

SENATE OF VIRGINIA

# Senate Finance Committee

## International Trade & Investment: The Impact on Virginia's Economy



November 14, 2012



SENATE FINANCE COMMITTEE

# History and Trends

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- The Virginia Company's original settlement at Jamestown in 1607 was an international trade mission.
  - The concepts of religious freedom and a democratic form of government evolved several years later.
- Commodities traded in Colonial times:
  - Tobacco and lavender were the first exports.
    - First documented export of Virginia agricultural products in 1614.
  - Imports included food, clothing, metal, tools and weaponry.
- Major Virginia exports today include business and financial services, transportation equipment, machinery, chemicals, computers and electronics, coal, and agricultural products.
- Imports today include clothing, household goods, producer goods, petroleum ... and tobacco.



# Economic Impact of International Trade and Investment

- International trade and foreign investment in 2011 represents about 18 percent of Virginia's \$428.8 billion Gross Domestic Product.

	EXPORTS	IMPORTS	FOREIGN DIRECT INVESTMENT	TOTAL
JOBS	236,272	156,627	160,100	552,990
ECONOMIC ACTIVITY (\$ in billions)	\$32.4	\$21.5	\$23.4	\$77.3

Sources: U.S. Bureau of Economic Analysis, Global Traded Information Services, Brookings Institution, and Virginia Economic Development Partnership



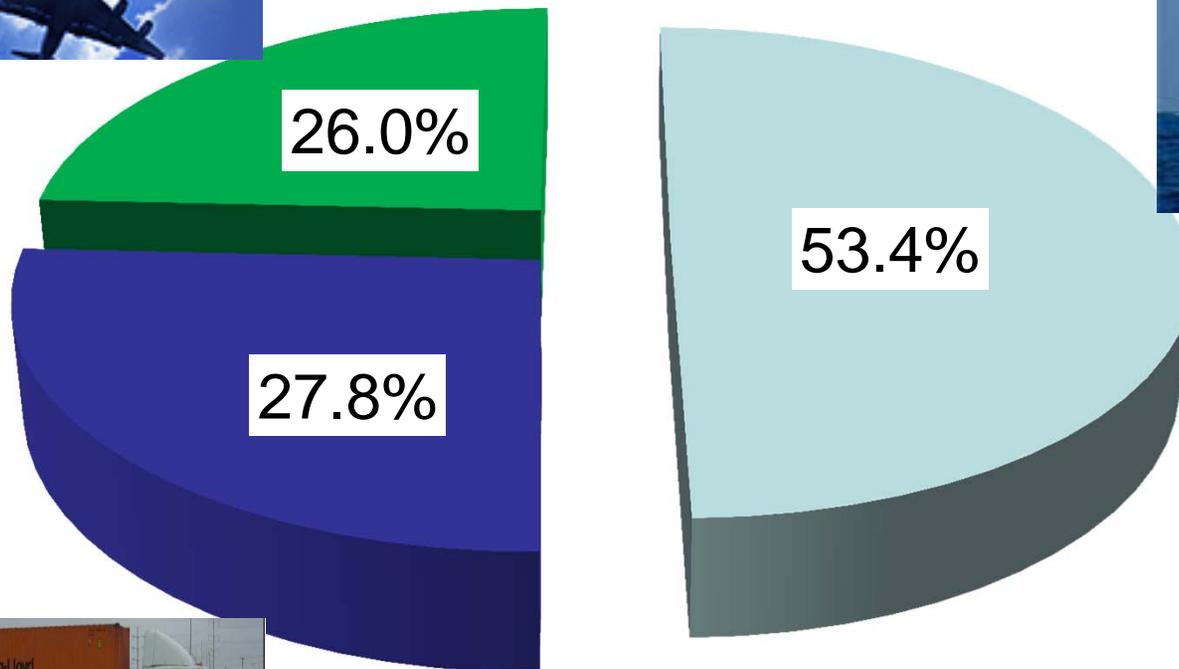
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# **International Trade Exports and Imports**



# Primary Transport Mode

## 2011 Virginia Exports to the World



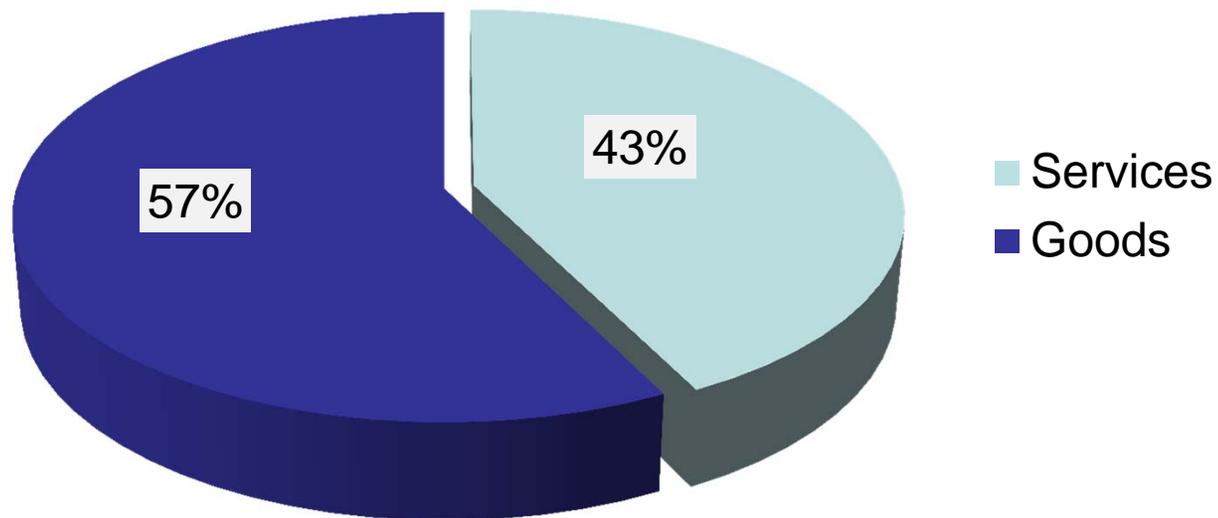
- Vessel
- Container
- Air



# Virginia Export Composition

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- Total Exports Value in 2011 = \$32.4 billion:



