Virginia, the United States and the world : the effects of political, cultural and economic factors on export activity

Kimberly Sue Williams

Follow this and additional works at: https://scholarship.richmond.edu/masters-theses

Recommended Citation
Williams, Kimberly Sue, "Virginia, the United States and the world : the effects of political, cultural and economic factors on export activity" (1991). Master's Theses. 1310.

This Thesis is brought to you for free and open access by the Student Research at UR Scholarship Repository. It has been accepted for inclusion in Master's Theses by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.
Much has been said about the "global marketplace" recently. In Virginia and the other forty-nine American states America, people are realizing that concentrating on domestic markets alone will not maintain American economic superpower status. They also are noticing the potential for the profitable sale of their products and services to other lands.

This paper attempts to shed more light on the nature of the international marketplace--on the various cultures, economies and political systems which constitute it. It is designed chiefly for Virginians, and begins, after a brief introduction, with a chapter describing exporting within the Commonwealth. Following this chapter, a synopsis of export procedures gives basic information about the logistics of exporting. The remaining chapters study various world
regions, looking at characteristics within them which affect American and especially Virginia's exports to them. They are presented according to the dollar amount of exports which they received from Virginia in 1989, with the largest purchaser listed first.

I hope that this paper will help individuals who are considering exporting their products abroad. I believe that in order to sell successfully abroad, a basic understanding of a customer nation's culture, as well as some knowledge of its political system and economic structure, is imperative. My research into this subject has prepared me to participate in the global economy; I hope that it will assist others as well.
I certify that I have read this thesis and find that, in scope and quality, it satisfies the requirements for the degree of Master of Arts.

[Signature]

Dr. Art Gunlicks, Thesis Advisor

[Signature]

Dr. John Outland
VIRGINIA, THE UNITED STATES AND THE WORLD: 
THE EFFECTS OF POLITICAL, CULTURAL AND 
ECONOMIC FACTORS ON EXPORT ACTIVITY

By

KIMBERLY SUE WILLIAMS

B.A., University of Virginia, 1986

A Thesis
Submitted to the Graduate Faculty
of the University of Richmond
in Candidacy
for the degree of
MASTER OF ARTS
in
Political Science

May, 1991
Richmond, Virginia
I would like to thank my parents for their support. A special thanks goes to my mom for allowing me to use her computer to work on this thesis, and for putting up with me while I was working on it at her house.

I would also like to thank the many state and federal agency employees, professors, friends and others who answered my questions regarding exporting and/or provided me with pertinent information. Several of the individuals I talked with went out of their way to provide me with answers to my questions.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Page No.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Introduction</td>
<td>1</td>
</tr>
<tr>
<td>2) Exporting in Virginia</td>
<td>6</td>
</tr>
<tr>
<td>3) The Process of Exporting</td>
<td>21</td>
</tr>
<tr>
<td>4) (Western) Europe</td>
<td>36</td>
</tr>
<tr>
<td>5) Japan</td>
<td>55</td>
</tr>
<tr>
<td>6) Canada</td>
<td>69</td>
</tr>
<tr>
<td>7) Latin America</td>
<td>77</td>
</tr>
<tr>
<td>8) Additional Regions of Significance to Exporters</td>
<td>92</td>
</tr>
<tr>
<td>9) Conclusion</td>
<td>121</td>
</tr>
<tr>
<td>Bibliography</td>
<td>125</td>
</tr>
</tbody>
</table>
Chapter One

Introduction

During the Middle Ages, the "marketplace" may have consisted of one village; products were made and sold locally. From a business person's perspective, there was little need to find out about the preferences of people in another town, let alone another continent. In the middle of the twentieth century, American made products were sold in America; there was not much incentive to find out about the tastes of people in another country. Business in the 1990's is different. Today there is a "global marketplace." Technology has made the planet smaller, facilitating communication and transportation between nations. The world today, in a matter of speaking, is only as far away as the nearest fax machine. In a way, trade has been democratized: it is now available to nearly anyone with a unique idea or product.

As the marketplace has expanded, it has reached more people; smaller actors have gained the opportunity to participate in it. As less dominant units affected by trade policy clamor for a voice in its formation, national
governments are no longer able to claim international commerce as their domain alone. Subnational actors worldwide are playing a larger part in international trade. For instance, China's provinces play a role in developing trade relationships, and Canada's provincial governments form their own trade strategies. Within the USA, individual states, given a long leash by the federal system which divides power between the national government and the states, are also pursuing their own international trade strategies. Since American states have different items to sell, their interests naturally are not the same. Because of this dissimilarity, one central trade policy designed in Washington cannot adequately address the needs of all fifty states. In addition, the level of support to exporters coming from the nation's capital is not adequate to meet all of their needs. Many states have stepped into the void in order to better assist their exporters.

Another drawback to federal versus state programs is that those issuing from the nation's capital suffer from the weight of a larger bureaucracy. For instance, applying for a loan from the United States Export-Import Bank involves a cumbersome application process, including much paperwork and a lengthy processing period. Red tape of this sort is easier to avoid when the bureaucracy is smaller.

