

## Alaska Forward: Towards a Next Generation Economy

### An Overview

Presented by

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Prepared for

Alaska Partnership  
for Economic Development

Prepared by

Economic Competitiveness Group



## Alaska Partnership for Economic Development (APED)

A non-profit umbrella organization consisting of a variety of economic development entities, committed to the development of an Alaska Comprehensive Economic Development Strategy (ACEDS) and accompanying realistic action plan to identify, prioritize, and implement the state's economic development program.

Ultimately, this plan – branded as the “Alaska Forward” initiative – will provide guidance to the Alaska legislature, government policy-makers, regional economic development groups, and local community entities.

*Come join the “Alaska Forward” initiative – a plan for the Next Generation economy in Alaska*

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## Alaska Forward: Towards a Next Generation Economy

A project having two phases:

- **Phase 1**– Situational Analysis; an “economic reality check” now coming to its close
- **Phase 2** —Strategy Development; to focus on recommendations for potential new economic development directions, new policies and new practices. This work will begin shortly.

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## The Consulting Team



**IHS Global Insight** — the global leader in economic and financial analysis, forecasting and marketing intelligence for 40 years. Now part of IHS and integrated with units such as IHS CERA, IHS Jane's, and IHS Lloyd's Register-Fairplay.



**Economic Competitiveness Group** — exclusive focus for 25 years on analyzing the drivers of regional economic competitiveness and strategy development.



**McDowell Group** — McDowell Group is Alaska's most experienced research-based consulting firm, with 35 years of experience studying business, economic and social conditions throughout Alaska.

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### Phase I – Situational Analysis Report

- Economic Profile and Forecast
- Alaska's Industry Cluster Portfolio
- Competitive Benchmarking
- Global Market Opportunities
- Analysis of existing economic development objectives and strategies
- Assess the strengths and weaknesses of the state's economic development organizations
- Assessment of Entrepreneurship and Business Climate
- Final Report - A Path to the Future

*Alaska Forward is the right initiative at the right time; APED looks forward to you helping us move from this study to the hard work that is to come.*

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### After the Situational Analysis, what can we say?

The problem: accumulating levels of future risk and declining economic resiliency, due to:

- Continuing declines in oil production (source of 85% of state revenue)
- Uncomfortable trends in other natural resource sectors (regulations, environmental concerns)
- Downturns in tourism
- Aging workforce
- Outmigration
- Weak culture of entrepreneurship
- Remoteness and related infrastructure challenges
- High energy and transportation costs

*Making the challenge even greater, Alaska's approaches to economic development—its institutional methods—need attention*

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### Call to Action

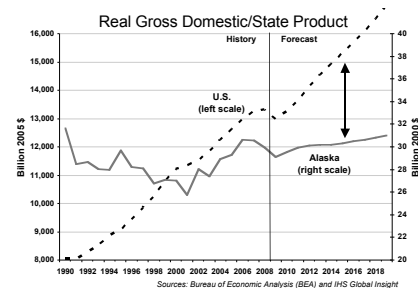
Oil prices may stay at or above current levels, significant new sources of oil and gas may be tapped, and federal government national security spending may keep rising. However, the probability that these events will **not** happen is uncomfortably high.

*This risk represents the basis of our call to action for a different approach to economic development.*

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### The Key Problem: Alaska's comparative stagnation

Alaska's economy has been stagnating when looked at in comparison to the U.S. national economy.



The forecast is the status quo path Alaska is on at this time.

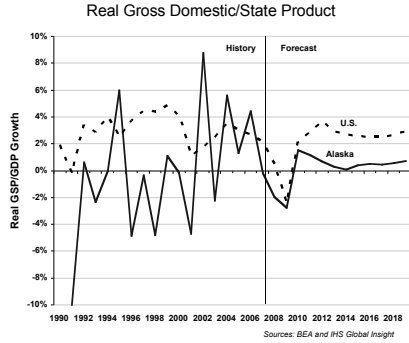
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## Cyclical Output Performance

Gross State Product contracted in 5 of the last 10 years with the ups and downs of natural resource cycles.

No growth in 2007, 2% decline in 2008 and a 3.2% decline this year.

Sluggish sub-par "recovery".

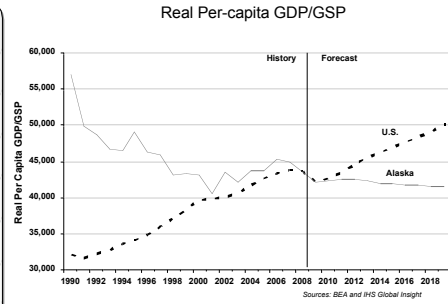


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## Getting Poorer

Once a high per-capita income state, Alaska is now projected to become a lower than average per-capita income state.