# Top Service Exports

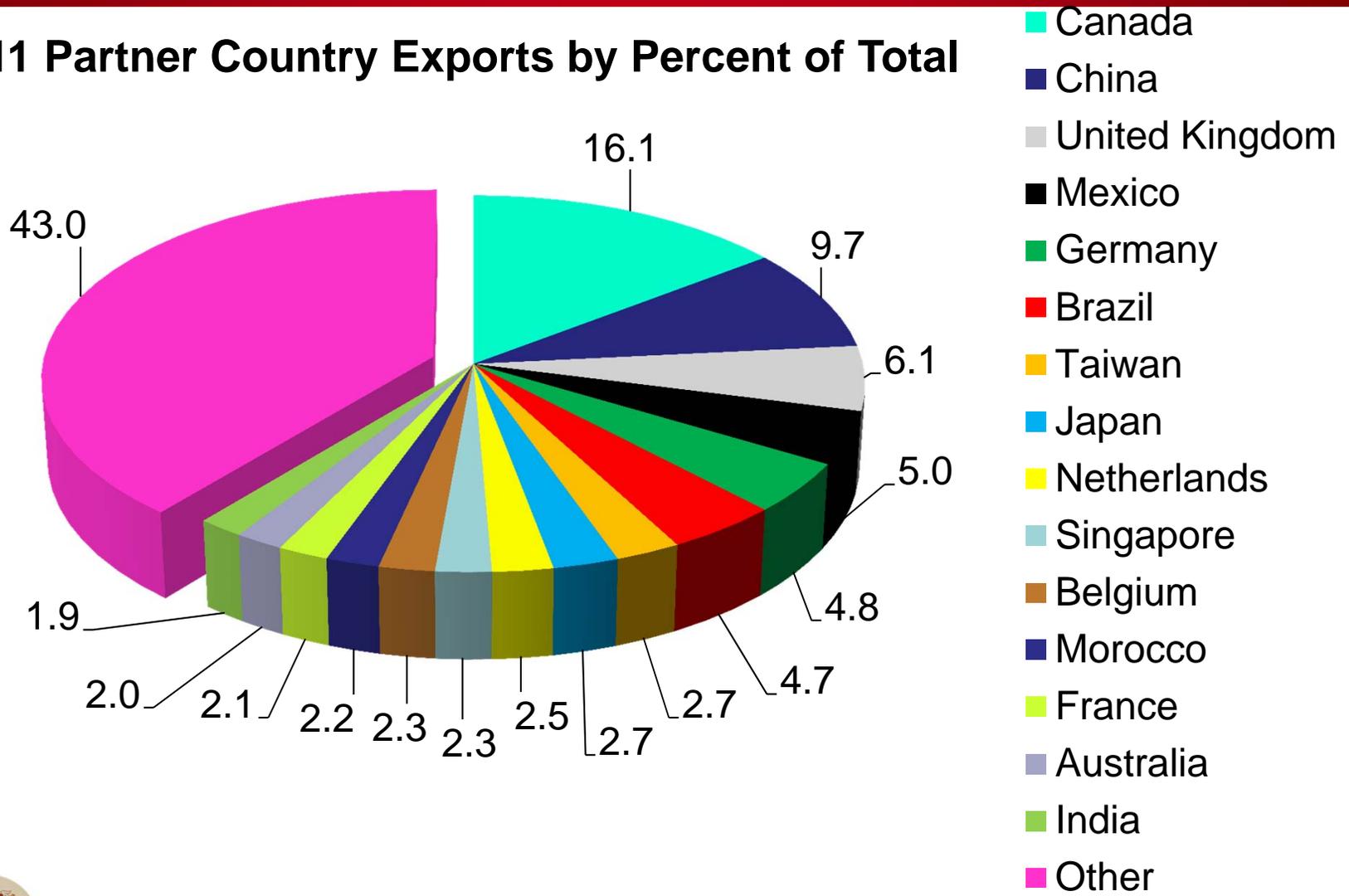
- Between 2003 and 2010, Virginia's service exports grew by 61 percent, compared to an increase of 37 percent for goods exports.

Industry	2010 Value (\$ in billions)	Top 3 Trading Nations		
Business Services	\$4.6	U.K.	Japan	Ireland
Travel and Tourism	\$3.1	Canada	Japan	U.K.
Financial Services	\$2.1	U.K.	Canada	Japan
Royalties	\$2.0	Ireland	Japan	Canada
Freight/Port Services	\$1.0	U.K.	Japan	Canada
Education	\$0.4	China	India	Korea
Telecom Services	\$0.4	Brazil	U.K.	Canada
Insurance Services	\$0.2	Canada	U.K.	Japan



