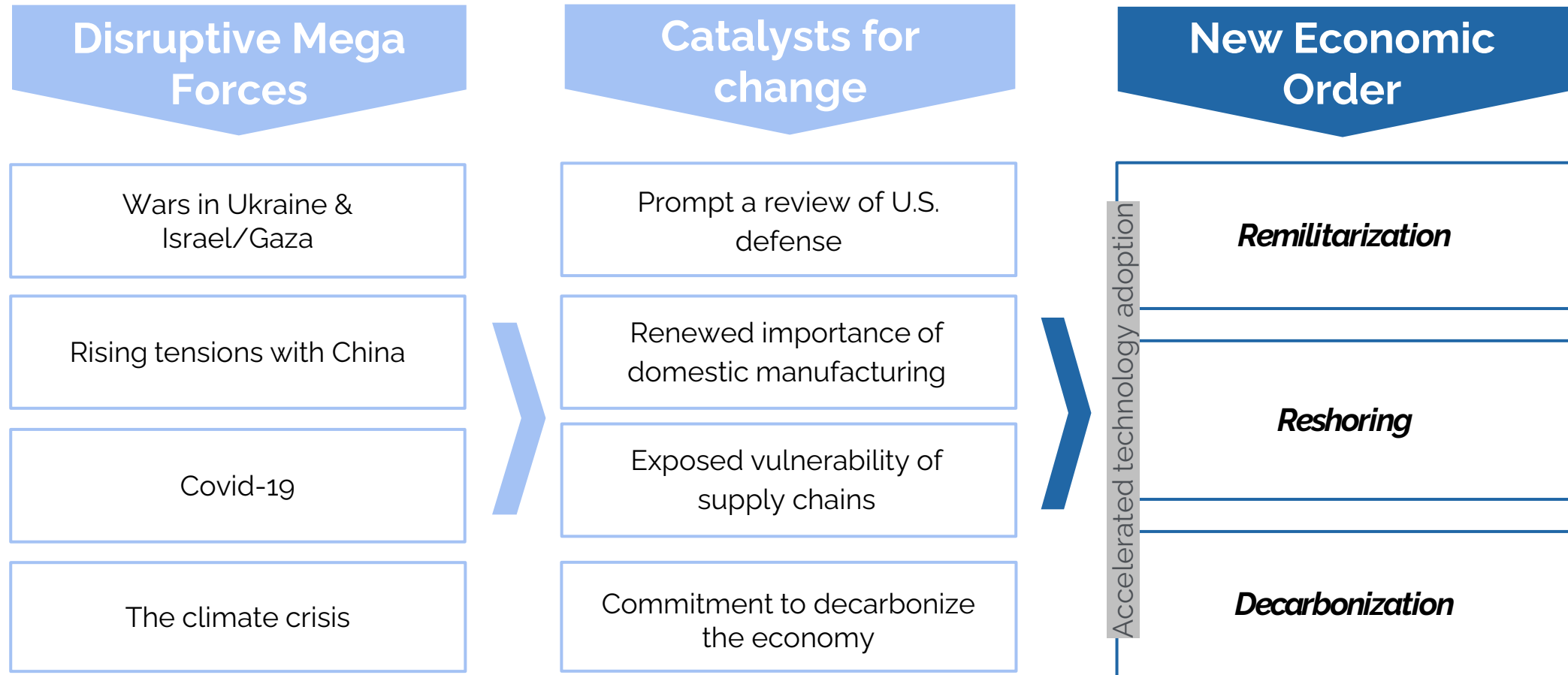
The Emerging Geography of Production

Early Metro Winners

Find your Niche

Metro led industrial policy

Mega forces are creating a new economic order

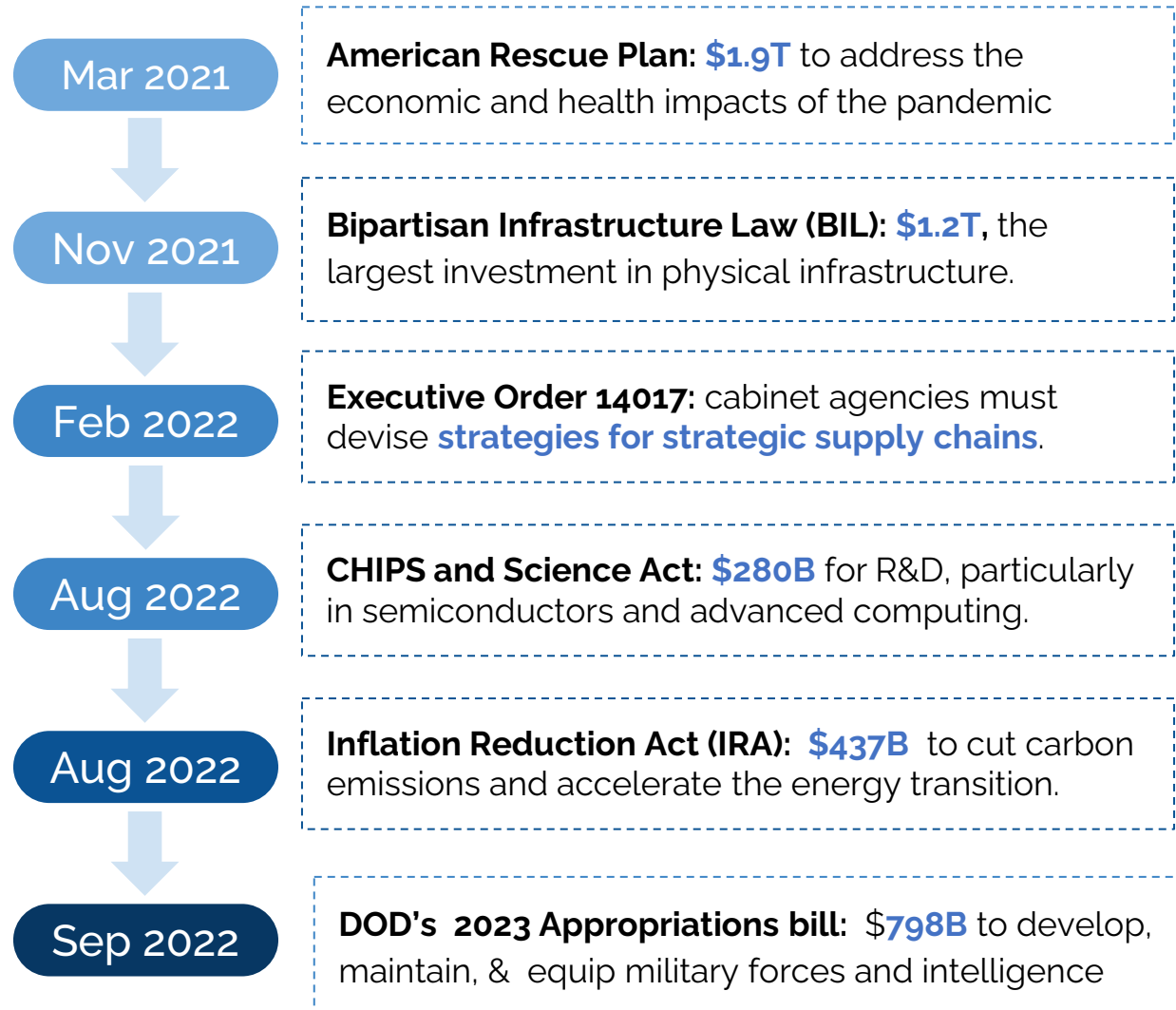


New economic order has been catalyzed by unprecedented federal spending rooted in modern supply side economics

"I will use the term **'modern supply side economics'** to describe the **Biden Administration's economic growth strategy**, and I'll contrast it with Keynesian and traditional supply-side approaches. [...]

Modern supply side economics, in contrast, prioritizes labor supply, human capital, public infrastructure, R&D, and investments in a sustainable environment. These focus areas are all aimed at increasing economic growth and addressing longer-term structural problems, particularly inequality."

Janet L. Yellen,
World Economic Forum, Jan 21, 2022



To seize this opportunity is crucial to break away from the crowd and embrace a programmatic assessment approach.

On top of federal programs, investments are being driven by a new kind of industrial federalism

New Centers of Excellence



- **Detroit Center of Innovation, Michigan Central, and Wayne State:** \$100M *each* to advance research, innovation, and entrepreneurship

Aggressive Manufacturing Incentives



- **Intel in Ohio:** \$1B+ incentives for Intel's new plant in Licking County (job creation tax credit; roads, sewage, and water projects)
- **Micron in New York:** \$10B Green CHIPS Bill to attract big manufacturers to the state

Regional Economic Development



- **California Economic Resilience Fund:** \$500M Community Economic Resilience Fund for regional economic strategies