Ten years of decline is projected under the status quo outlook.

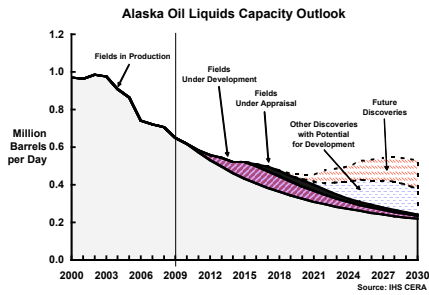


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## Energy sector no longer a source of growth

Alaska's oil and gas sector is massive (15% of the national supply), but in decline.

Without any new developments, we expect current fields to be producing only about one-third of their current levels by 2030.

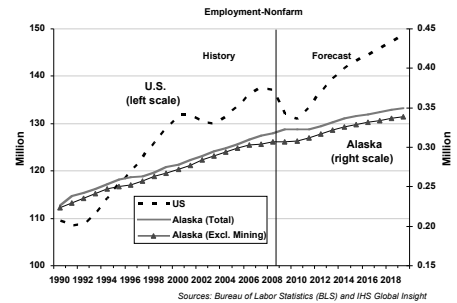


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## Employment -- stability that tends to mask what is happening in the underlying economy

Stability of employment has been an important source of peace of mind for Alaskans.

A key driver of this stability appears to be a natural "labor hoarding" response.

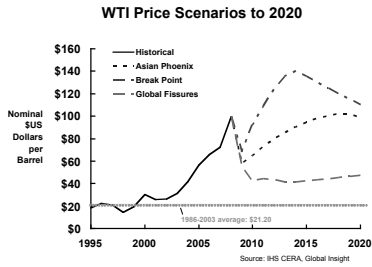


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## Oil Prices – leading expert’s price scenarios

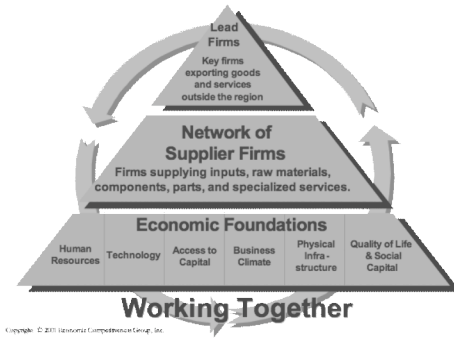
Alaskans should not ignore the downside risks of the price of oil.

- Global supply exceeds demand.
- OECD oil demand peaked in 2005.
- Cheap sources of supply still coming on stream.
- Oil production costs are being driven down.
- OPEC members not disciplined.



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## Reducing Risk, Strengthening Economic Resiliency--Many regions around the world are developing their economies around the concept of industrial clusters



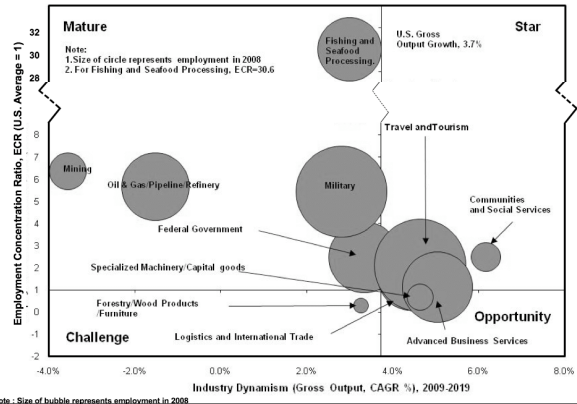
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## Clusters represent 40% of total employment

Cluster	Industry Dynamism, CAGR, Gross Output, 2009-2019	Employment Concentration Ratio	Employment 2008	Change in Employment, CAGR, 2003-2008
Federal Government	3.2%	2.5	16,353	-0.2%
Military	2.5%	5.4	27,424	3.5%
Fishing and Seafood Processing	3.0%	30.6	13,551	-1.2%
Logistics and International Trade	4.4%	1.6	10,784	1.7%
Travel and Tourism	4.6%	2.1	28,093	1.2%
Forestry and Wood Products	3.3%	0.3	734	-5.7%
Communities and Social Services	6.2%	2.5	2,658	4.2%
Advanced Business Services	5.0%	1.1	16,354	6.3%
Specialized Machinery/Capital Goods	4.5%	0.7	2,301	14.2%
Oil and Gas/Pipeline/Refinery	-1.5%	5.7	15,367	8.2%
Mining (excl. Oil and Gas)	-3.5%	5.4	4,452	12.1%
Subtotal	2.8%	2.4	141,252	2.3%
Non-cluster	4.4%	0.7	208,435	0.3%
Total	3.7%	1	349,586	1.7%