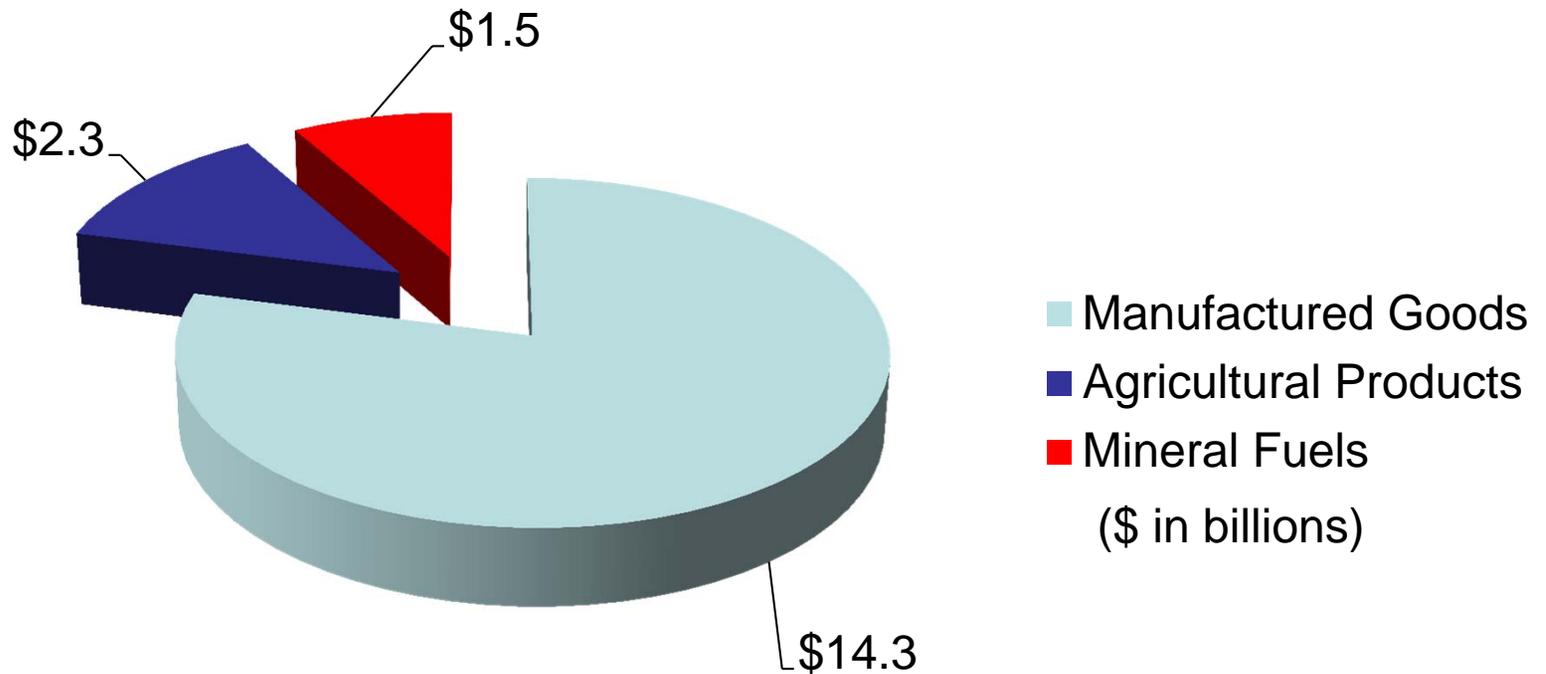
# Top Export Destinations for VA Goods

2011 Partner Country Exports by Percent of Total



# Virginia Goods Exports

- In 2011, the total value of exported Virginia goods exceeded \$18.1 billion.



# Top Virginia Export Goods in 2011

Rank	Description	Export Value (\$ in billions)	Top 3 Destinations		
1	Industrial Machinery	\$2.6	Canada	China	UK
2	Electrical Machinery	\$2.0	Taiwan	Singapore	Canada
3	Mineral Fuels	\$1.5	Brazil	Netherlands	India
4	Plastics	\$1.1	Canada	China	UK
5	Vehicles	\$1.1	Canada	Australia	Brazil
6	Aircraft & Spacecraft	\$0.9	UK	Germany	Luxembourg
7	Paper & Paperboard	\$0.8	Canada	Mexico	China
8	Medical Instruments	\$0.6	Canada	UK	Netherlands
9	Staple Fibers	\$0.5	China	Indonesia	Belgium
10	Organic Chemicals	\$0.4	China	Italy	France
11	Pharmaceuticals	\$0.4	France	China	Mexico
12	Iron & Steel	\$0.4	Canada	Egypt	Malaysia



# Imports Bad: A Common Misconception

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- Exports are viewed as a sign of national productivity and competitiveness, while imports are often perceived as taking jobs from U.S. workers.
  - Jamestown Colony could not have survived without imports.
  - Imports play an important role in creating U.S. jobs and making U.S. exports competitive.
  - Maintaining balance is the key.
- Import activity supports over 150,000 Virginia jobs:
  - 9,000+ jobs from pass-through cargo that lands in Virginia and is shipped elsewhere in the U.S.
  - Over 80,000 jobs from imports used as inputs in production of Virginia-made products.
  - Other jobs created from transportation, handling, and processing, to wholesale distribution and retail trade of imported goods.



# Factors Influencing Trade Balance

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- If a country imports more goods than it exports, it has a trade deficit.
  - As the relative value of a country's currency increases, the relative cost of imports decreases.
  - Some countries (China, for example) artificially keep the value of their currency low, thereby making their products cheaper to U.S. consumers.
  - Recent U.S. monetary policies (i.e. short-term interest rates close to zero) try to keep the relative value of the dollar lower. However, since the U.S. dollar remains a safe haven, foreign investor demand continues to keep the relative value of the dollar high.
- Consumer habits affect balance of trade.
  - Virginia's consumers, like the habits of many American consumers, tend to be spenders, not savers.
  - Cheap imports, combined with this enthusiasm for consumption and willingness to take on debt, can add to trade imbalance.
- Virginia, like the U.S., maintains a strong positive balance in service exports.



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# Port of Virginia



# Port of Virginia Economic Impact

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- The Virginia Port Authority estimates direct impact:
  - 343,000 port and port-related jobs statewide,
  - \$41 billion in annual revenue, and
  - \$1.2 billion annually in state and local taxes.
- Over 1.9 million TEUs (“twenty foot equivalent unit”) annually.
  - Original containers were 20 feet long, 8 feet wide, and 8 feet high.
  - Today, most cargo is moved in 40 foot containers (2 TEUs).
- Containers moving in and out of the port are transported:
  - 66 percent by truck,
  - 30 percent by rail, and
  - 4 percent by barge.



# Top Ten Commodities Through Port

(by total tonnage)

EXPORTS	IMPORTS
Logs and Lumber	Furniture
Paper & Paperboard	Auto Parts
Wood Pulp	Rubber
Grocery Products	Paper & Paperboard
Soybeans and Products	Non-Alcoholic Beverages
Mixed Metal Scrap	Woodenware
Pet & Animal Feeds	Tobacco
Meat	Granite
Poultry	Plastic Products
Automobiles	Newsprint



# Top Ten Trading Partners Through Port

(by total tonnage)

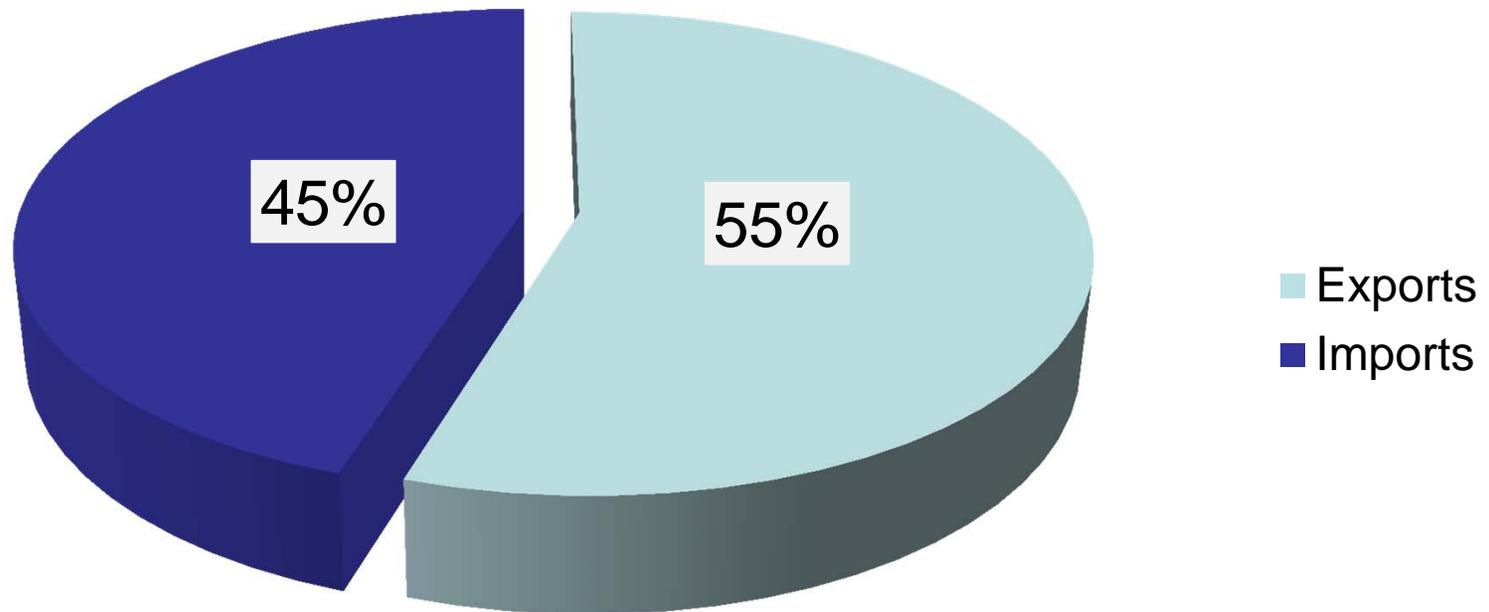
EXPORT	IMPORT
China	China
Germany	Germany
Netherlands	India
Belgium	Brazil
Brazil	Italy
India	Indonesia
United Kingdom	Belgium
Japan	Netherlands
Saudi Arabia	Spain
Indonesia	United Kingdom