- **Connecticut Innovation Corridor:** \$100M for regional economic clusters
- **Indiana Regional Economic Acceleration & Development Initiative:** \$500M for regional strategic investments

This economic transition is already sending early market signals

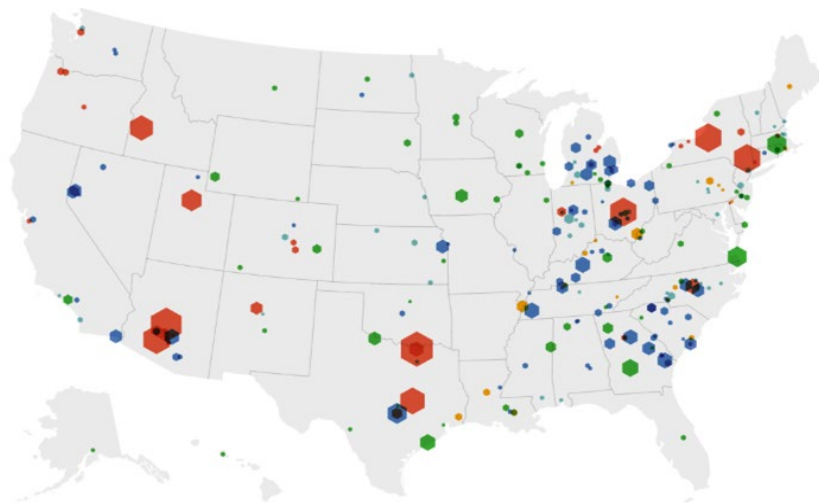
Opportunities

A HIGHLY DISTRIBUTED MANUFACTURING BOOM

The boom in **private and public spending is widely spread across regions**, following a decades-long trend of dispersed production in the U.S.

1

Private investment during current administration in selected industries.



■ Semiconductors & Electronics ■ Biomanufacturing
■ Clean Energy ■ EVs & Batteries ■ Heavy Industry

Challenges

INDUSTRIAL SPRAWL

2

Major facilities receiving public funding in the last two years are emerging in suburban and rural towns.

SPATIAL MISMATCH

3

Manufacturing jobs disperse away from city centers

MINORITY FIRM UNDERREPRESENTATION

4

Minority-owned firms' participation in strategic sectors is concerningly low

SKILLED WORKFORCE SHORTAGE

5

Manufacturers increasingly have difficulty filling middle-skill jobs

The first wave of the industrial transition has passed, we need the new wave to work for cities and metros

01

First Wave

Corporate led

Disjointed

Decentralized

Exclusive

02

Second Wave

City/metro led

Integrated

Regenerative

Inclusive

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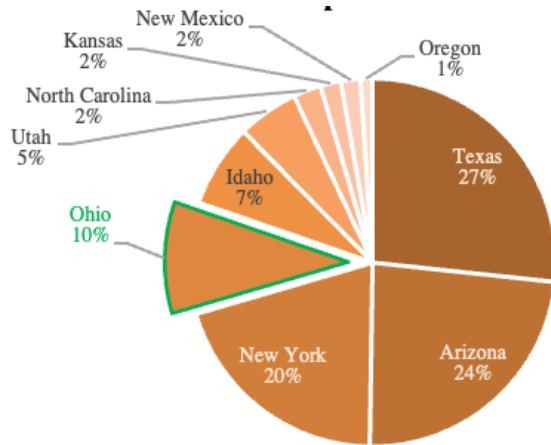
Early Metro Winners

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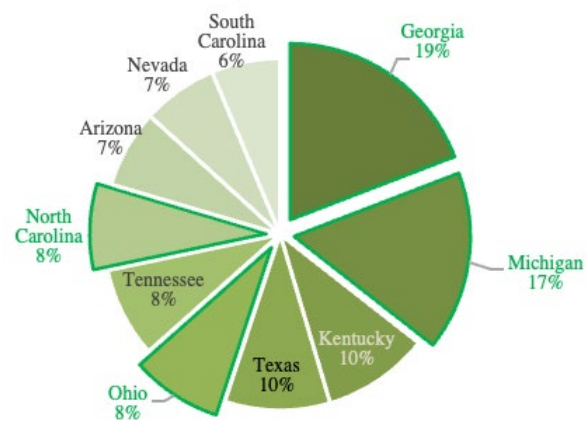
Metro led industrial policy

Private investments in advanced manufacturing are spreading across the nation, revealing early winners

