

# Chicago Fed Letter

## Chicago's global connections and challenges

On January 19, 2001, the Federal Reserve Bank of Chicago hosted a forum sponsored by Global Chicago entitled "Chicago's Global Economic Connections and Challenges." Global Chicago is a collaborative project devoted to enhancing Chicago's global strengths and raising awareness of the metropolitan area's global connections. The one-day conference furthered these efforts by bringing together a group of almost 60 people engaged in Chicago's global issues. Participants came from a wide range of state and local governments, nonprofit organizations, universities, cultural organizations, businesses, and citizens advocacy groups. The forum was intended not only to create a dialogue among leaders from a wide variety of academic institutions, businesses, and community organizations, but also to constitute the first step in a series of outreach events, occasional papers by professionals, and the eventual publication of a book. Global Chicago's website<sup>1</sup> will feature working papers and slide shows from the event in an effort to continue and expand the dialogue initiated at the conference. This *Chicago Fed Letter* summarizes the forum sessions. The conference agenda is shown in figure 1 overleaf.

### Global inward investment and marketing

Paul O'Connor of World Business Chicago promoted the strategy of marketing the Chicago region as a product with a diverse and unique set of assets. Of these assets, O'Connor identified the city's wealth of human and cultural diversity as essential for successful adaptation to globalization, and he stressed the importance of maintaining and developing Chicago's middle class. Chicago's economic diversity was also identified as beneficial to its performance, contrary to the views of some critics who claim that Chicago's lack of

an obvious industry niche is causing the city to fall behind in the so-called new economy. In O'Connor's words, "Chicago's niche is no niche." As evidence, the Chicago area added 250% more private sector jobs than the New York metro area from 1990 to 2000, a period over which the Los Angeles area actually experienced employment decline.

In appraising Chicago's economic prospects and performance, O'Connor suggested that the region is in a favored location both as the fulcrum for NAFTA (North American Free Trade Agreement) and as the nexus between both Europe and Asia and the two U.S. coastal economies. As evidence to support this statement, he noted that the region is a favored destination for foreign direct investment (FDI). Some \$41 billion in FDI is domiciled in the Chicago area, represented by over 1,000 firms.

O'Connor also mentioned that infrastructure—especially air travel facilities—are critical for taking advantage of global economic trends. Much of Chicagoland's rapid job growth in the 1990s centered on business service industries that, in turn, were intensive users of both domestic and foreign air travel. Currently, Chicago airports have nonstop connections to 45 overseas business capitals and direct services to another 20. O'Connor provided an exhaustive list of Chicago's assets, but warned that city leaders must act now, or Chicago will miss out on the benefits of globalization.

Don Haider of Northwestern University responded to O'Connor's presentation by reiterating the importance of obtaining appropriate information on Chicago's strengths, especially in comparison to other cities. Such information would make it easier to distinguish Chicago's endowments and favorably market the region as a competitor with other regions.

Gerald Roper of the Chicagoland Chamber of Commerce pointed out the importance of fully utilizing the region's

assets, which would require working and cooperating with middle class and ethnically diverse groups. In terms of existing programs and efforts, he lauded the Sister Cities program as an important step in fostering global connections. Chicago had a total of 21 sister and friendship cities as of March 1998. Roper also pointed out that Chicago has a large number of foreign consulates that could be utilized more completely. In response to O'Connor's statements about the importance of air travel, Roper voiced concerns about current and future airport capacity and encouraged participants to be vocal about capacity issues.

The discussion that followed revealed a more general concern that the Chicago area is not working in a harmonious and coordinated fashion to respond to globalization's transportation, housing, government services, and infrastructure demands. Reasons for the current lack of mobilization were explored by Adele Simmons of Chicago Metropolis 2020, who postulated that the Chicago area's decentralized and fragmented governmental organization, as exemplified by the Chicago area's 1,200 independent units of local government, makes it difficult to engage in cooperative planning and policies. Common local practices such as exclusionary land use zoning and NIMBY (not-in-my-backyard) responses discourage the siting of public facilities and affordable housing, projects that may have negative short-term effects on local communities but whose long-term and broader regional impact is positive. Participants identified the need for both economic and social benchmarks to educate local decision-makers, to illuminate the broader benefits of regional policies, and to explore how Chicagoland's situation is changing in response to globalization.