# General Cargo Trade Balance

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## 2012 YTD Trade Balance of General Cargo by total tonnage through Port of Virginia



- Trade balance by tonnage has been fairly stable over the past decade.



# 2011 Balance of Trade for all Cargo Shipped through Virginia

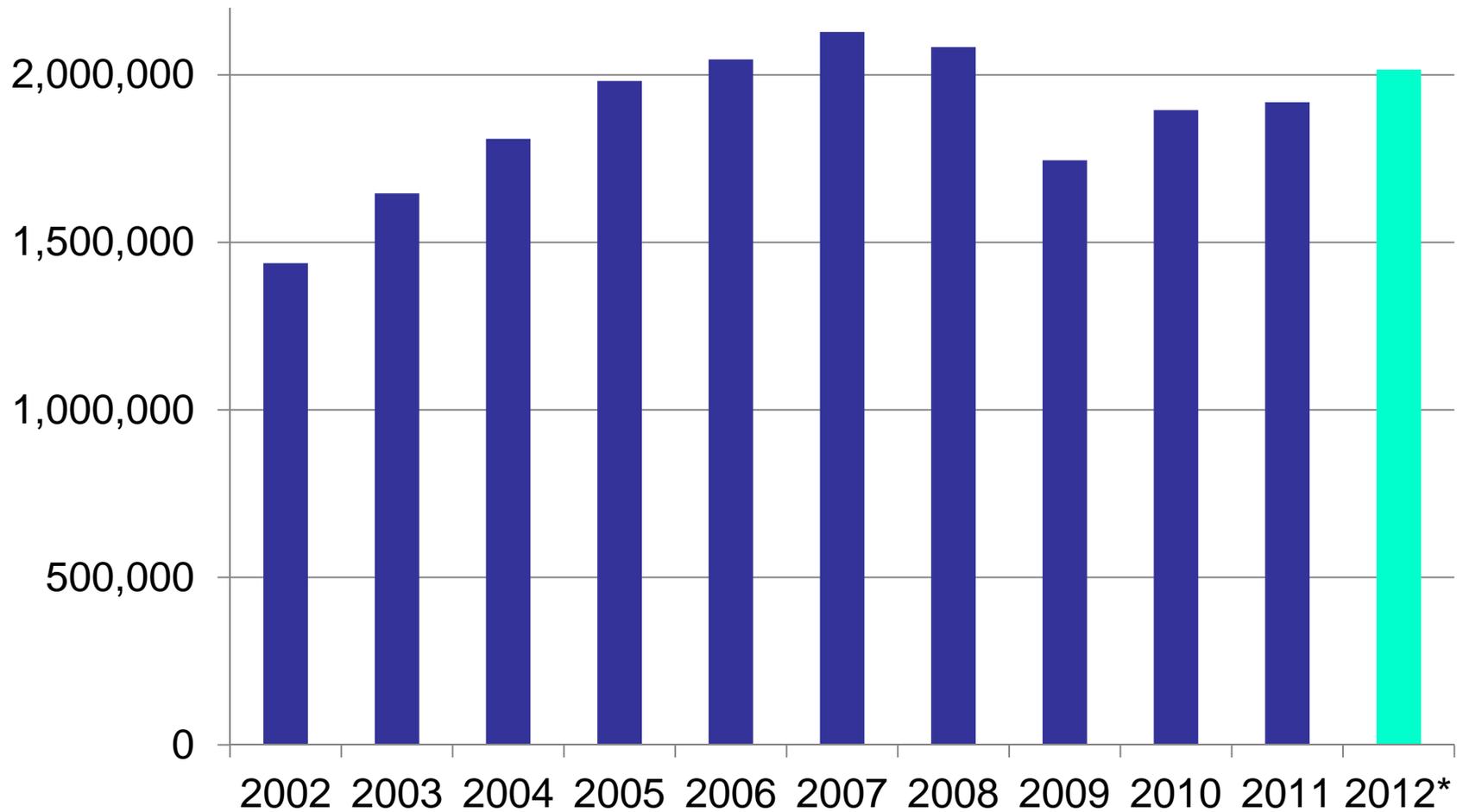
Short Tons (Thousands)	Export	Import	Total
Total Cargo	52,325	9,762	62,088
General Cargo	8,791	6,825	15,616
Container Cargo	8,749	6,520	15,268
Break-bulk Cargo	43	305	348
Bulk and Other Cargo (Includes coal/cargo not shipped through VPA facilities)	43,534	2,937	46,472
<b>Total Cargo Value *</b> (\$ in millions)	<b>\$23,983</b>	<b>\$30,828</b>	<b>\$54,811</b>

\* Includes exports not originating in VA and imports for which VA is not final destination.



