



Trans-Atlantic Economy at the Local Level: The Case of Northern Virginia & Germany

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Background

Local governments are being drawn with greater regularity into the global arena. Challenges such as climate change, public health pandemics, social inclusion, public safety, immigration, infrastructure revitalization and education have pulled cities, counties and towns into programming activities beyond the borders of the United States. One of the most dynamic and powerful global forces impacting local governments is economic and the ways that foreign investment, trade and tourism impact job creation, economic development and local budgets. Cities and their leaders also often point to the presence of international companies, trade organizations or the global activities of airports and marine terminals as important demonstrations of their global prestige.

Global phenomena such as foreign investment are substantial drivers of economic development in the United States. Research by the Global Business Alliance suggests that international companies employ over 7.8 million U.S. workers and pay wages that are on average approximately \$82,000 – or 22 percent higher than the earnings of the average worker in the United States. International businesses also account for approximately 19 percent of all corporate R&D in the United States.ⁱ

But often the effects of global economic activities are overlooked and generally not well understood at the local level (here to mean within the boundaries of a city, county or town). By and large, local governments and their taxpayers lack access and contact to important metrics about these global activities such as the numbers of jobs created or the dollars financing local economies and budgets from foreign investment, trade and tourism. Less is generally known at the local level about the origins of the countries investing or the country destinations of exports. Local governments rarely have access to data about the specific sectors of the investing industries.

The absence of a clear picture at the local level about the effects of foreign investment, trade and tourism slows the possibility of more purposeful and strategic international engagement. Raising familiarity about the influences of global economic engagement on Main Street, stands to help overcome the often negative and stigmatized perceptions that international work by local governments is marginal or irrelevant. Data related to job creation, dollar flows or salaries could provide opportunities to identify priorities, allocate resources and define outcomes benefitting core issues of a city, county or town. But, as the Brookings Institute observed, “international relations’ decisions are frequently separated from those stewarding the regional economic development agenda, and thus, misaligned with broader efforts to grow business and job opportunities.”ⁱⁱ

The Online Event and Key Observations

On September 20, 2022, the Northern Virginia Regional Commission and the Konrad-Adenauer-Stiftung USA organized a webinar to highlight the importance of the transatlantic economy and how it plays out at the local level in Northern Virginia. Dr. Dan Hamilton, from the Johns Hopkins University Paul H. Nitze School of Advanced International Studies and Ms. Marian Marquez, Acting Deputy Director for Arlington Economic Development shared their perspectives about their work.

Dr. Dan Hamilton shared that:

- 1) The Transatlantic Economy is the most vibrant economic relationship and vibrant commercial artery in the world;

- 2) Total “foreign affiliate sales” between the U.S. and Europe is approximately \$5.7 trillion. By comparison, foreign affiliate sales between the U.S. and Asia is only \$3.0 trillion;
- 3) Asia/Pacific Trade with the United States is \$1.8 trillion and transatlantic trade is \$1.4 trillion;
- 4) The Transatlantic digital economy (trade in digitally-enabled services by major area) between the U.S. and Europe is approximately twice that between Asia/Pacific and the United States. The U.S. exports \$247.8 billion to Europe and imports \$142.4 billion. The U.S. exports \$122.3 billion to Asia and the Pacific and imports \$78.8 billion;
- 5) Germany is the largest investor in the United States of inward foreign direct investment of U.S. energy with over 128 greenfields projects;
- 6) Three of the top five purchasers of renewable energy in Europe for the period 2008-2021 were American (Amazon with over 4,000 megawatts, followed by Microsoft and Google with approximately 3,000 megawatts each).

Ms. Marian Marquez shared that:

- 1) Arlington County hosts approximately 280 companies, in over 16.9 million square feet of office from which 92,000 jobs have been created;
- 2) Firms such as Axios, WETA and Amazon have operations in Arlington County;
- 3) Arlington County is known to host many international headquarters such as Nestle, Lidl and Leonardo and is working to develop a data-driven international program;
- 4) However, incomplete/inaccurate data and data validation complicates tracking foreign investment within the boundaries of Arlington County;
- 5) Preliminary efforts by AED suggested that for the period 2015 to 2020, over \$150,000,000 of investment or over 70% - emanated from Germany and Switzerland.