Since state leaders live locally, they are aware of what their state has to sell in the international marketplace. They also are more in touch with the needs of native
exporters. Thus, they are better equipped than Washington to
develop a trade strategy uniquely suited to their state.
Because Governors and other state leaders are not protected or
hindered by the cushion of bureaucracy to the same degree as
national leaders, they frequently have greater room in which
to maneuver to construct and promote a specific trade
strategy. Along the same line, they also have less access
than their national counterparts to rhetoric blaming
foreigners for trade problems, and must, thus, devise concrete
solutions. Also, since Governors do not have to respond to
the same quantity of interests as leaders at the national
level, they are able to create a more focused plan for their
states. Virginia is a good example of a state which has
devised and followed its own trade strategy in recent years.
It successfully sells its products to many nations worldwide.

<table>
<thead>
<tr>
<th>Region</th>
<th>($)1988</th>
<th>($)1989</th>
<th>% Change</th>
<th>% Of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Europe</td>
<td>3,637,457</td>
<td>4,041,881</td>
<td>11.1</td>
<td>50.7</td>
</tr>
<tr>
<td>East Asia</td>
<td>1,297,498</td>
<td>1,526,840</td>
<td>17.7</td>
<td>19.2</td>
</tr>
<tr>
<td>Canada/N.America</td>
<td>747,684</td>
<td>788,486</td>
<td>5.5</td>
<td>9.9</td>
</tr>
<tr>
<td>Latin America</td>
<td>563,167</td>
<td>615,745</td>
<td>9.3</td>
<td>7.7</td>
</tr>
<tr>
<td>Middle East</td>
<td>285,939</td>
<td>366,270</td>
<td>28.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Africa</td>
<td>248,223</td>
<td>215,503</td>
<td>-13.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>196,313</td>
<td>214,404</td>
<td>9.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Australia/Oceania</td>
<td>83,699</td>
<td>95,442</td>
<td>14.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Caribbean</td>
<td>59,167</td>
<td>58,940</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>East Europe</td>
<td>60,945</td>
<td>47,193</td>
<td>-22.6</td>
<td>-</td>
</tr>
<tr>
<td>Grand Total</td>
<td>7,180,092</td>
<td>7,970,704</td>
<td>11.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Since American states have become significant in the
formation of the nation's international trade strategy, a
comprehensive look at exporting within the United States naturally involves an examination of an individual state, as well. This paper looks at America's as well as Virginia's exporting.

In addition to signifying a greater role for subnational actors, the creation of a global marketplace means that each participant within it will need to be aware of the tastes, cultures, politics, and economic policies of the other participants in order to succeed. Throughout history, the successful salesperson has had to know about her customers in order to design and market a product that they would buy. The rules have not changed today; the marketplace has simply grown larger. Fortunately, in a world made smaller by the links of technology, it is not difficult to learn about and become friends with individuals residing in any corner of the globe.
FOOTNOTES


2 Ibid., p. 183.


4 O'Neill, p. 189.

Trade in Virginia dates back to 1607 when Jamestown was founded as an export outpost. Tobacco clearly dominated the colony's early export economy. In 1701, tobacco made up more than 99 percent of the value of Virginia exports. Gradually, however, other commodities began to constitute a bigger share of the shipments abroad. By 1755 Virginia's non-tobacco exports represented 40 percent of the colony's total export earnings. Chief among these products were iron, corn, wheat, staves, pork, beef, pitch and tar. The trend toward diversification, begun in the 1700's, has continued into the Nineteenth and Twentieth centuries.

**Virginia's exports today**

Although tobacco remains one of Virginia's top exports—in 1989 it was Virginia's biggest export with over 1.7 billion in sales—it must share the stage with a wide variety of other products. Coal is tobacco's largest challenger. In fact, during the 1980's, coal and tobacco have taken turns as Virginia's number one export. In 1989, coal ran a razor close
second to tobacco in terms of the dollar value of export sales. Virginia's coal is well liked because it is clean burning, appealing to a more environmentally conscious world. Virginia's distribution system is also able to deliver it promptly. Coal and tobacco together constituted 44 percent of the Commonwealth's exports in 1989.6

Thus, Virginia, similar to a less developed country, derives a large percentage of its export income from primary products. However, it is gradually diversifying and including more finished goods in its shipments abroad. Joining coal and tobacco in the "billion dollar club" is industrial machinery, with over 1.1 billion dollars in export sales in 1989. Other top selling Virginia products in 1989 were chemicals, transportation equipment, electronic components, fabricated metal products, medical and optical products, textiles, and grains, fruits and vegetables.7 Virginia commodities making large gains in export sales in 1989 included forest products and seafood.8 Thus, in spite of the domination of the Old Dominion's export economy by coal and tobacco, Virginians profit from the sale abroad of an astounding variety of products, ranging, in fact, from baked goods to sushi. The Commonwealth's citizens also benefit from the export of services.

The Growth of Virginia Exporting

Although Virginia has exported since 1607, clearly this sector of its economy has experienced tremendous growth over
the past few years. In 1971, the Virginia export economy was a 1.5 billion dollar industry; by 1983, it had more than doubled. A scant six years later, however, the value of exports from the Old Dominion climbed to a whopping 8 billion, and the figure for 1990 was an even higher 9.3 billion. Obviously such a surge in the value of exports is affecting Virginia's economy in a positive way. The 22 percent jump in export sales in 1988 accounted for one-fourth of the state's economic growth. Indirect effects of exporting during the same period probably accounted for another 25 percent of growth. In 1989, exports once again accounted for one-fourth of the state's economic growth for the year. During the past three years, the increase in the export of commodities and manufactured goods have created about 60,000 jobs in the Commonwealth.