### Trade and impact

Foreign trade is of growing importance to the Chicago region's economy, but trade

within the Midwest is still very important. A presentation on trade flows by Geoffrey Hewings from the University of Illinois/REAL showed that the region's foreign trade has been growing apace with that of other regions of the U.S. and that Canada and Mexico are Chicago's most important individual trading partners. Despite growth in foreign trade, the Illinois manufacturing sector trades significantly more with other Midwest states than with the rest of the world. For example, in 1997 Illinois conducted \$224 billion dollars of interstate commodity trade compared with only \$34 billion dollars of international commodity trade. International commodity trade accounted for just 13% of total exports and 15% of interstate exports. Hewings also pointed out that increased demand on the highway system in recent years has led to highway congestion, emphasizing the important role of transportation infrastructure in trade.

The next presenter, Miguel Angel Leaman from the Mexican Trade Commission, agreed that physical infrastructure—especially overland transportation—is important to trade and must be maintained. Leaman detailed the economic benefits from increased U.S. trade with his country following NAFTA's passage in 1994. For example, Mexico imported \$93 billion dollars worth of goods and services from the U.S. in 1999, making it the recipient of 14% of U.S. exports and the country's second largest trading partner.

In his commentary, Wim Wiewel of the University of Illinois at Chicago noted that trade data can be misleading, and stressed that identifying the extent to which the numbers represent inter-company shipping is very important. Wiewel pointed out that Hewings' data deal only with manufacturing trade, which covers about 20% of the regional product, leaving out a lot of information. He also maintained that understanding global linkages is more complex than merely identifying who buys Chicago's products. For example, the global linkages of the cities to which Chicago exports may also be important. Wiewel pointed out that trade increases are a result of programs such as trade agreements and infrastructure improvements; he suggested that Chicago should focus less on marketing itself as a global city and more on creating and

| 1. Conference agenda     |  |
|--------------------------|--|
| <b>8:30 am–9:45 am</b>   | <b>Global Inward Investment/Marketing in the CMA</b>   |
| Moderator:               | Hoken Seki, Attorney at Law, Foley & Lardner   |
| Presenter:               | Paul O'Connor, Executive Director, World Business Chicago  |
| Commentary:              | Don Haider, Director, Public Non-Profit Management, Northwestern University<br>Gerald Roper, President and CEO, Chicagoland Chamber of Commerce  |
| <b>10:15 am–11:30 am</b> | <b>Trade Linkages and Impact</b>   |
| Moderator:               | Dave Perry, Director, Great Cities Institute, University of Illinois at Chicago  |
| Presenters:              | Geoffrey Hewings, University of Illinois/REAL<br>Miguel Angel Leaman, Trade Commissioner, Mexican Trade Commission   |
| Commentary:              | Wim Wiewel, University of Illinois at Chicago  |
| <b>11:30 am–12:00 pm</b> | <i>Discussion</i>  |
| <b>12:00 pm–1:00 pm</b>  | <b>Lunch and open discussion</b>   |
| Presenter:               | William "Curt" Hunter, Federal Reserve Bank of Chicago<br>"Lessons from the Asian Crisis"  |
| <b>1:00 pm–2:15 pm</b>   | <b>Transportation</b>  |
| Moderator:               | Joseph Schwieterman, Director, Chaddick Institute for Metropolitan Development   |
| Presenters:              | Jon DeVries, Arthur Andersen<br>Robert Culshaw, Consulate General of Great Britain   |
| Commentary:              | Eden Martin, The Civic Committee of The Commercial Club of Chicago   |
| <b>2:15 pm–3:30 pm</b>   | <b>Global Service Linkages</b>   |
| Moderator:               | Adele Simmons, Vice President, Chicago Metropolis 2020   |
| Overview:                | Saskia Sassen, Professor of Sociology, University of Chicago   |
| Panel:                   | Andrew Krmenek, Chairman, Professor of Geography, Northern Illinois University<br>George Kaufman, John Smith Professor of Finance and Economics, Loyola University Chicago<br>Clark Heston, Executive Director, Risk Management Center of Chicago<br>Henry H. Perritt, Jr., Dean, Chicago-Kent College of Law, IIT                                 |
| <b>4:00 pm–5:15 pm</b>   | <b>Immigrant Communities: Economy, Education, and Work Force</b>   |
| Moderator:               | Susan Gzesh, Director, Mexico–U.S. Advocates Network, Heartland Alliance for Human Needs and Human Rights  |
| Panel:                   | Barry Chiswick, Research Professor and Head, Department of Economics, University of Illinois at Chicago<br>Una Okonkwo Osili, Assistant Professor, Indiana University–Purdue University at Indianapolis<br>Bob Ginsburg, Director of Research, Center for Labor and Community Research<br>Lourdes Monteagudo, Executive Director, Teachers Academy |

