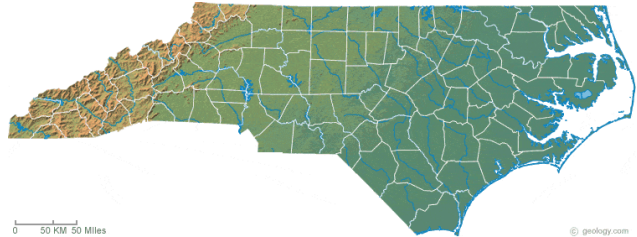


North Carolina Economic Development: SWOT Analysis 2017

April 14, 2017 by John Paul Galles - 704-576-0477

SITUATION ANALYSIS: **STRENGTHS**

North Carolina has an abundance of assets, resources and advantages relative to neighboring Southeastern states.



Top Business Climate

The State of North Carolina is consistently identified as among the best business climates in the U.S. having ranked as one of *Forbes'* top 5 Best States for business for 10 consecutive years. The state's success is fueled by a competitive tax climate, low business costs, a favorable legal and regulatory environment and the availability of skilled workers.

In 2016, *Forbes* ranked North Carolina as the #2 Best States for Business. *Site Selection* magazine ranked North Carolina as the #2 Business Climate in 2015 and *Chief Executive Magazine* ranked North Carolina #3 as the Best State for Doing Business in 2016.

Tax Climate Among Lowest in the Nation

Based on the tax climate in North Carolina, the *Tax Foundation* in 2016 ranked North Carolina with a 4 percent Corporate Income Tax Rate as the lowest in the Southeast. *Ernst & Young* in 2015 identified North Carolina as #3 in the nation for the lowest state and local business tax burden. In 2015, the *Tax Foundation* and *KPMG* ranked North Carolina #5 for the lowest effective tax rate for mature corporate HQs.

Among Lowest for Business Costs

In terms of low business costs, the North Carolina business climate was ranked by *Forbes* as the #2 state with the lowest business costs, 10.3 percent below the national average. *Area Development* magazine ranked North Carolina as #5 for competitive utility rates. The *RSMeans Construction Cost Index* identified that construction costs were 18 percent lower in North Carolina metros compared to the U.S. average.

Low Unionization and Top Labor Climate

North Carolina offers low-cost labor in one of the largest and fastest growing markets in the U.S. As a right-to-work state with a perennially low union membership rate (approximately 3 percent during the last 10+ years), North Carolina has the second smallest union workforce in the U.S. in terms of percent of total employment. The U.S. Bureau of Labor Statistics rated NC as the #2 state for lowest unionization rate in the U.S. The resulting benefit is labor costs that are 11 percent below the national average—fourth lowest in the country.

Area Development ranks NC as the #4 state for labor climate. *Site Selection* rated NC as #1 for workforce development.

Best Regulatory Environment

Recent tort reform and the strengthening and streamlining of business courts in NC have earned NC rankings among the lowest in the nation. The *U.S. Chamber Institute for Legal Reform* in 2015 ranked NC as the #7 state and the #5 state for the overall treatment of tort and contract litigation. *Forbes* ranked NC as #7 for the best regulatory environment.

Attractive to Foreign Direct Investment (FDI)

NC ranks among the highest in the U.S. for job creation from foreign investment projects. More than one out of every five jobs—some 1.2 million—in the state are related to international trade.

About three out of 10 manufacturing jobs in North Carolina are supported directly or indirectly by foreign companies. Foreign direct investment has fueled much of North Carolina’s high-tech job growth, with \$2.7 billion and 5,300 jobs generated from FDI in 2015, according to North Carolina Commerce Department, and will top those numbers in 2016. North Carolina ranks sixth in the nation for jobs dependent on direct foreign investment at more than 782,000.

European firms have already had great success in the Carolinas—there is more European investment in NC than the total U.S. investment in China, Japan and India combined. Companies from the European Union account for 69 percent of global investment in North Carolina and 65 percent in South Carolina. And as a result of Brexit and the disruption of the European Union, European businesses are increasingly looking for safe locations to expand their businesses.

Outstanding Educational Resources

Economic transformation has evolved from an initial agricultural economy, to an industrial economy, to a post-industrial/mass production/service economy, and now to the knowledge economy.

North Carolina offers outstanding public and private universities and colleges, among them UNC-Chapel Hill (as well as the other satellite locations), Duke University, NC State University, Wake Forest University, East Carolina University, Appalachian State University, Elon University and Davidson College—adding to the talent supply for NC businesses.

The NC community college system ranks No. 11, while neighboring South Carolina comes in at No. 36. They offer specially designed programs in tandem with area businesses providing specialized workforce training, certification of skills, and classes for transitioning workers, and are especially valuable at developing a globally and multi-culturally competent workforce.