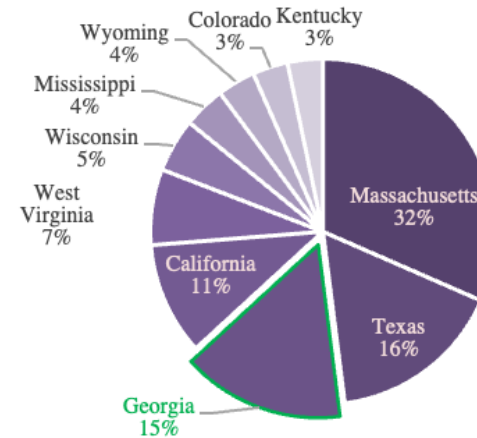
Top 10 States: Total Private Investment in Selected Industries



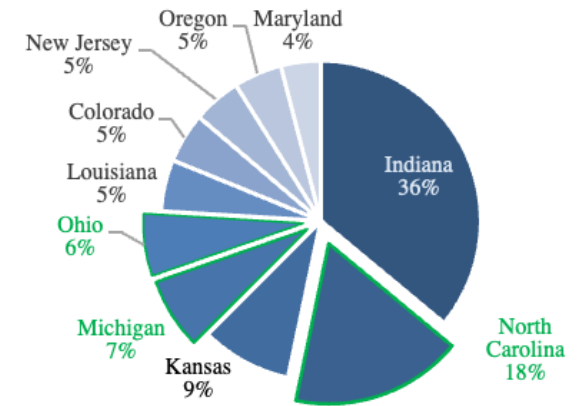
Semiconductors
\$212B across 38 projects



Batteries/EVs
\$139B across 112 projects



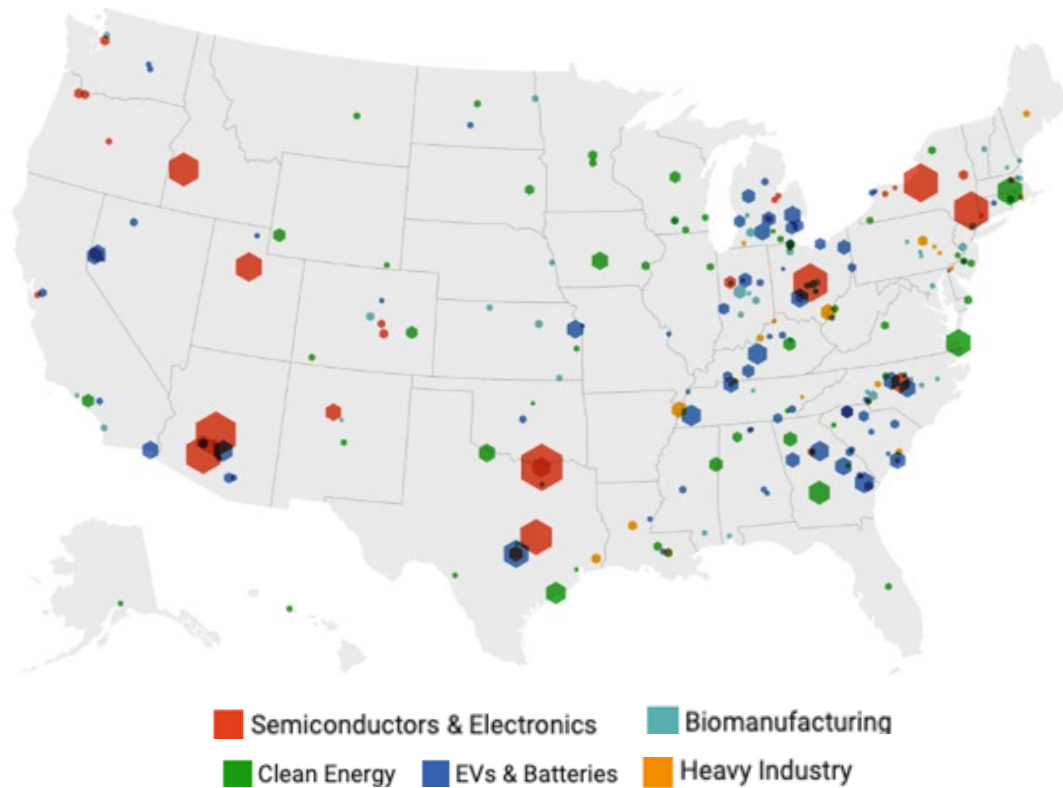
Clean Energy
\$78B across 61 projects



Biomanufacturing
\$18B across 46 projects

Unsurprisingly, private investments are reinforcing the existing pattern of industrial dispersion across the country

Private investments during current administration in selected industries.