Why have exports swelled in recent years? Certain of the Old Dominion's recent Governors can take some of the credit. On any issue related to the economy, the Governor is the "best and primary salesperson." Fresh in the Commonwealth's memory is the role which Governor Baliles played in promoting Virginia's products overseas and stressing the need for Virginia to be a player in the global community. Baliles' many trade missions abroad put the Old Dominion on the map in the minds of many foreign government and business leaders and created awareness at home of the need to export. Governor Robb can also claim some of the credit for the surge in exports. He was instrumental in helping the Virginia port
system to provide better service to international traders from Virginia and elsewhere.\textsuperscript{18}

A Governor's actions are just one component, however, of the network of factors affecting the trend in exports. The current upward movement is due to significant other elements as well:

- The tobacco market overseas is booming. Many markets previously closed to imports of tobacco products are now open.
- Foreign demand for Virginia coal is great due to its low sulfur content and high quality.
- The decreased value of the U.S. dollar has increased the attractiveness of American products to foreign buyers.
- Many overseas economies have been strong in recent years.\textsuperscript{19}
- There has been a general decrease in import restrictions worldwide.
- Virginia's port system has been growing—including the recent opening of an inland port—and it is offering better delivery service to exporters.
- There is a growing realization that exporting can be quite profitable and that increased sales abroad are necessary to help America reduce its trade deficit.
- There has been a greater focus within educational institutions and the media on the global economy.
Of all catalysts to the growth of Virginia's exports, the increased demand for coal and tobacco and the low dollar are considered to be the most potent. 20

Virginia's Assistance to its Exporters

Three state agencies are directly involved with promoting and/or monitoring Virginia exports: the Virginia Department of Economic Development (VDED), the Virginia Port Authority (VPA) and the Virginia Department of Agriculture and Consumer Services (VDACS). On October 1, 1990, the Wilder administration abolished the Virginia Department of World Trade (VDWT), which had been located in Norfolk. VDED, in Richmond, then absorbed its operations. One purpose of VDED is to stimulate Virginia's international business. Its export development program incorporates marketing, research and educational programs into its efforts to increase the number of the state's exporters and the quantity of exports leaving the Old Dominion. 21 It also serves as a referral service for information on legal assistance, banking and other services necessary to conduct international trade. 22

The Virginia Department of Agriculture and Consumer Services, also located in Richmond, finds markets overseas for lumber, seafood, peanuts, and other agricultural products produced in the state. It sponsors trade show delegations, brings in foreign trade missions and counsels agricultural producers. 23 The Virginia Port Authority, which resides in
Norfolk, provides and markets the marine terminal facilities through which international shipping trade takes place.\textsuperscript{24} Another state organization, the Center for Innovative Technology, does not play a large role in export promotion, but it can assist exporters in the implementation of product changes needed to meet international standards.\textsuperscript{25}

**Virginia and the United States**

The U.S. Constitution limits Virginia's trade jurisdiction. Article 1, Section 8 of the Constitution gives Congress the right to regulate commerce with foreign nations. In addition, Article 1, Section 10 prohibits states from entering into treaties with foreign governments and prohibits states, without the permission of Congress, from laying duties on imports or exports. "Generally, foreign trade policy is reserved to the federal government."\textsuperscript{26} Nevertheless, states can take responsibility for promoting the sale of products overseas; they can, thus, act to improve the health of their economies. In fact, while most nations have one unified international economic strategy, the U.S. has dozens, as each state tries to carve its own niche in the global economy.\textsuperscript{27}

As stated above, the export sector in the Old Dominion has grown drastically due to a variety of factors. It is also doing well compared to other states in the nation. Between 1984 and 1990, Virginia moved from sixteenth to ninth among the fifty states in term of the amount exported.\textsuperscript{28} Virginia's
port facilities also compare favorably with their counterparts in other states: in July of 1990, the port at Hampton Roads came in first place in cargo volume for total U.S. water borne foreign commerce,\textsuperscript{29} and during the first half of 1990, Virginia's ports achieved second place for cargo growth.\textsuperscript{30} In addition, the Old Dominion sells a larger array of commodities than most states.\textsuperscript{31} Thus, the Commonwealth is staking its claim to a share of the world's wealth by actively participating in the global marketplace.

\textbf{Involvement of Virginia Businesses in Exporting}

Clearly, exporting is booming in Virginia. It is providing jobs and revenue to the state and profits to the companies involved in selling internationally. Yet in 1989, there were only 1,100 exporters in Virginia.\textsuperscript{32} Of all small businesses operating in Virginia, only 6 percent were involved in importing and/or exporting in 1986. Most claimed a lack of interest, but experts say the reason why they are not involved is due more to a lack of knowledge.\textsuperscript{33} Since, there is a great deal of information available from both state and national agencies for anyone interested in beginning to export, perhaps the inadequate knowledge is more a matter of a lack of awareness about the booming export sector and the amount of profits which can be obtained from selling overseas than to a deficiency of available information.