Ease of Access/Superior Location

Located midway between Boston, New York City and Miami, North Carolina is well situated to accommodate successful businesses, reaching more 60 percent of the U.S. population within two hours by air and 24 hours by truck. North Carolina is the only major distribution center midway between the Northeast, Midwest and Florida markets, as well as midway between Canadian and Caribbean markets. Within 650 miles of North Carolina are 164 million U.S. and Canadian consumers and 55 of the country’s top 100 metropolitan areas.



International Airports

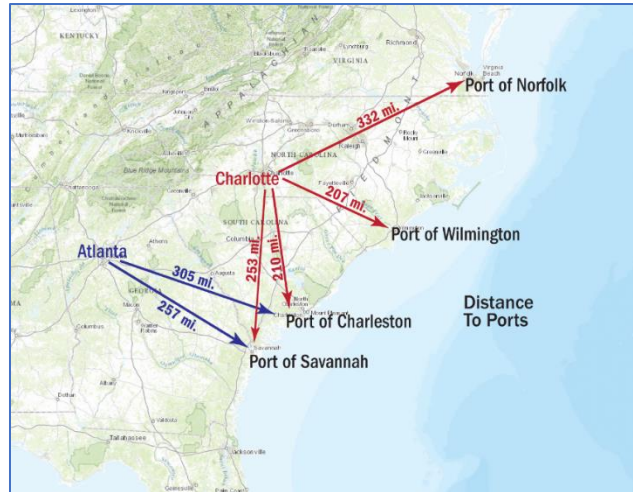
North Carolina provides access to the world through non-stop destinations and one-stop connections through Charlotte Douglas International Airport (CLT), Raleigh Durham International Airport (RDU), as well as the Piedmont Triad Airport (GSO), the Wilmington Airport (ILM), the Fayetteville Airport (FAY) and the Asheville Regional Airport (AVL).

Extensive Highways and Railroads

The highway network in North Carolina is the second largest state-maintained system in the United States. Operating within its borders, North Carolina has access to two Class 1 railroads, Norfolk Southern and CSX, carrying freight across the entire Southeast region of the U.S.

Choice of Ports/Intermodals

North Carolina provides a real advantage to manufacturers in access to five major ports from any point within the state. Besides direct access to the Port of Wilmington and the Morehead Port, manufacturers can easily ship through the ports of Norfolk, Charleston, Savannah and Jacksonville as well. These connections provide shippers with choices of shipping lines and options for shopping when costs are escalating as ships grow bigger and shipping lines consolidate.



Both CSX and Norfolk Southern maintain and operate intermodal centers in the state of North Carolina facilitating transport of raw materials and finished goods to and from Southeast ports. Norfolk Southern Charlotte intermodal center has a potential capacity of over 500,000 containers and CSX is in the process of constructing a new intermodal center outside of Rocky Mount that will be even larger.

Competitive Power Supplies

Electricity and natural gas at competitive rates that are much less expensive than in many locations around the world.

Military Installations/Contracting Opportunities

The significant presence of various branches of the armed services offer numerous contracting opportunities for North Carolina businesses. Currently, there are eight military bases in North Carolina. There are two coast guard bases. The United States Army, Navy and Air Force all have at least one base in North Carolina, while the Marine Corps has three.

Superior Quality of Life

North Carolina also provides the highest quality of life for employees and families with easy access to Atlantic Ocean beaches and the blue ridge mountains.



SITUATION ANALYSIS: WEAKNESSES

North Carolina continues to suffer some unique economic and political weaknesses which have impeded its opportunity to compete with neighboring states exhibiting a high-degree of success recruiting businesses from within the United States and from foreign direct investment.

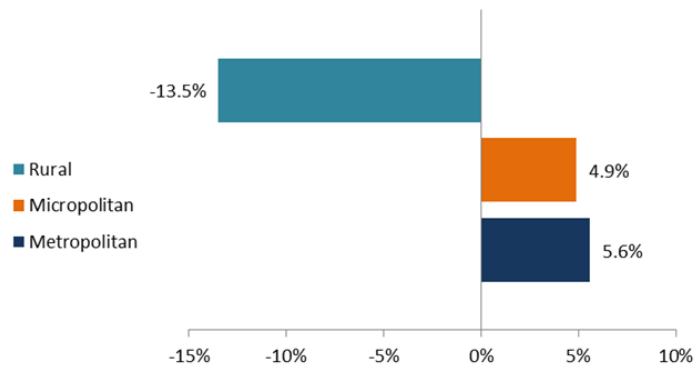
North Carolina has suffered continual and significant declines in manufacturing jobs, which at one point constituted 22 percent of its economy, from which it has been slow to recover. Having been decimated by the Great Recession and its stress on financial services even before it had recovered from the 2001 recession, it also experiences periodic catastrophic losses from hurricanes and coastline erosion.