# Port of Virginia Historical TEUs

(Twenty-foot Equivalent Units)



\*2012 Projected based on YTD performance through July



# Top 10 U.S. East Coast Container Ports

	2011 TEUs	East Coast Market Share
New York/New Jersey	5,503,485	34%
Savannah	2,944,678	18%
<b>Virginia</b>	<b>1,918,029</b>	<b>12%</b>
Charleston	1,381,349	9%
Miami	914,913	6%
Port Everglades	911,802	6%
Jacksonville	900,350	6%
Baltimore	631,802	4%
Philadelphia	291,091	2%
Wilmington, NC	287,469	2%



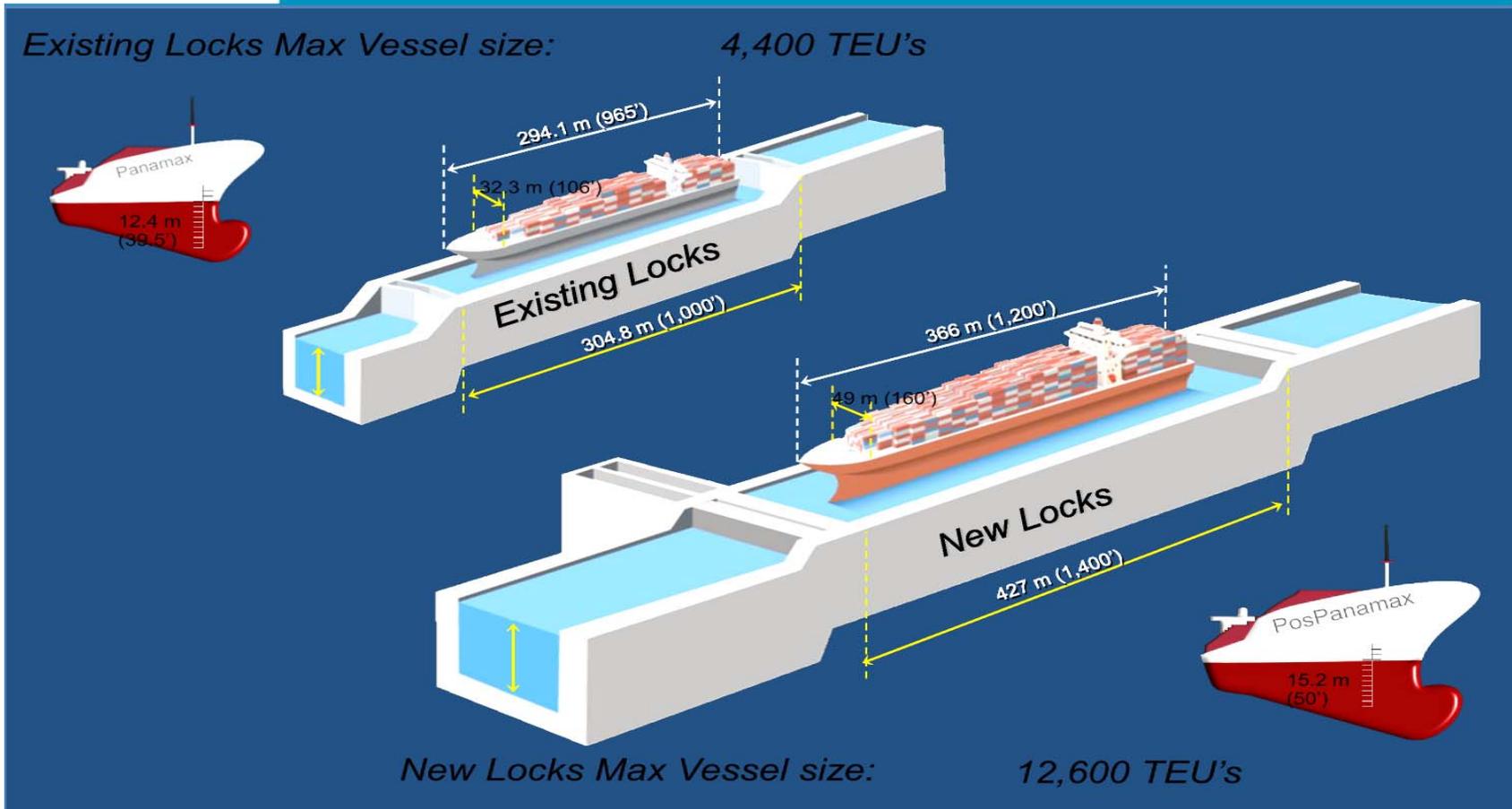
# Panama Canal Expansion; Window of Opportunity for VA

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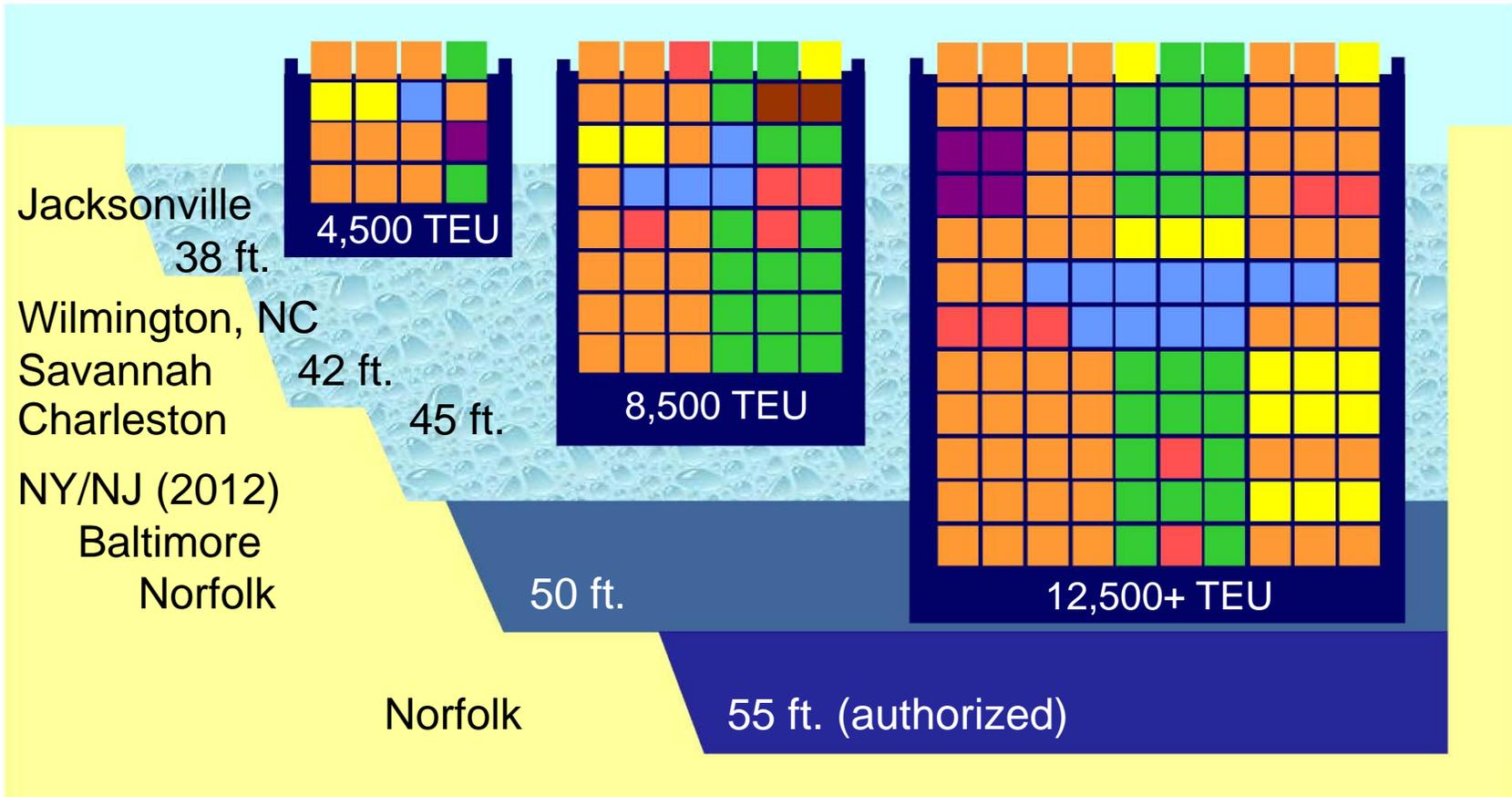
- The Panama Canal expansion project will double capacity by 2014, allowing more and larger ships to transit the canal.
- This will open the U.S. east coast to direct traffic from India, Asia and China, creating demand for port facilities along the eastern seaboard.
- Ports from Miami to New York are considering renovations including dredging, blasting and bridge raising to be able to handle post-Panamax ships.
- The Port of Virginia, with a 50 foot harbor depth (authorized to go to 55') and no overhead obstructions is currently the only port on the east coast that can service these larger ships; this will provide Virginia with an opportunity to draw traffic before other east coast ports can accommodate them.
- Virginia should seize on the opportunity to welcome post-Panamax ships, and ensure infrastructure (ground transportation, site-ready locations) is in place to keep them when competition opens.