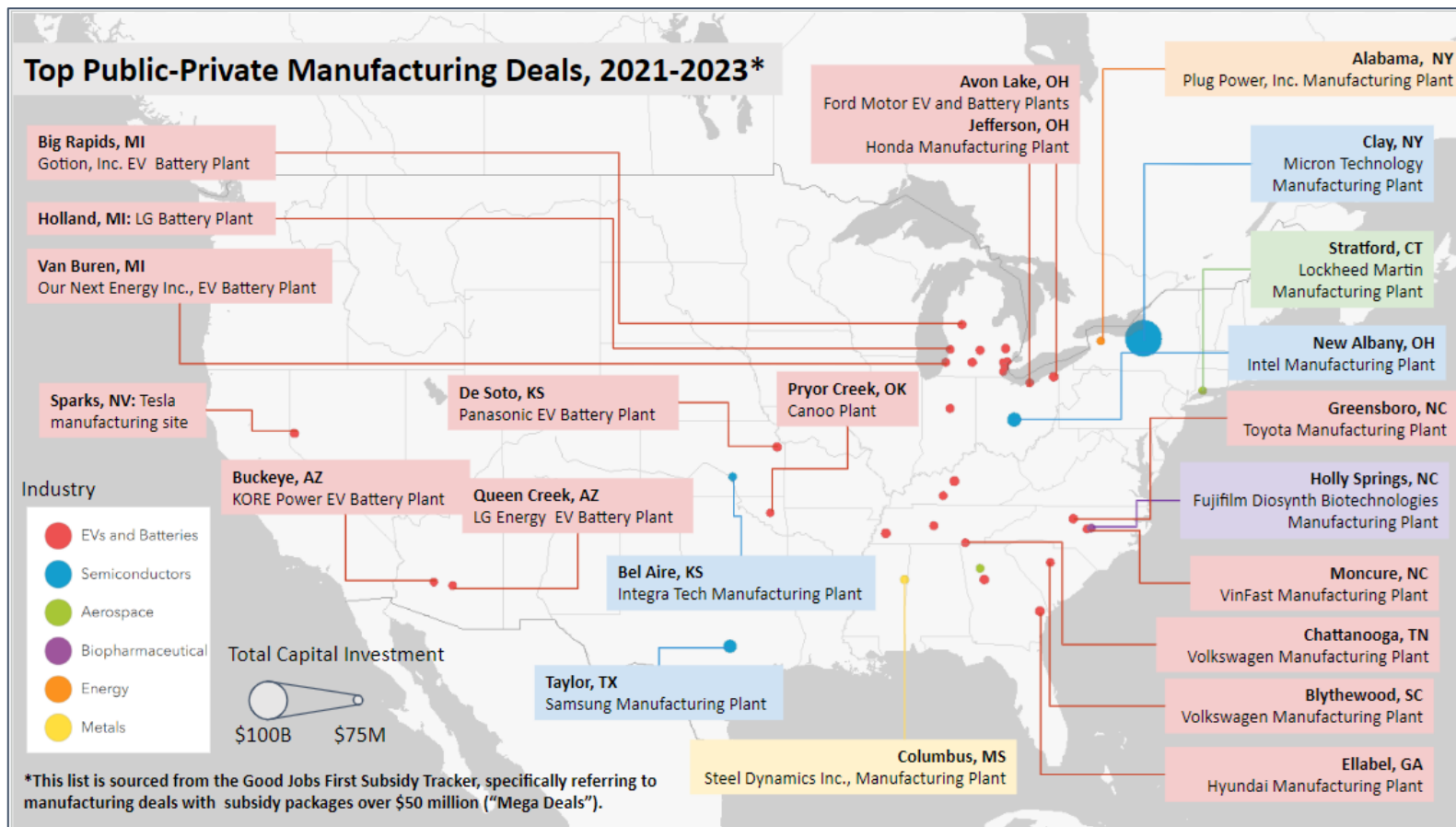
Public investments via IRA and CHIPS have spurred private sector investments of over **\$500 billion in hundreds of projects nationwide.**

These investments concentrate in industries that will boost U.S. competitiveness, strengthen supply chains, and help build a clean energy economy:

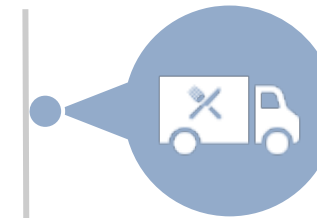
- **+\$230B** in Semiconductors & Electronics
- **+\$130B** in EVs & Batteries
- **+\$110B** in Clean Energy
- **\$20B** in Biomanufacturing

The manufacturing boom is highly distributed, lending itself to industrial sprawl beyond urban centers

Major facilities receiving public funding in the last two years are emerging in suburban and rural towns. Most of the plants (95%) on this map are *not* within the largest city of their Metropolitan Statistical Area. This leads to facilities being far from suppliers, universities and other anchors



Industry Sprawl Challenges



Facilities far from suppliers



Facilities far from universities and other anchor institutions

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While macro forces have profound metro effects, a group of metros are staking a strong position in the changing economy

Early metro winners:

These first movers:

- Have their assets directly aligned with shifting market dynamics or
- Are taking deliberate action to do so

Military Metros



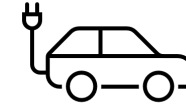
Defense spending is rapidly rising and will disproportionately benefit communities that have distinctive military assets developed over decades if not centuries.

New Technology Hubs



The reshoring of production is happening fast in advanced industrial sectors that deploy sensitive technologies that the US must dominate for national security purposes.

Climate First Movers



The energy transition touches every aspect of the modern economy, driving transformative changes in the nature and location of economic activities.

Trading Powerhouses



Geo-political tensions are already altering global supply chains and driving a new intricate web of near shoring and friend shoring.

While macro forces have profound metro effects, a group of metros are staking a strong position in the changing economy



Military Metros



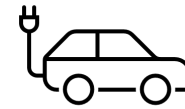
St. Louis stands out as a military metro with Scott Air Force Base, the National Geo-Spatial Intelligence Agency, and Boeing's presence, receiving \$11.4 billion in defense-related spending in FY 2021. St. Louis is actively leveraging its position to enhance regeneration in disadvantaged parts of the core city, drive or apply technological breakthroughs that have tradeable possibilities, and contribute to broader community development.



New Technology Hubs



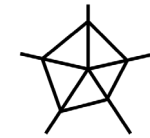
Metropolitan areas like **Columbus (OH)** have successfully attracted major semiconductor companies and related supply chain firms. \$20B Intel Plant in Ohio could become the world's largest chip plant



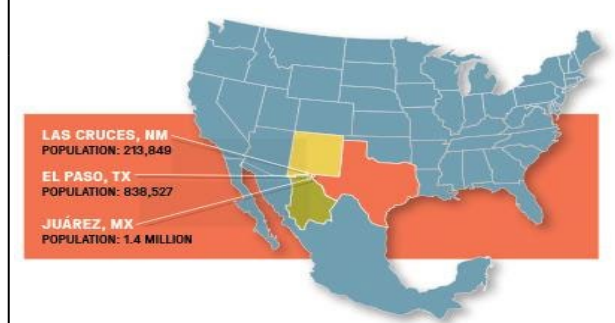
Climate First Movers



As part of the Build Back Better Regional Challenge, the Biden administration awarded a \$50 million grant to a **New Orleans-led** initiative to turn south Louisiana into a hub of "green hydrogen" activity. It seeks to bring in historically Black colleges and universities, tribal colleges and universities, and minority serving institutions to spur research for each winning project.