The Road Ahead for Clarifying Global Economic Influences at the Local Level

The webinar cast light on the extensive existing and potential international economic activity at the local level - and especially through the lens of the most important economic partner for the United States – Europe. The webinar also provided insights into ways that local governments might potentially channel global economic activities towards economic, social and environmental outcomes benefitting local governmental priorities such as workforce training or policy and technology exchanges concerning sustainability.

For example, Dr. Dan Hamilton suggested that trade alone, especially in the context of transatlantic relations, might be a misleading benchmark of international economic relations. Dr. Hamilton pointed out that mutual investment over-shadows trade and forms the real backbone of the transatlantic economy. The reference to Arlington County’s foreign investment between 2015-2020 and that Germany accounted for approximately 50% of all FDI in the County, helped clarify this point – and accented the need for further data-driven and metrics-based analysis to understand future trends, opportunities and risks.

The September 20th webinar also referenced the start of a precedent-setting NVRC research initiative that will identify indicators used to understand the effects of foreign investment in Northern Virginia. Under an “Enhanced Capacity Building” grant from the *Go Virginia* program, NVRC, a team of its local governmental partners and a contractor will procure and analyze data sets about foreign investment in the five largest local governments of the region. The analysis should also help identify the jobs created and earnings emanating from foreign investment and then rank the 25 largest investing countries within

the boundaries of Arlington County, the City of Alexandria, Fairfax County, Loudoun County and Prince William County. The project also should classify foreign investments by sector (e.g. computer software, data sciences, cybersecurity etc.).

The precedent for this project is a World Trade Center of Los Angeles' (WTCLA) "Foreign Direct Investment" series. Since 2020, the WTCLA has bought and analyzed foreign investment data for the State of California. The WTCLA also ranked the dollar flows and jobs created from the top 25 investing countries - *within the boundaries of Los Angeles County*. The WTCLA revealed several counter-intuitive indicators about foreign investment that also were touched on in the webinar. For example, the Los Angeles region receives a predominance of foreign investment and job creation by countries from Europe. ⁱⁱⁱ

Looking Ahead for Northern Virginia's Strategic Global Engagement

The Greater Washington region, Northern Virginia is one of the largest and wealthiest economies of the world. It also possesses an abundance of attributes that easily characterize it as a globally engaged region. In 2015, the Brookings Institute and JP Morgan Chase published the *Benchmarking Greater Washington 's Global Reach*, one of the earliest and most deliberative efforts to interpret global engagement in the region. The report pointed out a variety of the region's needs vis-à-vis global economic engagement. These included:

- The importance of understanding "performance and position on key indicators of global engagement";
- The potential for the region's economy to benefit from more deliberate global orientation;
- The relatively small share exports contributing to the region's economy;
- The importance of understanding the connections between foreign investment and foreign-owned firms operating in advanced industries;
- The region's strong underlying assets to fuel increased trade and investment but importance of better leveraging them towards more purposeful global engagement.^{iv}

To put this into a clearer context, the GDP of Northern Virginia in 2020 dollars exceeds \$228 billion and constitutes approximately 42% of the Commonwealth of Virginia's GDP. Northern Virginia's economy is larger than 25 U.S. states and were Northern Virginia an independent country, its economy would be the 49th largest in the world.^v Northern Virginia also is home to over 700 global firms such as VW, Airbus, Nestle and Lidl. Perhaps one of the most demonstrative indicators of the region's global economic engagement is that Fairfax County Economic Development Authority has representation via five offices overseas: Berlin (Germany), London (England), New Delhi (India), Jerusalem (Israel) and Seoul (Korea).