Another impediment to small and medium-sized businesses is financing.\textsuperscript{34} Smaller firms may be unwilling or unable to
provide the initial investment that is necessary before profits can be attained. Success in cracking foreign markets usually requires a long-term commitment that smaller companies may not be able to make. Currently, the Commonwealth does not offer a loan program to its exporters. Since state investment in the export sector encourages firms to take advantage of the lucrative export market and produces a pay back to the state in terms of revenue and job creation, money invested in the state's export promoting machine is well spent. For example, for every dollar Virginia recently allocated for its ports, it got back approximately $2.50 in state revenues. Income taxes from port-related jobs alone provide 240 million dollars to the state treasury. Hopefully Virginia's policy makers will continue to recognize the positive effect of exporting on the state's economy and the fact that it is one area of the economy which is doing quite well when they contemplate the state's budget.

Prospects for the Future

In the future, due to the reasons listed earlier explaining why exports are now booming, the quantity of exports leaving the state is likely to continue to grow. There are factors, however, that may affect Virginia exporting in a negative way. For instance, exporting, both in Virginia and in the rest of the United States, may be affected by the outcome of negotiations among the nations belonging to the General Agreement on Tariffs and Trade (GATT). In December,
GATT members were unable to come to an agreement on trade due mainly to Europe's intransigence regarding its agricultural subsidies; all other GATT issues hinged on this particular matter. As of mid-March, 1991, talks have resumed. If an agreement cannot be reached in the current round, it will be a barrier to further growth for exports.\(^{38}\)

Another occurrence which could possibly inhibit exports is the creation of trading blocs.\(^{39}\) Currently, the potential exists for the formation of such groups in North America, the Far East and Europe. Regional blocs could inhibit free trade by placing barriers on imports to protect domestic products from foreign competition. Thus, the quantity of exports which Virginia and the USA could sell to certain areas of the world would decrease. In addition, a trade bloc including North and South America might make it difficult for all of the debtor nations involved to climb out of debt, affecting their imports of goods from the United States.

The future of long-term export growth is also dependent, of course, on conditions within the world's economy. A sustained global recession will limit international buying power and, thus, reduce the demands for exports. Furthermore, it may lead to political pressure to protect domestic producers against foreign competitors. An upward hike in the price of oil would also cause exports to decline, particularly exports to less developed countries (LDC's).\(^{41}\) If the value of the U.S. dollar increases, it will also probably reduce the attractiveness of American products to foreign consumers.
Changes within the Commonwealth itself might affect the future growth of exporting from the state. Recently, as stated above, the Virginia Department of World Trade was abolished and its functions absorbed into the Virginia Department of Economic Development. Governor Wilder effected this change in an attempt to trim the budget, and the General Assembly approved the action in HB1987 during its 1991 session. There is likely to be a short-term negative effect on export promotion efforts due to the strain of the transition and due to the loss of human capital, i.e., skilled individuals from VDWT that chose not to join VDED after the merger. In the long term, however, the merger is not expected to affect negatively the state's efforts to promote exports. VDWT's basic programs will continue to be carried out by VDED.

As suggested above, the curtailment of export services provided by state agencies could have a negative affect on the flow of exports. Given the situation of the state's economy at present, the possibility that elected leaders might cut some programs exists, but it is not likely. Another factor which could affect export growth is reduced efforts at export promotion from the state's executive branch. Governor Wilder has not given as much time to export promotion as did his predecessor, former Governor Baliles.

The obstacles to the growth of exports are not nearly as great as the opportunities. Optimism abounds. Mr. Samuel Banks, Acting Deputy Commissioner of the U.S. Customs Service expects international trade to double by 2000. Of the number
of state and other professionals with whom I spoke, only one did not predict a continued increase in Virginia's export growth. Most of the reasons for the current increase listed above will likely continue to provide impetus to the state's export sector. In addition, changes in international political, economic and security relationships will create new opportunities for Virginia's manufacturing and agricultural sectors abroad. Exporters who stay keenly abreast of all of these developments will probably be able to profit from them.

Ultimately, sustained export growth in the Commonwealth will depend on its exporters' knowledge of their customers' tastes and of the political and economic policies and cultures of the countries to which they are selling. It will also depend on the participation of more Virginia firms in exporting. With Virginia's excellent port facilities and the Dulles international airport, with the current information resources available to businesses that would like to sell their products abroad, and with the profit potential from properly planned exporting activities, the wise Virginia company will, indeed, turn its eyes toward the international marketplace.
FOOTNOTES


3 Ibid., p. 115.

4 Ibid., p. 143.


6 Ibid., p. 22.

7 Ibid., p. 85.

8 Ibid., p. 23.


13 Sally Kirby Hartmar, "All the World's A Market," *Virginia Business*, 5, No. 7 (July 1990), p. 34.

15 Christine Walberr-Couturier, Virginia Department of Economic Development, information gained by the author from her lecture at the "Marketing Your Export Product" seminar, sponsored by VDWT and the Virginia Community College System, 7 November 1990.

16 "Virginia Exports Surge," Virginia Maritimer, 10, No. 10 (November 1990), p. 3.