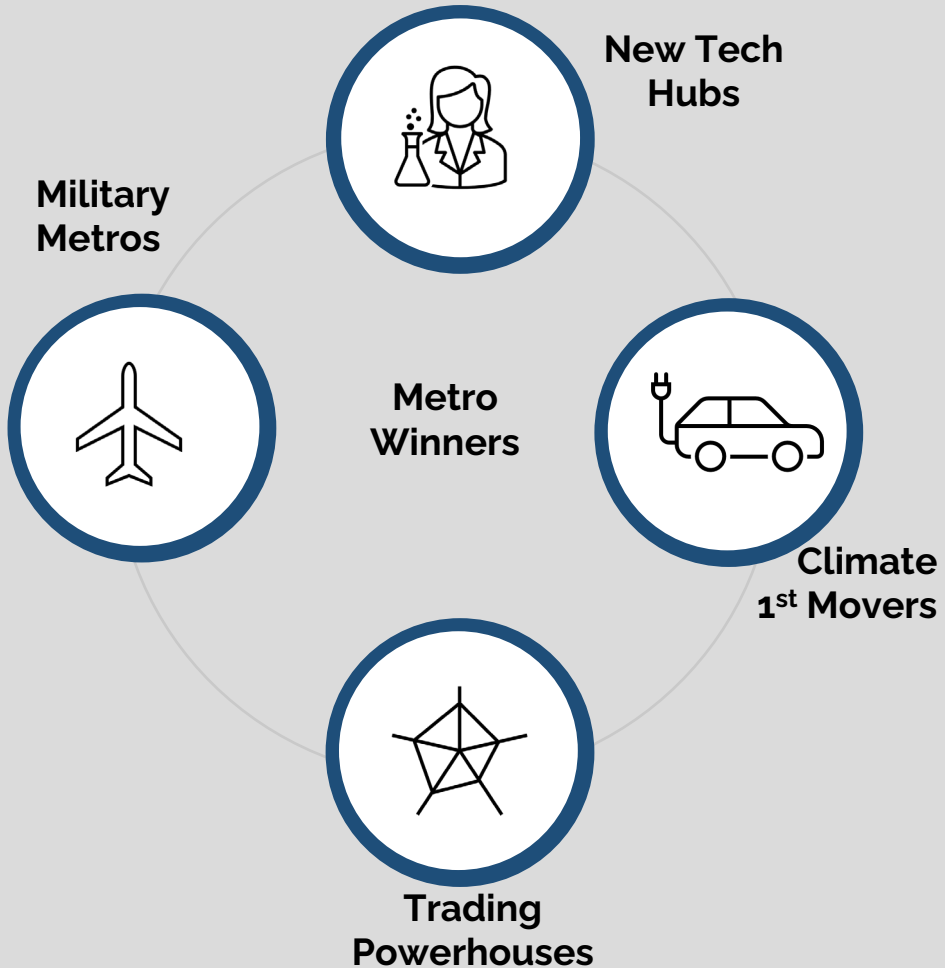


Trading Powerhouses



The **Borderplex region**, encompassing Juarez, Mexico, El Paso, Texas, and Las Cruces, New Mexico, exemplifies this shift, boasting the fifth-largest manufacturing hub by employment in North America and accounting for 17% of all trade with Mexico. This bi-national metropolis is transitioning from resource extraction to diverse sectors, including food, clothing, electronics, medical equipment, aerospace, and defense production.

Common Trends Across Metro Winners



Clear sense of economic position

Metro winners conduct a thorough assessment of their local economic environment, encompassing competitive advantages, federal assets, R&D capabilities, infrastructure, industry hubs, supplier networks & workforce development pools



Strong project-focused collaboration across public, private and civic sectors

Metro winners promote collaborative efforts involving investors, utilities, manufacturers, local and state officials, and philanthropy to attract investment.



Well resourced business/civic leadership groups

Metro winners invest in organizations that support their region's transition, emphasizing local projects with significant impact.



State engagement and backing

Metro winners benefit from states that support productive projects by offering financial incentives, streamlining regulatory processes, investing in infrastructure, fostering collaboration with diverse stakeholders, and providing access to state-level resources and programs.

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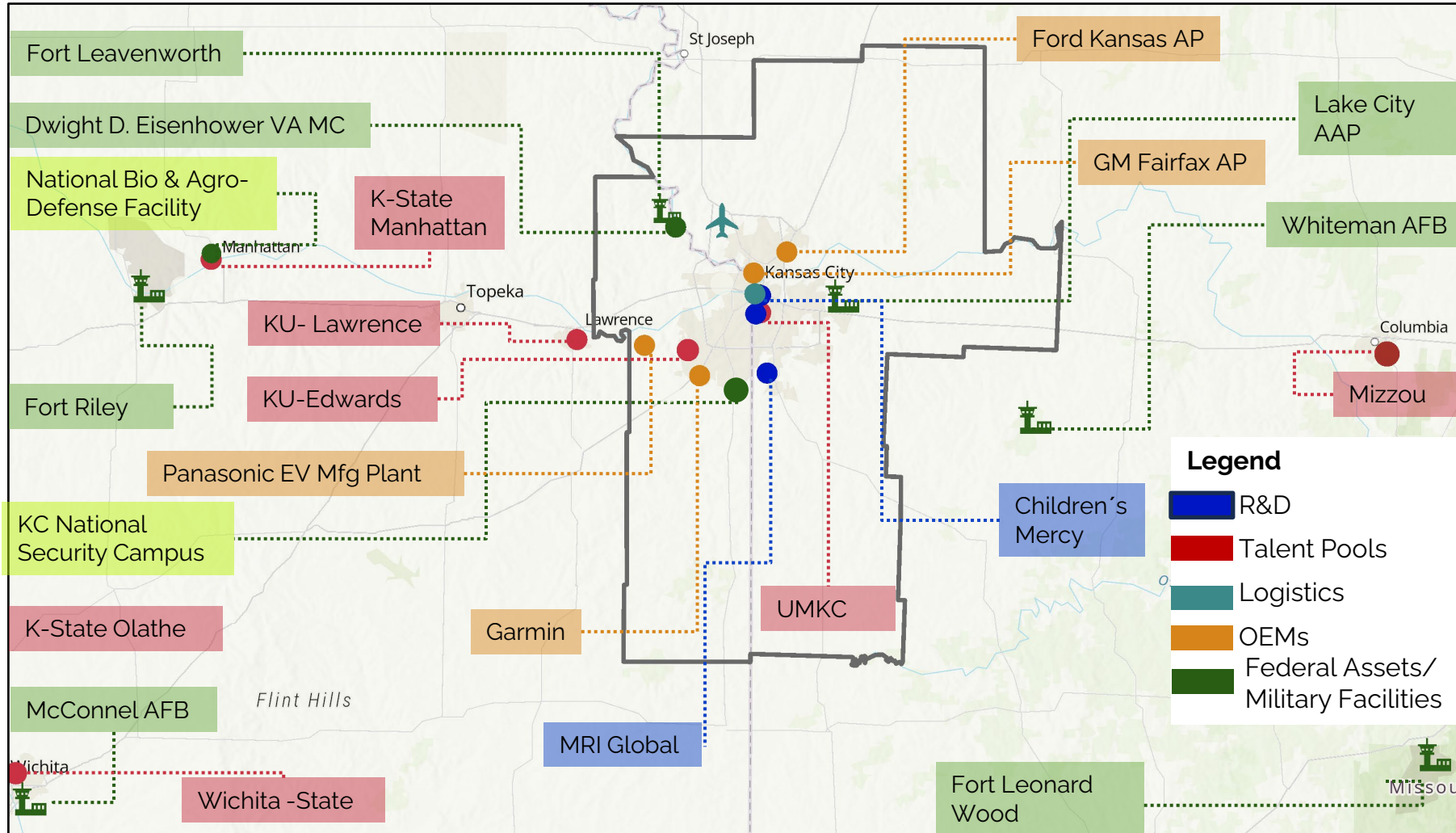
Find your Niche

Metro led industrial policy

Traditional economic development analyses at the metro scale may fall short of capturing the new set of opportunities and challenges that regions are experiencing in the midst of a changing US economy.