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## Segmenting the 11 Clusters (at the state level, 7 regions have also been analyzed)



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### Seed Clusters: Fortunately Alaska has several “clusters-in-the-making”

- Cold climate technology
- Rocket launch technology
- Cold climate housing
- Specialized super computing capabilities
- Distance delivery -- education, medical, and management services
- Alternative energy and clean-energy (bio fuels, clean coal/coal gasification, etc)
- Specialty solvents
- Light aircraft operations and maintenance/navigation
- Marine and arctic biological sciences/potential for aquaculture
- Remote communications technologies/systems
- Aerospace technology/operations
- Naturally grown/grazed food products

*From a strategic standpoint, these areas should be nurtured, as many of the jobs of the future will emerge from these seeds*

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### Peer State Benchmarking

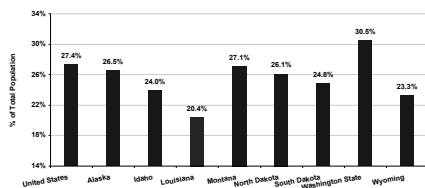
To assess the strength and performance of the state’s economic foundations, the Phase 1 report identifies seven peer states with which to compare Alaska.

- Louisiana
- Idaho
- Montana
- North Dakota
- South Dakota
- Washington
- Wyoming

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### Relatively well-educated workforce

Percentage of Population (25 and older) with Bachelor’s Degree or Higher



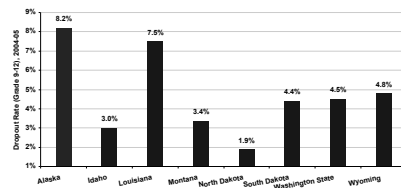
Source: U.S. Census Bureau, 2006-2008 American Community Survey

**Alaska has a well educated workforce. But employers regularly comment that many entry-level workers cannot read, write or perform basic analytical functions**

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### Abnormally high dropout rates

Event Dropout Rate for grade 9-12, School year 2004-05



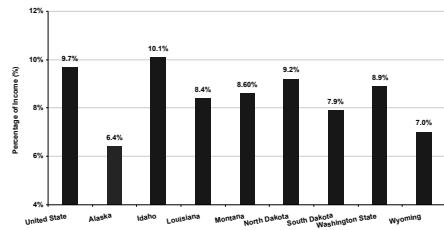
Source: U.S. Department of Education, National Center for Education Statistics

**However, the state has abnormally high drop out rates.**

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## Relatively good tax environment

State and Local Taxes As Percentage of Income, 2008



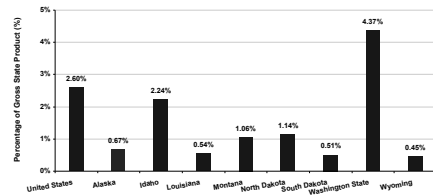
Source: Tax Foundation

Alaska does not levy individual income tax and state sales tax and offers overall low business tax environment.

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## Weak R&D effort

R&D Expenditure as Percentage of Gross State Product, 2005



Source: National Science Foundation and Bureau of Economic Analysis

Private industry contributed only 12% of the total R&D spending in the state.

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## Beyond the Statistics: Situation Analysis Includes Stakeholder Feedback

Outreach effort aimed at gathering opinions from Alaskans about economic development opportunities and challenges

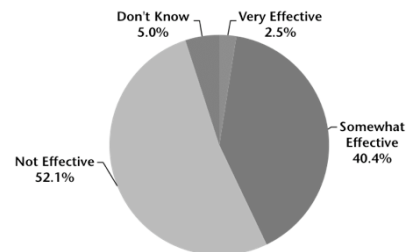
- Interviews with 75 economic development professionals and industry representatives from throughout Alaska
- Meetings with a variety of stakeholder groups
- On-line survey gathering public opinion about economic development in Alaska; more than 300 responses

Alaskans are worried about the state's economy and, importantly, whether today's approaches to economic development are the best way to improve the situation

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A majority of web-survey respondents said that the effectiveness of current and past economic development efforts were not effective.