17 Bill Porter, Deputy Secretary for Economic Development for the state of Virginia, interview by author, 15 January 1991, Richmond, Virginia.

18 Frederick Talbott, "Shaping up and Shipping out," Virginia Business, 1, No. 6 (August 1986), pp. 31+.


20 Ibid.


22 Biermann, pp. 68-69.


25 Ibid.

27  Robert B. Reich, "The Real Economy," The Atlantic, 267, No. 2 (February 1991), p. 44.

28  Hartmar, "All the World's a Market," p. 34.

29  "Virginia's Ports No. 1 in Total Cargo," Virginia Maritimer, 10, No. 7 (July 1990), p. 4.


32  Hartmar, "All the World's a Market," p. 34.

33  "Virginia's 'Year of Trade,'" Crescent Monitor, 1 (Summer 1988), p. 2.


37  "Virginia Exports Grew $800 Million in 1989," Virginia Maritimer, 10,, No. 8 (September 1990), p. 4.

38  Rufus Phillips, interview by author.

39  Ibid.


41  Ibid., p. 162.

Ibid.
Chapter Three
The Process of Exporting

Getting ready to export in Virginia differs little from similar preparations in other parts of the country. Many experts identify three key phases of the export process: marketing, financing, and packaging goods for export. Anyone interested in selling products abroad must "do her homework" if she expects to be successful.

Marketing

The first step is to determine if exporting is actually in line with a company's goals and capacities. One reason given for the failure of exporting efforts is a lack of commitment by the exporter. Companies sometimes see a foreign market as an outlet for equipment not good enough for the home front. An attitude viewing a foreign nation as the market of second choice is not likely to produce long-term profit for a company. As part of the planning which a company must do before exporting, it should pinpoint why it believes it can sell its products abroad profitably. One reason might be to utilize economies of scale. It is cheaper per unit to make
100 widgets than 50, but 100 will not sell in the United States. Another might be a desire to utilize excess capacity or extend a product's life cycle.\(^1\) An item no longer popular in the United States may just be coming into vogue in another nation.

After deciding that the sale of its products or services in foreign markets is appropriate, the company must decide if it wants to export directly or indirectly. If it chooses to sell directly, it will bear the full responsibility for finding a customer, shipping the product and even servicing it after the sale. However, it will then have more control, potentially greater profits and a closer relationship with the buyer.\(^2\) Indirect sale is usually best for a company not willing to devote a tremendous amount of resources to the export effort. It utilizes someone else's expertise for one or all of the aspects of exporting. This provides a small company with the means to enter foreign markets without facing the risk and potential confusion caused by going it alone.\(^3\)

One example of indirect exporting is "piggyback marketing." The most common example of this type of arrangement is when a large company cannot produce all of the products it is under contract to supply and uses another company to fill the gap.\(^4\)

If a company decides to sell directly, it must first determine which country(ies) will be the best market(s) for its product. A plethora of factors need to be considered including the country's political situation, its stability, the willingness of its citizens to deal with Americans, and
whether it has a common market affiliation, just to name a few. A perusal of the later chapters of this paper should give more information on selecting the appropriate country for a product.

Upon selecting a particular country, the company must find the customer there. It can, as stated above, go about this indirectly, by using an agent to do its legwork. Or, it can utilize a more direct means to market its product. One example is the Foreign Buyer Program sponsored by the United States Department of Commerce. This program offers those who would like to sell abroad the opportunity to meet potential foreign buyers without even leaving the country. A company can also use its own sales representatives to push its products abroad. Before sending staff into a foreign land, however, it should make sure that it has done its research on the particular nation's culture. Chances are that business is not conducted there in the same way as it is in the United States. The company should also prepare for the sales trip long before it actually takes place. For instance, it should arrange for an ATA carnet, whereby samples may be brought into most countries duty-free and without a lot of hassle related to customs.

Financing

Once a company has determined its reason for exporting, has decided on a country in which to market its goods, and has found a customer, it must concentrate on matters related to
pricing, financing, and the way it will receive payment for the products it will ship. Two of the most common means of price setting are the cost plus method and the marginal cost method. For the cost plus method, all exporting costs are added to and all non-applicable costs are subtracted from the domestic price. The marginal cost method uses a floor price, which includes production costs and any costs incurred to prepare the product for export. All other costs are then factored out. This method is preferred because it gives a more accurate view of the potential profitability of the export operation. 7

Of course an exporter would like to receive cash in advance for every shipment made. Unfortunately, however, the competitiveness of the market frequently requires the shipper to settle on a means of payment that is more buyer friendly. After cash in advance, the basic methods of payment from the most secure for the exporter to the least secure are:

1. Letter of Credit
2. Documentary drafts for collection
3. Open account
4. Consignment sales

A letter of credit is a document issued by a bank at the buyer's request in favor of the seller. It represents a promise by the issuing bank to pay a specified amount of money when it receives certain documents within a certain period of time. 8 A letter of credit is the most common method of payment. The two types of documentary drafts for collection
are the sight draft and the time draft. With the sight draft, the buyer must go to the bank upon arrival of the goods and make payment in order to receive the bill of lading, which she needs to claim the goods. The danger here is that if the buyer does not pay, the exporter will have to find a way to dispose of the goods; reshipping them to the U.S. may be quite expensive. A time draft is similar to a sight draft except it extends credit to the buyer, allowing her to pay within a certain time after receipt of the goods. An open account signifies that payment will be made at a certain time; however, since no draft is drawn, the creditworthiness of the buyer should be absolutely guaranteed before this type of payment is allowed. With consignment, the goods are shipped and payment is accepted as they are sold.