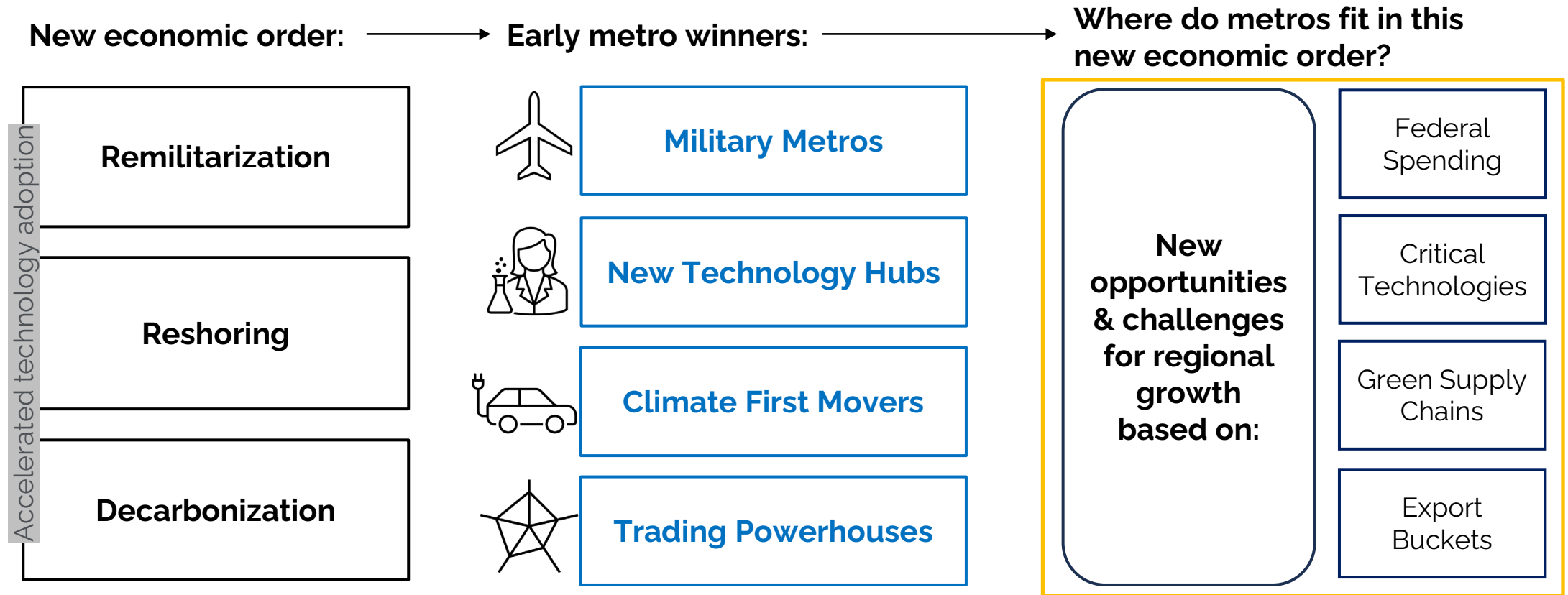
Certain assets gain renewed importance in this new economic order, forcing us to rethink the region's economic boundaries

Regional assets with renewed importance in the new economic order:



- Metro areas are based on population density and commuting trends.
- Yet the shifting economy is not solely based on commuting patterns.
- The new economic order must reflect the broader geography of industrial ecosystems, supply chains and talent pools.

We need new diagnostic tools that takes account of new driving forces and local assets that may have been hidden or undervalued by the prior economy



Federal Spending: New diagnostic tools would show the size and composition of direct federal spending

Example: St Louis has a substantial presence in defense manufacturing

The top 5 vendors make up for 73% (\$4B) of all direct federal spending, with Boeing accounting for 56% (\$3.1B) of this total

Around \$5.6 billion annually enters the Greater St. Louis region. Missouri prioritizes manufacturing, especially aerospace products due to Boeing's presence, while Illinois specializes in transportation and warehousing, mainly non-scheduled air transportation by FedEx, along with professional services like computer-related and engineering fields.

Top 5 vendors with highest direct federal spending in the region (\$M)



Company	HQ	Total Spending	Industry
The Boeing Company, Inc.	St. Louis	\$3,117.7 55.7%	Mfg
Express Scripts Inc.	St. Louis	\$420.4 7.5%	Mfg
FedEx	Shelby	\$ 225.3 4.0%	Transp.& Warehousing
Patriot Team	Tulsa	\$ 208.8 3.7%	Transp.& Warehousing
World Wide Technology	St. Louis	\$121.6 2.2%	Mfg

Direct Federal Spending by Region and Sectors (2022)