# Panama Canal Expansion - New Locks Will Accommodate Post-Panamax Vessels



# U.S. East Coast Competitive Ports Water Depth



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# Agriculture and Forestry



# Overview of Agriculture & Forestry

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- Commonwealth's two largest industries.
- Economic impact of \$80 billion annually, or 19 percent of Virginia's Gross Domestic Product:
  - \$55 billion from Agriculture; \$24 billion from Forestry.
- Provides nearly 500,000 jobs from production to value-added and ripple-effect industries.
- More than 10 percent of all Virginia jobs
  - Every industry job supports 1.5 indirect jobs.



# 2011 Agriculture & Forestry Exports

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- Record \$2.35 billion in agriculture/forestry exports.
  - 2% above previous records in 2009 and 6% above record for 2010.
- Enhanced international presence and marketing by Virginia Department of Agriculture and Consumer Services (VDACS).
- Soybeans, grains, meat products driving growth.
- Asian and North African regions providing new markets for Virginia products.
- Trade barriers remain obstacles to expanded exports.
  - Shipping on credit to third-world countries.
  - Political unrest and ability to get perishable goods to market.



# Top Virginia Agricultural Exports in 2011

Rank	Description	Export Value (\$ in millions)	Top 3 Destinations		
1	Soybeans	\$327	China	Tunisia	Cuba
2	Soy Meal & Pellets	\$249	Morocco	Ireland	Saudi Arabia
3	Tobacco (Raw Leaf)	\$206	Switzerland	Germany	U.K.
4	Poultry	\$189	Hong Kong	Georgia	Vietnam
5	Soybean Oil	\$185	Morocco	Venezuela	Trinidad & Tobago
6	Wheat	\$180	Egypt	Brazil	Mexico
7	Pork	\$135	China	South Korea	Canada
8	Lumber (Sawn)	\$121	China	Italy	Vietnam
9	Corn	\$104	Jamaica	Morocco	Venezuela
10	Cotton	\$89	Taiwan	Bangladesh	Brazil
11	Animal Feed	\$84	Indonesia	China	Saudi Arabia
12	Logs (Round Wood)	\$57	China	Italy	Vietnam



# Agricultural Export Growth

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- Over \$200 million increase in agricultural exports resulting from marketing efforts over last two years:
  - Soybeans, wine, logs, seafood and peanuts to China and Hong Kong.
  - Wine, specialty foods, seafood to European Union.
  - Soybeans to Japan.
  - Apples to Israel.
  - Livestock to Russia and Canada; first shipments of Virginia cattle in early 2012.
- More than \$500 million in contracts from these efforts in 2012 and 2013.



# First Shipment of Virginia Soybeans Off-loading in Dandong, China; Dec. 2011

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# Changing Markets: Tobacco Case Study

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- Over the past decade, Virginia has exported less and imported more tobacco leaf. Several factors have led to this change:
  - Less tobacco is produced in Virginia than during peak in the 1970s to the mid-1990s, so there is generally less to export.
    - Virginia flue-cured and burley leaf is still more expensive than all main competitors in the global marketplace, decreasing demand for exports.
  - Virginia still has the highest quality leaf in the world; however, other countries are now producing higher quality leaf than they were a decade ago, thus demand is up for leaf sourced from those countries.
    - Countries such as China, Brazil, Malawi, and Argentina are producing more quality, but less expensive, leaf that is utilized by manufacturers in the global marketplace to produce cigarettes that are similar to the quality of the cigarettes produced in the U.S.