maintaining trade assistance programs necessary for increased trade. Wiewel expressed concern about the uneven effects of trade on local communities, such as work force displacement in some South and West Side neighborhoods. He encouraged participants not to forget the labor and environmental imbalances caused by increased trade.

A lively discussion followed the presentation as to how to interpret Hewings' findings concerning the extent of intra-regional trade. Some argued that the data demonstrated that the most fruitful effort would be cooperative planning of transportation infrastructure and programs to encourage economic activity among states in the Midwest. This

view was not at odds with the views of those participants who supported fostering foreign trade, since many of the development activities to encourage interstate trade would also encourage development of foreign markets for Midwest goods and services. It follows that growth of the region's trade with foreign countries may serve as a benchmark for more general health and competitiveness of the region's firms.

Henry H. Perritt, Jr. from the Illinois Institute of Technology's Chicago-Kent College of Law, stated that the desired outcome of globalization-focused programs must be made explicit before the programmatic changes Wiewel talked about are made. For example, to increase exports, the livability of Chicago is mildly important, but to increase tourism the livability of Chicago matters very much. Therefore, before implementing a program, policymakers must decide which of these outcomes is the more desirable. Hewings responded that there is no home run strategy and that we have many desired outcomes. Tourism, FDI, and increased trade are all important parts of fashioning Chicago as a global city.

### Transportation

Transportation and location are often key in facilitating trade. Jon DeVries from Arthur Anderson described highly developed transportation as one of the most important prerequisites to developing a global city. DeVries gave a presentation on intermodal transportation, emphasizing in particular road-rail transport. Chicago's favored position in intermodal transportation makes the Midwest a regional distribution center, thereby giving competitive advantage to key industrial sectors, such as the auto industry, and providing potential exporters in other industries with direct international shipping channels. Containerization has standardized and otherwise facilitated the transfer of cargo, leading to rapid growth in overland transportation, whereby cargo is transferred from truck to train, and from train to truck. So too, technological advances in inventory management and factory assembly, such as "just in time" production, have boosted intermodal freight by enhancing volumes and requiring greater delivery speeds. Chicago's position as a railroad transfer point where all major U.S. trunkline railroads converge puts the

city in a favored position to take advantage of increased global trade.

Robert Culshaw from the Consulate General of Great Britain reminded participants that there have always been global cities, and that access to a city through routes of transportation has always been a necessity for a global city. Harkening back to the theme that local policies undergird global success, Culshaw emphasized that transportation within a city is also very important in attracting foreign and domestic businesses. Citing England's success with direct train service to Heathrow airport, Culshaw noted that having reliable and easy-to-use trains from downtown to the airport is a great benefit in fashioning an efficient global air travel system.

In response to Culshaw's description of the characteristics of global cities, Eden Martin of the Commercial Club of Chicago claimed that transportation, and therefore location, is the most important characteristic. Transportation allows all the other resources required for globalization to come to the city. He expressed concern about both airline and rail capacity in Chicago, but was less concerned about railroad capacity because it is a private rather than public enterprise.

Conference participants reported on neighborhood complaints of empty containers piling up in Chicago due to the fact that we ship more in than we ship out. DeVries said that Chicago is actually developing regulations to address these problems. The railroads are at or near capacity, but he reiterated that investment in rail is private and, therefore, not really a public investment decision.