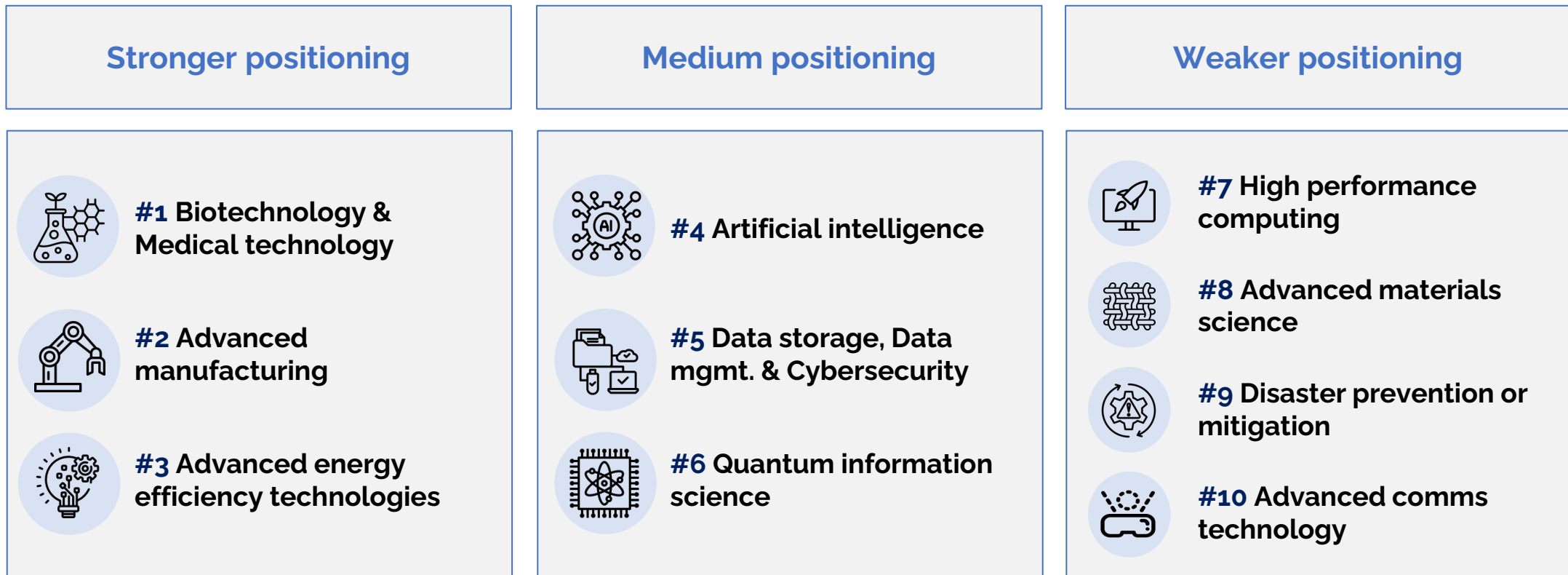
	TOTAL	DoD	Manufacturing	Professional Services	Transportation & Warehousing	Construction
MO + IL	\$17.4B	69.9% \$12.1B	53.13% \$ 9.24B	9.0% \$2.02B	3.85% \$0.66B	6.3% \$ 1.11B
Greater St. Louis	\$5.59B	89.5% \$5.01B	60.38% \$ 3.3B	9.77% \$ 0.54B	9.54% \$0.53B	5.13% \$ 0.44B
STL Missouri Side	\$4.53B	87.9% \$3.99B	72.59% \$3.2B	6.82% \$309.6M	1.95% \$88.46M	2.04% \$92.66M
STL Illinois Side	\$1.06B	96.3% \$1.02B	8.06% \$85.46M	22.37% \$237.1M	42.04% \$445.68M	18.37% \$194.73M

Source: New Localism Associates - The data represents all contracts awarded by Federal Agencies during 2022 obtained from USA Spending. Gov for the selected regions.

Critical Technologies: New diagnostic tools would assess the positioning of Kansas City across each critical technology area

Ranking based on 5 metrics across three dimensions: Talent Pool, R&D efforts, and Industry Players.

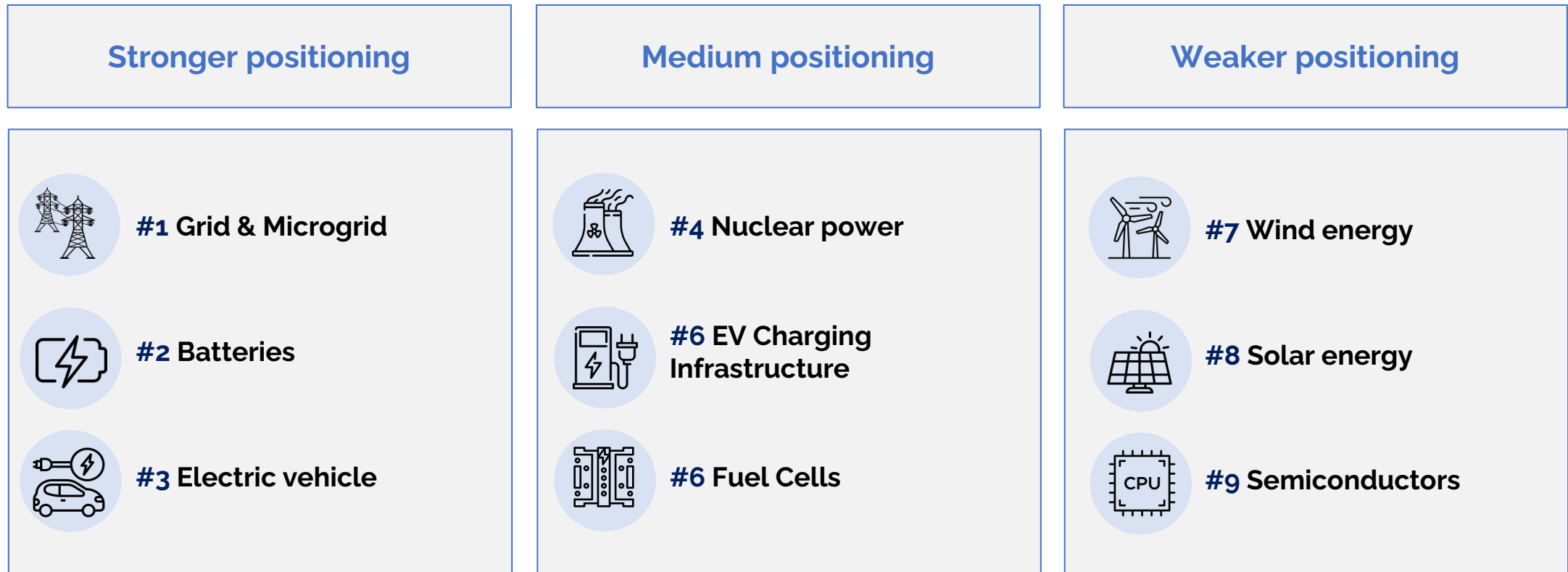
Kansas City's positioning on the top 10 technologies areas prioritized by the federal government:



Green Supply Chains: New diagnostic tools would assess the positioning of Kansas City to innovate and manufacture for the energy transition

Kansas City's positioning on selected green supply chains.

Ranking based on the Location Quotients (5-digit NAICS codes) more closely related to each green supply chain.



Trade & Investment: New diagnostic tools would take account of trends in near shoring, friend shoring and enhanced FDI

Trends

1|

Renewed FDI flows

Increasing FDI is reaching critical supply chains in the US such as semiconductors, batteries, and clean energy.

2|

Reshoring & Nearshoring

The mandate to foster long-term resilience in critical supply chains, with a focus on semiconductors and defense-related industries.

3|

Climate mandate

National commitment to lower emissions and decarbonizing the economy. As the energy transition unfolds, the US government is providing strong incentives for domestic production.