A less known way to finance a shipment is forfaiture. In this transaction, the exporter takes her contract with the buyer and sells it to a forfaiting institution at a discount. The forfaiting institution assumes all risk and must also collect payment from the buyer. Another alternative method of financing an export is countertrade. It is most commonly used when exporting to nations which have a shortage of hard currency. Basically, it is a barter arrangement, but it can get complicated and take different forms. Perhaps the best way to define it is to give an example. In 1985, National Semiconductor Corp. sold 3 million dollars worth of computer games to a South American country in exchange for bananas. It then sold the bananas to a U.S. grocery store for cash. Since
experts estimate that one-third of all international trade takes place through the means of countertrade, and since it may be the only way some products can be sold to certain cash poor countries, a serious exporter should add it to her company's repertoire of ways to sell to foreign nations.

The method used to finance export sales frequently depends on the wealth of the company. Commercial bank loans are the most common means used; however, these loans are usually issued based on a company's ability to use its assets as collateral. Providing the necessary collateral can sometimes be a problem for smaller firms. In addition, U.S. banks are becoming less willing to provide export financing to smaller companies. Fortunately, there are other sources of assistance if a bank will not provide the needed capital. The Federal government has several agencies which offer either loans or guarantees for the repayment of export credits extended by commercial banks. The Export-Import Bank of the United States (Eximbank), the Private Export Funding Corporation (PEFCO), the U.S. Small Business Administration (SBA) and the U.S. Department of Agriculture (USDA) are U.S. agencies which assist exporters in this way. The World Bank and other agencies concerned with developing areas will finance certain exports going to underdeveloped parts of the globe. In addition, some states provide export financing assistance. Unfortunately, Virginia does not offer a loan program to its exporters.
Another financial consideration for any company thinking of exporting is the way in which it will insure its products until it has received payment for them. Generally, there are two types of credit risks: 1) Commercial risks, i.e., the inability or unwillingness of a buyer to pay for the imported goods; and 2) Political risks, which can include everything from a country's running out of hard currency to pay its debts, to a revolution or coup.\textsuperscript{17} Insurance can also cover possible loss of an export due to theft or damage during shipment. There are many private insurance companies which offer export insurance packages.\textsuperscript{18} Most smaller companies, however, choose to be insured through the Foreign Credit Insurance Association (FCIA).\textsuperscript{19} The FCIA issues insurance on behalf of Eximbank.\textsuperscript{20} In addition, some states offer an insurance policy to exporters.\textsuperscript{21} Once again, Virginia is not one of them.\textsuperscript{22} Sometimes, the buyer pays for the insurance. Incoterms are the agreements between the buyer and the seller as to which services each of them will provide. Unless the shipment is going CIF (Cost, Insurance and Freight), the buyer is responsible for paying her own insurance.

There are other issues related to financing of which the shipper needs to be aware. An important one is the matter of foreign exchange. Although most U.S. exporters will probably quote their prices in U.S. dollars, some may not. Quoting in U.S. dollars places the currency risk on the buyer: to remain competitive the seller may need to assume this risk herself.\textsuperscript{23} Until two decades ago, when exchange rates were
fixed, an exporter did not need to worry about losing money based on a fluctuating exchange rate. (Note: the 1944 Bretton Woods Agreement fixed exchange rates. In 1972, the system collapsed; the dollar was allowed to float, and an era of highly unpredictable exchange rate movements began.24) Today, however, if a shipper agrees to accept payment in, British pound sterling, for example, she will lose money if the value of the pound drops relative to the U.S. dollar. In addition, the currencies of some countries are not freely convertible into U.S. dollars.25 Some nations, such as centrally planned economies and less developed countries, may not be able to use their currencies to pay for many of their imports. At this point, the exporter may need to accept a countertrade arrangement if she wishes to continue to do business with the buyer.

Another issue involving finances of which the seller should be aware is export rebates. A shipper may be able to receive a rebate from the Federal government for the duty paid on items she imports to be used in products which are then exported. An exporter might also wish to benefit from the use of a free trade zone (FTZ). A free, or foreign, trade zone is an area where imported goods are not subject to any existing quota and can be stored duty free.26 A seller may manufacture products using imports within the FTZ and then export the finished products without ever paying a duty on the imported items. Virginia has two free trade zones, one in Suffolk which services the ports of Hampton Roads, and one in Fairfax
County, which serves the Baltimore ports. The Suffolk FTZ, which is to be expanded in late 1991, has had over 50 million dollars worth of goods pass through it since 1982, including everything from auto parts to ice tea mix.\textsuperscript{27}

**Preparing the Product for Export.**

Arranging for a license, obtaining other needed export documentation, packaging a product to be shipped, and complying with the rules and regulations of the U.S. and the importing country are necessary steps in the preparation of a commodity for export. Some sellers may choose to allow a freight forwarder to take care of these details for them. A freight forwarder is like a travel agent for a shipment; she is knowledgeable about all aspects of transporting products and can often arrange for the easiest and least expensive way to transfer them from seller to buyer. Regardless of whether an exporter chooses to use a freight forwarder or not, she should familiarize herself with the logistics of the export process.