The opportunities to make clear the effects at the local level of foreign investment and trade also extend to the dynamic of global tourism. In 2021, the U.S. ranked among the highest in the world for the total contribution of travel and tourism to GDP – approximately \$1.27 trillion.^{vi} Tourism in 2020 generated \$16.9 billion in local GDP in the Commonwealth of Virginia, of which Arlington County, Fairfax County and the City of Alexandria accounted for approximately 60% of all tourism revenue in the Commonwealth.^{vii} The effects of tourism also impact local economies via job growth and revenue generation. Understanding which countries rank highest in terms of the numbers of tourists can help local governments react purposefully, especially after the devastating effects of the COVID pandemic.

For example, the Virginia Tourism Corporation reports annually about global tourism trends for the Commonwealth. The reporting of global tourism contains details at the state level such as the amount of time individual tourists from specific countries spend shopping, sightseeing at national parks, at historic locations, at sporting events or fine dining. It is a very detailed level of information that has the potential to be very effectively put to use when narrowed down to the level of local governments such as the City of Alexandria, Loudoun, Prince William, Arlington and Fairfax counties.^{viii}

Collateral Effects – Transatlantic Energy Economy

The webinar pointed out the transatlantic economy's profound effects on local governments' climate and energy programs through the fundamental ties between the digital and global economy. Moreover, the webinar pointed out that the trade of digitally-enabled services is important to the transatlantic economy. Northern Virginia is home to the largest data center market in the world. It is estimated that 70 percent of all global Internet traffic passes through the data centers of Northern Virginia. Moreover, Germany is the largest source of inward FDI in the U.S. energy market and renewable energy purchases such as wind and solar on both sides of the Atlantic are often those ensconced in the digital economy leaders such as Amazon and Microsoft. In Virginia, Siemens/Games is constructing the largest offshore windfarm in the United States and for the period 2008 to 2021.^{ix} Dan Hamilton pointed out in the webinar that Amazon purchased over 4,000 Megawatts of renewable energy to power their operations on both sides of the Atlantic. In 2021, Volkswagen, Electrify America and Siemens proclaimed a \$450 million investment into EV infrastructure (the North American headquarters for VW and Electrify America are in Fairfax County).^x

It appears an understatement that these efforts warrant further understanding. The extend of these economic and energy relations has the potential to ripple into other priority issues of the country and Northern Virginia, such as workforce training. Northern Virginia has a sizeable gap between the supply and availability of skilled workers trained for the digital economy. The German model of vocational training and its reliance on paid apprenticeships in trained workers and harmonized accreditation has been heralded as a global benchmark for vocational pedagogy. More formal relations between the Northern Virginia's public schools' career technical education programs and German-based companies such as VW, Lidl, Airbus and Rehau could serve as a portal through which elements of the "Dual System" might find application – perhaps to train the next generation of EV, solar PV or grid maintenance workers.

Highlighting the influences of the global economy at the local level in Northern Virginia has the potential to make other international work more strategic and outcome-oriented. For example, WTCLA made efficient use of partnerships with its regional universities to produce analysis about the effects of FDI in Los Angeles County. Equivalent partnerships between local governments, business and academic and research institutions might be used to harvest policy and sustainability innovations across the Atlantic. George Mason University school of Management could possibly help local governments of the region study ways that sustainability planning of Nestle's operations can be applied to the work of Nestle's offices in Arlington County – or ways that food waste mitigation strategies of Lidl's work in Ludwigsburg might affect food-waste mitigation programs at Lidl stores in Northern Virginia. These partnerships might also be used to aid local governments in the development of long-term and comprehensive global engagement strategies to guide multiple international programs for larger localities of Northern Virginia.

Conclusion

Events, technology, economics and the pandemic have pushed local governments in the United States into global roles that were unimaginable 20 years ago. And while there is more structure and institutional support for global engagement than ever before, international work by cities tends to be carried out in diffuse, aimless contexts that lack goals, budgets, funding or outcomes. The joint webinar by NVRC and Konrad-Adenauer-Stiftung USA, along with experts from Arlington County and Johns Hopkins University, pointed a way out of this dilemma by highlighting the powerful effects of global economic engagement – and how it plays out and can be strengthened at the local level. Making clearer sense of this challenge remains to be a high priority and one that will help local governments frame policies and programs that are better able to respond to opportunities and risks that help them not just economically, but environmentally and socially too.

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