URBAN / RURAL DIVIDE

It was reported by the NC Justice Center in 2016, that after nearly four years since the formal end of the Great Recession, rural North Carolina is experiencing a very different recovery than the state’s urban areas. Instead of replacing the jobs lost during the recession, rural parts of the state are continuing to experience job loss, while at the same time the state’s metropolitan and micropolitan areas have experienced employment growth.

Metropolitan areas within the state saw a 5.6 percent increase in employment levels since the end of the Great Recession, with the small cities in the state’s micropolitan areas not too far behind at a 4.9 percent increase. At the same time, rural areas saw their total employment drop by 13.5 percent, suggesting that workers left rural communities in droves and moved to the state’s cities to find employment.

Rural North Carolina Continues to Lag Urban Areas in Post-Recession Job Growth



A major factor behind this shift from rural to urban employment involves the long-term trend away from manufacturing employment and towards service employment. Historically, North Carolina’s rural counties have depended on the manufacturing sector to provide the bulk of its employment opportunities, so as rural manufacturing declined due to global economic restructuring, rural workers were faced with a transition to service industries—generally low-skilled and low-wage, especially Leisure & Hospitality and Retail—and overall shrinking job opportunities.

The conclusion of the Great Recession did not create a positive turnaround for residents in rural North Carolina; instead, it marked an even greater depression for the rural economy. Without the creation of more manufacturing jobs, comprehensive economic restructuring in these rural counties, and skills training for a 21st century economy, residents of rural counties in North Carolina, along with other southeastern states, will likely continue to face the hardships of job loss and economic depression.

In both urban and rural areas, there’s a sense that the jobs of the future will require more education and training than the jobs that traditionally helped provide a comfortable, middle-class lifestyle for North Carolinians.

Thus, North Carolina suffers from a significant urban/rural divide. The urban/rural divide is most evident across the rural areas, manifesting itself in abandoned factories and a depressed mood. With only very little success, these communities are not encouraged by growth elsewhere in the state. Left behind, rural counties are angry with the status quo.

It is not surprising, therefore, that even with state coffers slowly recovering and economic growth occurring in urban centers, state legislatures are reluctant to fund economic development incentives that serve urban interests over rural needs.

STATE ECONOMIC DEVELOPMENT COMPETITION/STAGNATION

After 20 years, Republicans took control of North Carolina’s government in 2013, garnering both the governorship and a super-majority of the general assembly. As a result, significant changes were made to NC state government, including a substantial makeover to the NC Department of Commerce, which took until late 2014 to be approved and into 2015 to be fully operational.

With the upheaval in the state’s economic development arm and political leadership, there has been an increasing incidence of losing economic development opportunities to neighboring competitive states. In recent years, South Carolina, Georgia and Virginia have successfully landed competitive bids including Boeing, BM, Porsche, Mercedes Benz, Volvo, International Harvester, Giti Tire, Michelin, Costar and many others.

HB2 AND LEGISLATIVE / JUDICIAL FALLOUT

Even with repeal of HB2 on March 30, 2017, its impact has challenged recognition of North Carolina as a more modern, progressive southern state. Since March 2016, NC suffered the very public and substantial reaction to HB2 legislation and the primarily negative impression it has brought to NC both nationally and internationally. This was only magnified because of the contentious



presidential race and North Carolina’s status as a swing state. North Carolina will continue in the national spotlight with all the dissension over HB2 and the legislative and judicial fallout.

The political responses between the democratic governor and the republican legislature have continued to distract from any coordinated business recruiting, attraction and retention efforts. The fallout remains and will take several years to overcome

In many cases, directly as a result of HB2, NC was not and will not even being considered when companies are seeking new business locations or operations. It is currently estimated that NC has lost as much as \$630 million (*Forbes*) in business development as a result of the debacle, including business expansions into the state, anticipated relocations to the state, sporting events, entertainment events—the list goes on.

SITUATION ANALYSIS: OPPORTUNITIES

- Considering recent NC budget surpluses (a record \$552.5M this fiscal year ending June 2017, up from \$425M last year), North Carolina is positioned to step forward and compete more aggressively. Business recovery is healthy in urban areas and future opportunities are abundant.
- Population growth and inbound migration from other states continues. In fact, population growth in NC is expected to be over 71 percent over the next 25 years.