Obtaining the appropriate export license is not difficult, and so the process should not intimidate. There are two types of licenses: the General License and the Individual Validated License (IVL). If an item is not regulated by the Federal government, it is probably eligible for shipment with a General License, which requires no application to the U.S. government. However, if the product is regulated for foreign policy, national security or economic
reasons, the exporter will need to apply for an IVL by submitting an application and receiving approval from the Department of Commerce's Bureau of Export Administration.28

In addition to an export license, several other documents must be procured before an item can be shipped. Some of the most common are: the commercial invoice, the bill of lading, the certificate of origin and the export packing list. The shipper should also be aware of any possible U.S. government restrictions. For instance, the U.S. government maintains a Table of Denied Parties, which is a list of people to whom the exporter may not sell. If the shipper sells to individuals on this list, regardless of whether or not she is aware that they are blacklisted, she will be liable and may be subject to a variety of penalties.29 In addition, the exporter will need to find out if the importing nation places restrictions on the type of goods she wishes to sell. For instance, the importing country may have nontariff barriers against (a) certain product(s). One example of a nontariff barrier is a government's "buy national" program. Since governments are some of the globe's largest purchasers of goods and services, this barrier is substantial.30 If an exporter hopes to sell his product to a particular government agency in a foreign country, she should first find out if it has a "buy national" policy.

Of course, one of the most important aspects of exporting is the packaging of a commodity. The seller should be fully aware of the meaning of particular colors or symbols for each
country to which she wishes to ship, and should use them or avoid them, as appropriate, in her packaging design. A color which signifies death is not likely to promote the sale of a particular product. The exporter should also make sure that the packaging describes the product in language which the potential buyer will be able to understand. In addition, a product may need to be adapted to suit a certain culture, climate, living standard, or technical requirement. For instance, since the United States and Burma are the only two nations which do not use the metric system, the shipper will almost certainly need to ensure that the product's units are listed in liters or grams, rather than quarts or ounces.

Finally, the shipper must ensure that her goods are packed properly for export. When designing an export shipment crate, four problems must be kept in mind: breakage, weight, moisture and pilferage. The shipment should also be labelled in a way which will conceal its contents to potential thieves, while identifying the contents to the people who will need to handle the shipment.

In addition, certain commodities may need special packaging arrangements to ensure that they arrive in good shape. For instance, the exporter of tropical fish must use precautions such as tranquilizers and top-quality water to ensure that her fish arrive alive in the country of import.
Help for the Exporter

Fortunately, the exporter will not have to face alone the logistics of selling her products abroad. There are Federal, state and private agencies ready to assist the exporter. In Virginia, the U.S. Department of Commerce operates an office in the Federal Building in Richmond; trade specialists there are prepared to help exporters with any questions they might have. This office also sponsors programs, such as the Foreign Buyer Program, to help exporters make a sale. As stated in the previous chapter, the Virginia Department of Economic Development, the Virginia Department of Agricultural and Consumer Services and the Virginia Port Authority also have the means to assist exporters with many aspects of marketing, selling and shipping their products overseas. In addition, there are private consultants who will assist shippers with export logistics for a fee.

The exporter should arm herself with all knowledge vital to the successful sale of her product in a particular country, and she should utilize the services offered by government and private agencies as appropriate. Upon this foundation, she may then apply her own initiative to develop a unique strategy to sell the product abroad.
FOOTNOTES

1 Christine Walborn-Couturier, Virginia Department of Economic Development, information gained by author at her lecture at the "Marketing Your Export Product" seminar, sponsored by VDWT and the Virginia Community College System, 7 November 1990.


3 Ibid.

4 Ibid.

5 Walborn-Couturier, "Marketing Your Export Product."

6 Janie Preston, U.S. Dept. of Commerce, information gained by author at her lecture at the "Marketing Your Export Product" seminar, sponsored by VDWT and the Virginia Community College System, 7 November 1990.


8 "Getting Paid," Export Trade.

9 Export Trade.


11 Ibid., p. 265.
Ibid., p. 260.

Delphos, p. 51.

Ibid.

Ibid., pp. 51-54.


"Managing Foreign Credit Risk," Export Trade.

Delphos, p. 55.

"Managing Foreign Credit Risk."

Delphos, p. 55.

"Managing Foreign Credit Risk."

Elsesser, interview by author.


"Getting Paid."

Export Trade.


Delphos, p. 76.
Louis Rothberg, U.S. Dept. of Commerce, information
gained by author at his lecture at the "Marketing Your Export
Product" seminar, sponsored by VDWT and the Virginia Community
College System, 7 November 1990.

Export Trade.


"Documentation, shipping and logistics," Export Trade.

Delphos, p. 70.