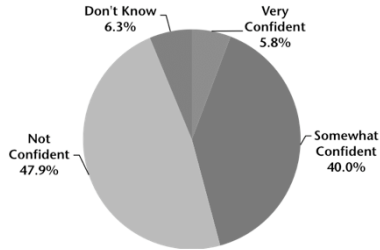
HOW WOULD YOU RATE THE EFFECTIVENESS OF ECONOMIC DEVELOPMENT EFFORTS IN ALASKA (N=300)



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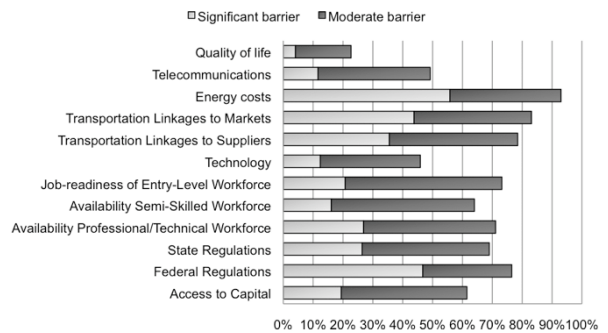
Less than 6 percent of web-survey respondents said they were very confident of the state's ability to compete globally.

HOW CONFIDENT ARE YOU IN ALASKA'S ABILITY TO COMPETE GLOBALLY?  
(N=300)



Energy costs and transportation links are seen as the biggest barriers to development

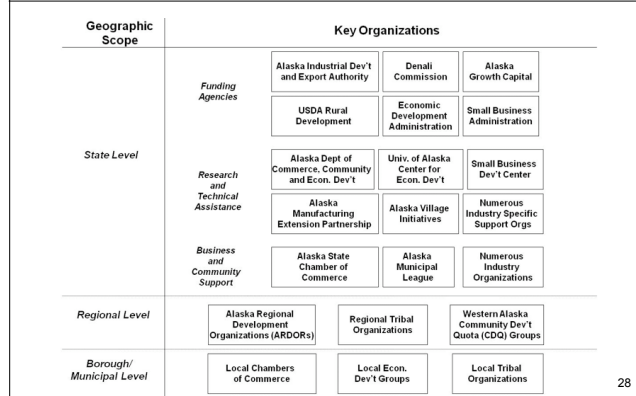
HOW SIGNIFICANT ARE THE FOLLOWING BARRIERS TO ECONOMIC DEVELOPMENT IN ALASKA?



### Surprising degree of consensus from stakeholders

- Lack of statewide leadership and coordination of economic development resources seen as obstacles, past and present
- Alaskans continue to view natural resources as the greatest opportunity for economic development
- Greatest barriers include high cost of transportation, cost of energy, and federal regulations

### Alaska's Economic Development "System:" Many economic development organizations with diverse funding sources, geographic scopes, missions and approaches



**The effectiveness of Alaska's EDOs appears subject to several overarching issues**

1. Need for Leadership and Coordination
2. Need for Explicit Goals and Strategies
3. Need to Integrate Short-term and Long-term Initiatives
4. Challenges of Geographic Isolation
5. Challenges Supporting and Adding Value to Existing Industries
6. Developing an Institutional Framework to Elevate the Impact of Knowledge-based Industries

*These are serious challenges, but other regions have been successful by taking non-traditional approaches to economic development*

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**What do you do in such a situation? Move forward with a collaborative strategy development process**

Public-private processes (public funding, private-public leadership)  
Seek a shared economic vision among stakeholders—"Natural Resources, PLUS"  
Inclusive, direct engagement of cluster leaders

Focus simultaneously on economic sustainability *and* diversification

- Wealth generating clusters must remain competitive
- Achieve diversification by placing special attention on emerging clusters

Identify priorities and make strategic investments in "economic infrastructure" that will be the foundations of the state's next economy

- Appropriately skilled, and adaptable human resources
- Available technology, appropriate for the state's industrial clusters
- Financial mechanisms, for existing and new enterprises
- Seek pro-competitive business climate
- Strategic investments in physical infrastructure

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**Process success factors**

- From this point forward, build momentum and maintain it
- Minimize gap between analysis, strategy development and implementation of new policies and practices
- Fast track some high visibility/high probability initiatives
- Early wins with low-hanging fruit builds confidence in the process

*Alaska is not alone in moving to a collaborative, cluster-based approach to economic development*

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**Join Us**

While Alaska's premier economic development organizations are at the forefront of the Alaska Forward initiative.....

*APED cannot do this alone. Please find a way to participate with us in this important initiative.*

**Please JOIN US!**

[www.alaskapartnership.com](http://www.alaskapartnership.com)

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