4|

Geopolitical Tensions

Export restrictions between the US and China reshape global value supply chains, while other countries redefine their role in global trade.

Early Signals

- In 2021, FDI in the US reached \$333.6B, the highest in the last 5 years.
- Global FDI flows fell 12% in 2022 to \$1.3T, with an increasing share going to developed countries.

- ~360,000 manufacturing job announcements in 2022, +53% compared to 2021.
- DoD's FY24 budget request was \$842B, the highest funding in years.

- In the last 3 years, private companies have announced \$71B in clean energy manufacturing investments.

- US exports to China are stagnant since 2017, except for agricultural exports that boomed.
- Mexico has replaced China as America's top trade partner.

KC's positioning based on:

Location for international trade

Nearshoring will strengthen trade across the North Triangle. Featuring a central location and easy access to all major modes of transportation, the Kansas City region is a top tier logistics hub.

Location for domestic trade

The reshoring of sensitive technologies and the climate mandate will increase domestic production and strengthen domestic supply chains, impacting metro-to-metro exports.

Export Bucket

De-risking from China may have limited impacts on KC (KC's exports to China are mostly commodities such as oil seeds and meat fresh and frozen). Reshoring of critical supply chains may renew opportunities for KC to participate in domestic supply chains (batteries, EVs).



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We need to shift from a company-led first wave to a city/metro-led second wave

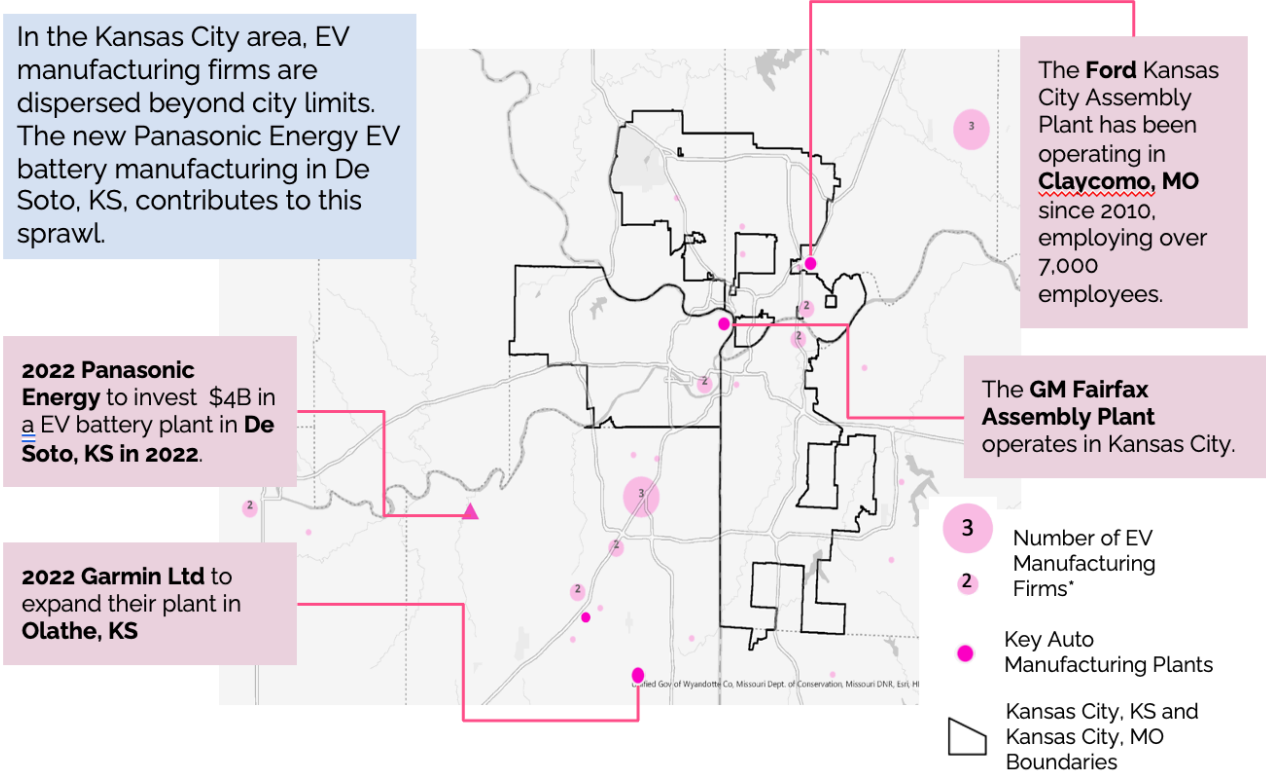
From company-led first wave

The first wave drew substantial investment to areas with favorable initial conditions, yet it is now posing a series of challenges for cities and metropolitan areas



To a city/metro led second wave

Making the Second Wave of the Industrial transition work for cities requires adopting new diagnostic methods, different policies, and alternative governance approaches.



Downtown Militaries	Inclusive Entrepreneurship
Downtown Anchors	Inclusive Procurement
Inclusive Manufacturing	Inclusive Workforce
Inclusive R&D	Networked Governance
Innovation Capital	Funding Hub

Source: Nowak Metro Finance Lab/ Data Axle 2023, "EV Manufacturing Firms" defined as NAICS codes 3361, 3362, 3363, 335312, 335910

A second wave of metro-led industrial policy has early models

	1	2	3	4	5	6	7	8	9	10
Goal	Leverage defense spending for downtown impact	Expanding talent pools at the core of states	Prepare sites for Mfg	Ensure long-term economic competitiveness	Foster the Inclusion of Small Biz in Innovation	Securing opportunities for small, diverse firms	Coordinating the Procurement Ecosystem for Collaboration	Preparing for the ongoing talent shortage	Organized leadership for talent and industry sector initiatives	Allow municipalities to access grantwriters and secure funding
Tool	Downtown Militaries	Downtown Anchors	Inclusive Mfg	Inclusive R&D	Innovative Capital	Inclusive Entrepre.	Inclusive Procurement	Inclusive Workforce	Networked Governance	Funding Hub
Ex.	Infinity Labs in Dayton, OH	UMCI in Detroit, MI	Port Authority Industrial Revitalization in Cincinnati, OH	Advanced Mfg Innovation Center in St. Louis, MO	SSBCI in Missouri	Aerospace and Defense Mfg coalition in El Paso, TX	Procurement Innovation Council in El Paso, TX	Intel's Workforce Strategy in Columbus, OH	Central Indiana Corporate Partnership in Indianapolis, IN	Compete RI in Rhode Island

Thank you!

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