# Why Virginia Imports Tobacco

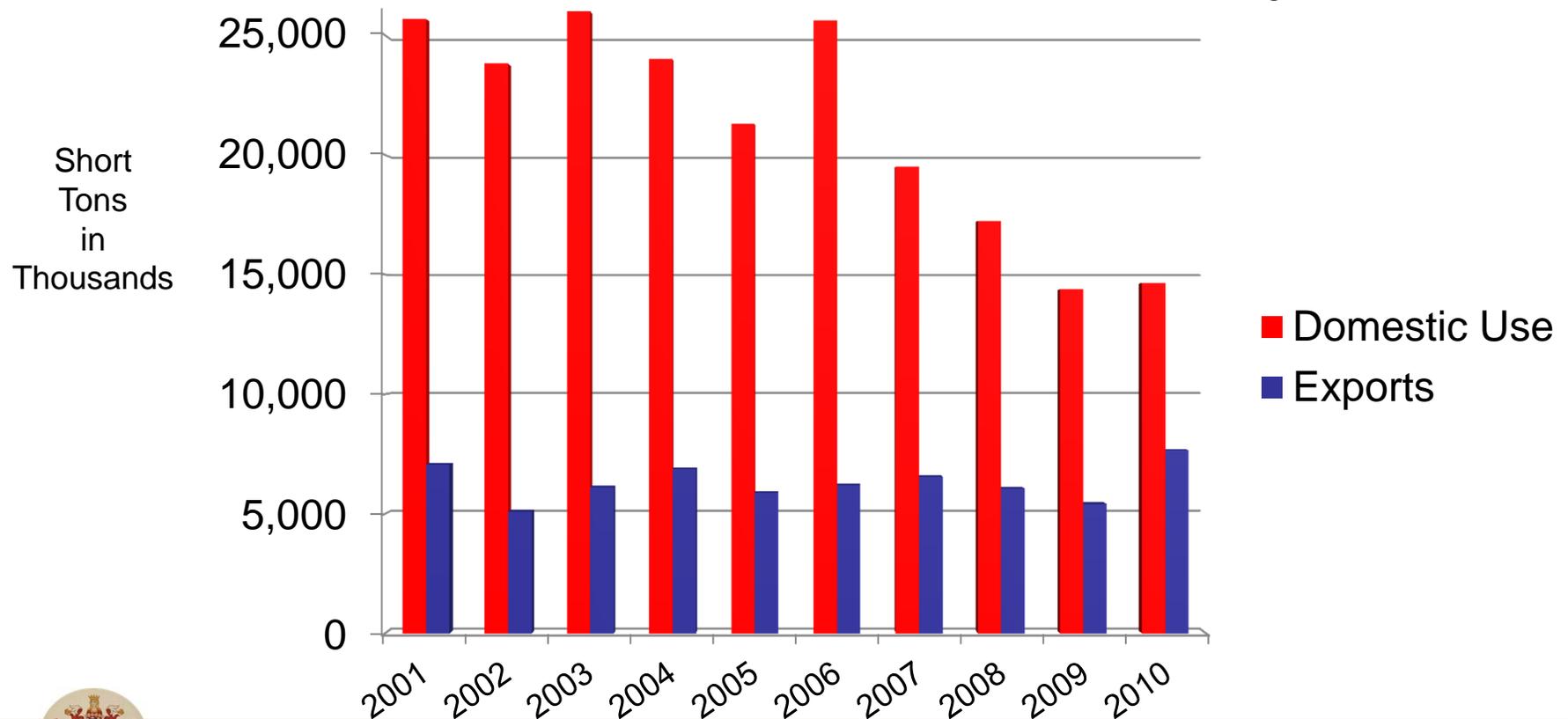
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- The high quality flue-cured and burley leaf produced in Virginia is mostly used by domestic manufacturers for the premium American-blend cigarettes that are produced and sold here.
  - The third leaf component of an American-blend cigarette – oriental – is not produced in the U.S., so it has to be imported to make these cigarettes.
  - Oriental tobaccos are grown mostly in Mediterranean countries like Turkey, Greece, and Macedonia.
- Smokers are moving to less expensive cigarettes as prices and taxes continue to rise, leading to an increase in the number of cheaper cigarettes produced.
  - Lesser quality generic cigarettes produced in Virginia are made with cheaper and lesser quality imported flue-cured and burley tobaccos.



# Coal Exports vs. Domestic Use

- While overall production and domestic use of Virginia coal is down significantly, 2010 was a record year for Virginia coal exports, with over 7.6 million short tons exported. While data is not yet available, U.S. Energy Information Administration projects this trend continuing through 2012.



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# International Investment



# International Investment in VA

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- Trade precedes international investment.
  - Imports lead to market establishment.
  - Markets lead to investment.
- Characteristics of international investment.
  - Fewer in number than domestic investment.
  - Much greater in scope.
  - Longer in staying power.
- Over 700 internationally owned businesses from 45 countries operate in Virginia, employing over 160,000 people.
  - In the past 10 years, international companies have invested \$5.6 billion and created more than 34,000 jobs in Virginia.



# Value of International Investment

- Between January 2010 and September 2012, a total of 112 announced projects involving the creation of 4,688 new jobs and nearly \$714 million in additional international investments in Virginia:

Top Home Countries	# of Announced Projects	# of Jobs Created	Total Investment (\$ in millions)
Germany	20	1,190	\$130.7
Japan	12	345	\$81.4
United Kingdom	9	444	\$47.6
Canada	8	276	\$26.4
Sweden	6	212	\$30.7
India	6	185	\$38.7
China	5	174	\$108.6
Spain	4	377	\$49.2
Italy	4	352	\$23.5



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# Efforts to Expand International Trade and Investment



# International Marketing Assistance

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- The Virginia Economic Development Partnership (VEDP) provides Virginia businesses with a variety of research:
  - Analysis of top markets for specific goods and services, market overviews for specific targeted countries.
  - Documentation required to export products to international markets; information on license requirements and procedures specific to products.
  - Knowledge regarding foreign standards, environmental laws and regulations specific to a product or service.
  - Information on U.S. and foreign shipping security regulations and cost estimates for getting products to their final market.
- Virginia Leaders in Export Trade (VALET) Program:
  - Two year training program to introduce Virginia companies to foreign markets.



# Global Network Information

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- VEDP's International Trade team maintains a network of international consultants in 49 countries to provide research for Virginia companies exploring export sales opportunities.
  - Provides in-country research specific to the company's product or service.
  - Assists in determining market entry strategies, identifying potential distributors and customers, and addressing legal, shipping and custom issues.
  - Two free projects per client per year; additional services available for fee to cover cost of services.
  - In FY2012, 143 specific research projects conducted on behalf of Virginia companies.