### Global services linkages

Global trade volume in services does not yet rival trade in goods, but it is growing by leaps and bounds. Part of Chicago's future success must lie as a domicile of global corporate control activities and the business service companies that assist them. Saskia Sassen from the University of Chicago noted that although some corporate headquarters have left Chicago, remaining headquarters rely on Chicago's highly developed and varied business service industry. She maintained that Chicago

provides a broad amalgamation of service firms with specialized knowledge. Furthermore, Sassen explained that headquarters per se are not what is important to Chicago, but the networks of specialized services that support them worldwide. These networks are what allow Chicago to maintain its strong position in some business sectors. Sassen compared legal services in Chicago with those in London but noted that Chicago law firms tend to have fewer international affiliates than London law firms. Chicago's accounting, investment banking, and advertising firms tend to have more similarities to London firms' networks of affiliates.

In response, Perritt emphasized the global influence of the U.S. system of law on issues such as growth, development, and human rights. For example, countries with market-oriented economies often emulate the U.S. system of commercial law. At home, the local influence of members of the legal profession as community leaders is also important. In order to maintain these strong local leadership roles in a globalizing city, lawyers, and especially law schools, must develop a more global outlook.

Andrew Krmeneč from Northern Illinois University pointed out that people usually think of services as being local but that business services are regionally, nationally, and globally traded. Referring to Hewings' presentation,

Michael H. Moskow, *President*; William C. Hunter, *Senior Vice President and Director of Research*; Douglas Evanoff, *Vice President, financial studies*; Charles Evans, *Vice President, macroeconomic policy research*; Daniel Sullivan, *Vice President, microeconomic policy research*; William Testa, *Vice President, regional programs and Economics Editor*; Helen O'D. Koshy, *Editor*; Kathryn Moran, *Associate Editor*.

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Krmenec said that in order to build global markets, we first have to focus on local, then regional, and then national markets. He claimed that, although we provide services globally, we are leaving a void in the region in business services that will be filled by other Midwest cities. Krmenec also identified electricity as a major infrastructure issue for the Chicago area.

### Immigrant communities

Conference participants universally viewed Chicago's ethnic and immigrant communities as an asset in the city's globalization efforts. Participants were reminded that globalization is not just international flows of goods and capital, but also of people. Barry Chiswick from the University of Illinois at Chicago provided some information on the changing demographic characteristics of immigrant communities. One notable change in these communities has been an increasing bifurcation in the average educational level of immigrants, with the majority of immigrants now belonging to either low-skilled or highly skilled categories.

The home regions of immigrants have changed substantially since the early 1900s, with immigrants to the U.S. now coming primarily from Mexico and other Latin American countries rather than Canada and Europe. A breakdown of reasons immigrants gain admission to

the U.S. reveals that a large percentage of immigrants gain status through family already living in the U.S., whereas status gained by providing a skill is less common.

Una Okonkwo Osili from Indiana University-Purdue University at Indianapolis addressed the topic of economic linkages between immigrant communities and their home countries. For the growing Nigerian community in Chicago, investment in the home community was common, especially for immigrants with no children in the U.S. Osili suggested that immigrants continued to invest in their home communities in order to diversify investment and as a signal of community membership rights.

Bob Ginsburg of the Center for Labor and Community Research discussed concerns about worker exploitation and the negative effects of globalization on labor standards. These effects are not limited to less-developed countries. A survey of workers in Chicago found that many work in "sweatshops," workplaces with poor conditions and extremely low wages where legislated fair labor standards are commonly violated.

The education of immigrant and second-generation children merits high interest because education levels increasingly determine individual income and success in the U.S. work force. Lourdes Monteagudo of the Teachers Academy addressed the educational challenges

of immigrant communities, especially regarding language difficulties and cultural obstacles. For many immigrant families she noted that, in apparent contradiction to conventional wisdom, second- and third-generation immigrant children fare increasingly poorly according to health and education statistics. Many public education systems are not responsive or are poorly equipped to serve children and families who do not speak English and who are not literate in their native language.

### Conclusion

The Chicago metropolitan area is one among many that are actively coming to grips with how globalization is affecting the way we live and work and what pitfalls and opportunities may lie ahead. Global Chicago's January 19 conference, and many other initiatives that are underway, can be seen as one of many steps to better inform and fashion public and private policies of Chicagoans in preparation for the economic changes ahead.

—Margrethe Krontoft  
*Associate economist*

—William Testa  
*Vice president and  
director of regional programs*

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<sup>1</sup>On the Internet at [www.globalchicago.org](http://www.globalchicago.org).

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