- Lower NC tax rates offer lower costs for doing business and a greater opportunity to compete with neighboring states with lower state tax rates.
- New intermodal centers by Norfolk Southern in Charlotte and CSX in Rocky Mount offer greater logistical support and distribution opportunities and other locations.
- North Carolina Ports continue their post-Panamax preparation, ordering two New Panamax ship-to-shore cranes as part its plan to invest \$120 million over the next few years to accommodate a majority of larger ships transiting the Panama Canal, and a 101,000-square-foot cold storage warehouse.
- Telecommunications remains a state priority with Charlotte and the Triangle having been designated Google Fiber cities and NC continuing its high-speed broadband initiative into rural areas. An FCC Commission report shows that 93 percent of North Carolinians have broadband access compared to an average of 90 percent of people nationwide—but rural areas lag behind the state's cities.
- North Carolina continues to be a participant in international trade activity. International trade, including exports and imports, supports 1,232,100 NC jobs—more than 1 in 5. Trade-related jobs grew 3.4 times faster than total employment from 2004 to 2014 and are at large and small companies, on farms, in factories, and at the headquarters of NC globally engaged firms. NC exported \$31.1 billion in goods and \$18.8 billion in services in 2014, including pharmaceuticals & medicines, aerospace products & parts, semiconductors & components and travel services. Of NC's 10,582 exporters, 87 percent are small- and medium-sized companies with less than 500 workers.

It is valuable to understand the potential of international commerce activities.

- Over 80 percent of purchasing power is outside the borders of the United.
- More than 92 percent of business growth occurs outside the borders of the United States.
- Over 95 percent of consumers are outside the borders of the United States.
- This data affects U.S. commerce as well as U.S. agriculture.
- All of NC's major universities offer increasing opportunities for research partnering with private industry.
- The new administration has asserted a focus on improving business conditions, offering the promise of more growth and development, and the creation of jobs alongside that growth, including an expansion of funding for infrastructure across the country.

SITUATION ANALYSIS: THREATS

- Poverty in NC has either climbed or stayed steady from 2007 to 2014 with only modest improvements in 2015 and 2016 despite economic recovery, and in the highest quintile in the nation, with the highest poverty rates all in rural counties. To the extent NC leaders enact policies that compound these economic and labor market disparities, it will exacerbate the urban/rural divide.

- NC's political bottlenecks to economic development continue as the governor and state legislature continue their standoff, awaiting judicial decisions.
- As a result of NC's economic development impasse, competition from other states continues to be a significant threat as South Carolina, Georgia and Virginia provide more attractive economic incentives.
- To the extent of the HB2 continuing fallout, the ability of NC to attract new businesses, expansions and foreign direct investment may continue to be hampered, as well as the state's ability to attract business talent.
- NC budgets will inevitably be periodically reduced by unexpected spending on natural disaster relief.
- Expectation of impending recession, especially after such a long, sustained recovery since 2010, looms.
- The new administration may disrupt international trade opportunities which may slow the growth of business development.

SITUATION ANALYSIS: RECOMMENDATIONS

The entire Southeast region continues to show economic strength, as well as nation-leading population growth, and these two factors are making the region ripe for economic development and investment. North Carolina has one of the fastest growing populations (9th in the nation, now over 10M) as well as *the* fastest growing economy in the country.

It is clear from our strengths that North Carolina has huge potential for growth and economic development and is, in fact, *the best* place for business and investment in the Southeast. It is equally clear that the state's economic development activities have become disrupted by politics and its economic incentives less competitive than those of other states.

It is imperative that North Carolina seek and take advantage of economic development opportunities to remain globally competitive and essential that community leaders become knowledgeable ambassadors of economic development, stepping into the void and reaching out to connect interested parties with valuable opportunities.

Community businesses and business leaders who choose to actively participate should experience increased opportunities for business development themselves and perhaps be able to bridge the urban/rural divide even more successfully than state authorities.

The time is ripe to create a network of knowledgeable leaders interested in attracting business and investment to North Carolina, armed with a heightened awareness and knowledge of the state's economic development opportunities and the tools to communicate to clients and prospects the opportunities in North Carolina.

It is time to enlist key leaders, engage their participation and focus their efforts to attract business entities seeking *the best* state for location or investment in the nation.

If we intend to participate meaningfully in a knowledge-based economy, it will be important for NC to attract advanced manufacturing as well as use science, technology, engineering and math to transform industrial production to Industry 4.0.

Types of Industry 4.0 include:

- Additive manufacturing
- Augmented reality
- Big data and analytics
- Autonomous robots
- Simulation
- Horizontal and vertical systems integration
- Cybersecurity
- The industrial Internet of Things

There are opportunities to enlist everyone interested in becoming ambassadors for business growth and development. The NC story is a strong one. There are amazing opportunities for growth and recovery into every region and every community.

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