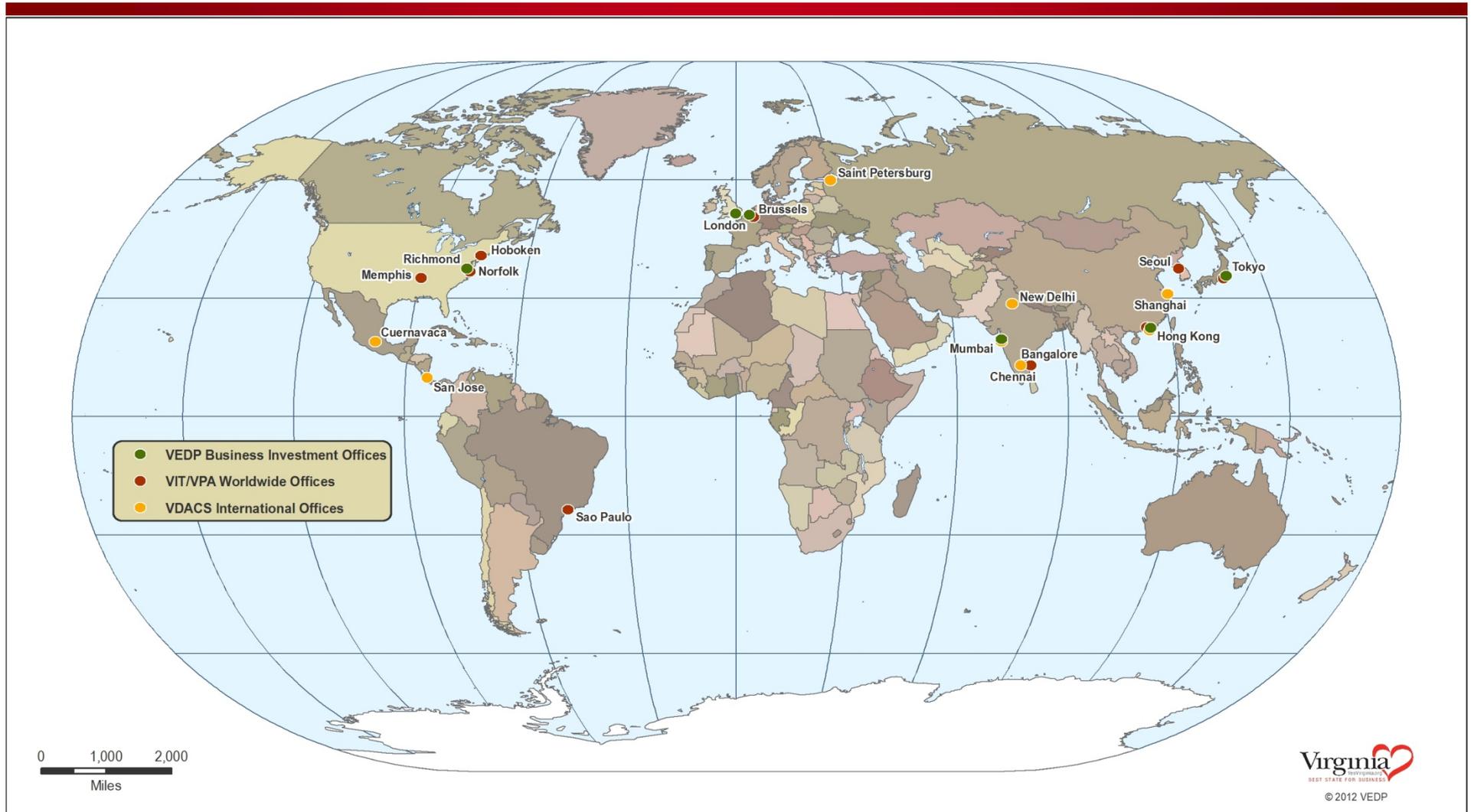
# International Investment Efforts

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- Governor-led international marketing missions open doors with higher level officials in other countries than staff alone can accomplish.
- VEDP provides comprehensive Virginia specific information on available sites and buildings, labor availability and wages, industrial training programs, state and local taxes, utilities, transportation services, financial services, environmental regulations, business incentives, and quality of life.
- VEDP international offices provide ongoing presence in selected countries, often in coordination with Virginia Port Authority and VDACS efforts.



# Virginia's International Marketing Locations



# Foreign Trade Zones

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- Foreign Trade Zones are geographic areas adjacent to U.S. ports of entry that provide the following benefits:
  - Merchandise held in a zone not subject to U.S. Customs duties, tariffs and other ad valorem taxes until goods leave the zone.
  - Customs oversight on audit-inspection basis versus on-site supervision.
  - Manufacturing and processing companies that operate in an FTZ receive benefits on foreign-sourced parts or material to include: relief from inverted tariffs; duty exemption on re-exports; and, duty elimination on waste, scrap and yield loss.
  - In Virginia, all imported and exported merchandise while in an FTZ is exempt from definition of intangible personal property.



# Foreign Trade Zones in Virginia

- There are currently six Foreign Trade Zones in Virginia:

FTZ Grantee	Subzone Projects	Port of Entry
Virginia Port Authority	Newport News Shipbuilding Western Refining, Yorktown Canon Virginia STIHL Incorporated	Norfolk/ Newport News
Washington Dulles International Airport	N/A	Dulles Airport
County of Culpeper	Merck	Front Royal
Capital Region Airport Commission	Hewlett-Packard Company Wimpfheimer & Bro., Inc.	Richmond/Petersburg
New River Valley Economic Development Alliance	VF Corporation	New River Valley Airport
Tri-Cities Airport Commission	Siemens Industries	Tri-Cities Regional Airport <i>(Interstate Zone with TN)</i>



# Recent Legislative Actions to Expand Port Business

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- Barge and Rail Use Tax Credit (2011):
  - Tax credit of \$25 for each TEU of containerized cargo or 16 tons of bulk cargo for usage of barge or rail to move cargo.
- International Trade Facility Tax Credit (2011):
  - Income tax credit of \$3,500 for every employee hired by Virginia shippers that results from ten percent or more increase in cargo moving through a VPA facility, or two percent of any capital investment to facilitate increased cargo moving through the Port of Virginia.
- Port Volume Increase Tax Credit (2011):
  - Tax credit of \$50 for each TEU to Virginia manufacturers or distributors of manufactured goods that have increased volume through Port of Virginia by five percent or more in a single year over their base year volume.
- Port Economic and Infrastructure Development Zone (2012):
  - Grant of \$1,000 to \$3,000 per job, depending on number of new jobs created by port users in certain localities near port facilities.



# Preparing for the Future

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- How can Virginia best prepare for future growth?
  - Explore potential new markets for Virginia agriculture and forestry products.
  - Consider additional international offices/presence:
    - Canada, Australia, Colombia, Chile, others?
  - Support expansion of service exports:
    - Every country wants “Made in USA” defense technology.
    - “Favored Nation Status”; working with U.S. State Department to determine those nations that are acceptable trade openly with.
  - Being prepared to respond quickly to changing markets.



# Conclusions

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- International trade and investment is an important part of the Commonwealth's economy, and one sector with significant opportunities for expansion.
- With more than half of our exports and imports moving through the Port of Virginia, the Commonwealth should strategically focus efforts to take maximum advantage of this vital asset.
- The impact of looming federal budget cuts can be mitigated to some degree by increasing foreign marketing of Virginia's exports in both goods and services traditionally targeted to federal contracts.
- State government can continue to play an important role in assisting small and medium companies' access to foreign markets through education, research, and assistance with obtaining financing (for example, the Small Business Loan Guarantee Program).

