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Virginia Economic Development Partnership — Moving Forward Globally

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Let's discuss the Virginia Economic Development Partnership (VEDP) and set the record straight regarding what really happened with its management fiasco, along with its historic reform by the Virginia General Assembly this year.

At this point, a broad outline of the VEDP's failures is well known to the public and to Richmond lawmakers. An economic grant of $1.4 million was given to a shadowy Chinese corporation that promised to invest in new Virginia operations. The corporation then walked away with the money, which Virginia most likely will not get back. This started an avalanche of press reporting, particularly by the Roanoke Times, and a General Assembly audit that eventually resulted in new legislation. Last spring's legislation completely revamped the VEDP and its board, pursuant in part to recommendations from the audit and the final report of the Joint Legislative Audit and Review Commission (JLARC).

That report cited extensive managerial lapses, shortfalls in legislation, and simply shoddy practices. Though it recommended several actions that the VEDP's board of directors could take and criticized the workings of both the board and the staff, it did not come down hard on the board's key failure, which it only alluded to—board leadership that was essentially in cozy collaboration with its former president.

You could say that this is an issue of corporate governance in the public sector. You could argue that the former CEO of VEDP co-opted the board leadership or that the board leadership got the president it wanted. It doesn't really matter. The end result was the same.

In any case, the board leadership did not fulfill its statutory obligations to exercise due diligence and good faith or carry out its fiduciary obligation. Often, no real business was seriously discussed at board meetings. This is why last spring's new legislation totally reformed the VEDP and its board, and new board members were installed.

There is another factor, and what I believe to be a more important one, that led to this outrageous action by the Chinese corporation. Few of the former board members or those running it had much of a global view. At most, they were disinterested, and perhaps even hostile, about international operations and did not find them to be terribly important for business in Virginia.

The real lesson here is that, unfortunately, when a board's leadership gets too cozy with the entity it is supposed to oversee and does not provide full disclosure to other members, bad things happen. Corporate governance today, especially in the public sector, demands openness, independence, and international awareness.

The new legislation enacted this year to reform the VEDP provided for the establishment of a Committee on International Trade—one composed of gubernatorial and legislative appointees separate from the VEDP's board members. Is this really sufficient to ensure substantial success in promoting trade and better global engagement to create greater economic development and jobs? Maybe yes, maybe no—but it is a start.

You either have an international mind-set or you don't. Foreign policy is more than just relations between Fairfax and Richmond. All too often, international programs are submerged within larger entities. A better strategy might be to place these efforts in a standalone entity, such as the Virginia International Trade Corporation, which was

established by the General Assembly in spring 2016. It was designed to consolidate trade activities of different state agencies. However, it is now in some sort of suspended state based on the outcome of the new changes. But that's another story.

Also, another story is the need for an effective legislative overview of economic and tax incentives administered by all state agencies. A November draft report of the JLARC concluded that projects receiving such incentives generally met investment goals but fell short of their job-creation and wage goals.

What we have with this year's legislation is the Committee on International Trade that was established by the General Assembly and is composed of both gubernatorial and legislative appointees. The legislative charge is that it "shall advise the Board on all matters relating to international trade and trade promotion and shall make such recommendations as it may deem desirable."

The enabling statute deems this committee to be a committee of the VEDP. But this is not an ordinary committee appointed by an agency board of directors. The committee was created by the General Assembly. It clearly has a separate legislative mandate and membership. In a sense, it is best viewed as a semiautonomous entity housed within the VEDP that gives trade a more effective voice.

My conclusion is that, in terms of public policy and state economic development, legislative oversight of economic development and one of its core elements—international trade promotion—is essential. However, individuals acting in good faith and with global awareness are the crucial human elements.

The VEDP's new board and its new president, appointed several months ago, seem to be off to a good start. It is currently submitting detailed responses to JLARC's questions raised earlier this year. But active leadership by all concerned parties needs to be emphasized over and over for all public bodies, board members, and gubernatorial and legislative appointees. This is so very important. Laws can only do so much; it is the people who implement them.

About Stuart Malawer

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