Ibid.
Chapter Four
(Western) Europe

Devastated by World War II and then rebuilt by the Marshall Plan and by local determination and hard work, Western Europe is today the seat of many thriving economies. The governments found there are democracies, and they adhere to free market principles. Hence, it is no wonder that trade between the United States and Europe is flourishing. In 1989 Western Europe received 27.5 percent of America's exports.\(^1\)

Rebuilt infrastructure and industry are not the only alterations transforming the face of Europe in the past half-century, however. Perhaps even more dramatic changes—with the potential to do away with national currencies and to allow workers to reside freely in whichever country they choose—are occurring. The United States helped plant the seeds of European prosperity. With wisdom and foresight it may now share in a bountiful harvest.

The European Community

What are the nature and source of these revolutionary changes? In their efforts to rebuild and achieve greater unity after World War II, several European nations formed
different groups: the European Coal and Steel Community, the European Economic Community (EEC) and the European Atomic Energy Community. In 1967 all of these associations merged to form the European Community (EC). Today the EC is the largest importing and exporting market on earth, and it is home to 320 million consumers. At the end of 1992, the twelve EC members will move toward ever closer integration, when they will reduce a variety of barriers to trade between themselves (EC '92). Current EC members are: France, Germany, Belgium, Luxembourg, the United Kingdom, Ireland, Denmark, Italy, Spain, Greece, Holland and Portugal.

Since the EC's inception, American attitudes toward it have vacillated from excitement to concern. Initially, the U.S. liked the idea of greater European unity and promoted it. Gradually, however, America began to fear a "fortress Europe" and demanded assurances that the new Europe would not resemble one of its medieval castles, effectively keeping American products out with a moat of protective policies. A logical assessment of European Community motives does not permit such an appraisal: Europeans rely more on trade than does the United States, shipping 20 percent of world exports, compared to the United States' 15 percent. Thus, it would not be in the Community's interest to put up barriers significant enough to bring retaliation against its own exports. According to Corrado Pirzio-Biroli, deputy head of the EC delegation in Washington, D.C.: "Our task is to liberalize our markets, not close them." Nevertheless, the
EC was created, after all, to benefit native growers and manufacturers. The subsidies it provides to local agricultural product growers are a prime example of the kind of discrimination which the U.S. fears. In general though, American exporters who are knowledgeable about and prepared for EC '92 are likely to benefit from the changes taking place there.

**Benefits of Integration for U.S. Exporters**

As the European Community edges closer to its goal of creating an integrated market, it will reduce many barriers to trade among club members. Fortunately for the U.S., the lifting of some of these constraints will also help American exporters. One goal of EC 1992 is to apply a single set of standards within all twelve members. This policy will make exporting easier for Americans wishing to sell products in more than one Common Market nation, because they will only have to comply with one set of standards instead of one for each separate nation. Since twelve separate national standards represent a 7 to 12 percent add-on cost for manufacturing goods, one set of standards will reduce costs. Another potential advantage for U.S. exporters will occur if the EC member nations agree to set their tax rates within a restricted range. Americans could then sell commodities to more than one EC nation without worrying about how differing taxation policies will affect product profitability.

An additional change occurring after 1992 will be that
some of the subsidies which individual member nations provide to different industries will end. For instance, the subsidization of inefficient mines will stop, benefiting America's coal exporters. The European Community also plans to cut down on the "buy at home" policies of government, state-owned enterprises and regulated monopolies; the elimination of these policies will provide opportunities for Americans who want to sell to these sectors. Changes in Common Market policies will also help exporters of some American services. For instance, the EC will permit U.S. banks entering the European market to take part in any of the activities engaged in by Community banks. From a purely practical standpoint, the unification of the Common Market will help American firms by allowing them to consolidate their headquarters. Companies which at one time maintained bases of operation in several EC nations may be able to merge them into one in a single location. Service and distribution centers throughout the European Community may also be streamlined into one central center in only one country. Perhaps the biggest advantage American exporters will derive from European unification, however, is an increase in Europe's buying power. As the nations of the EC benefit from freer trade, their economies will grow stronger and they will, presumably, be able to import more products. The EC Commission estimates that greater efficiency resulting from the completion of EC '92 should create an additional demand for $230 billion worth of goods and services.
Barriers to U.S. Exporters

As stated earlier, the principal purpose of the European Community is to provide advantages to member nations. Discrimination against foreign competition is part of the EC's policy. Thus, European integration will pose some obstacles to American exporters.

Some of the new Community rules after 1992 will favor European over foreign products. This does not mean that Americans have to be left out of the market; it does signify, however, that their marketing approach will need to change. American firms with a foothold in an EC country will stand a greater chance of getting their products sold. Naturally, since the Community seeks to promote European made products within its own borders, an American firm producing in the EC will have a better shot at successfully entering the market. The American company will not be able simply to establish a "maquiladora" style factory—providing U.S. made components to be assembled in Europe; "rule of origin" laws will insist that finished products be comprised of European made parts. A further advantage for American companies which have subsidiaries or joint ventures in Europe is that they may soon be able to register themselves as European companies, and, thus, be eligible for the same privileges of the native firms. Although this process may likely increase the financial capital holdings of some Americans, it may
potentially decrease the amount of investment in the United States and transfer jobs from the U.S. to Europe.

Although many of the benefits of a unified system of standards will spill over to American exporters, some of them will not. For example, after 1992, there will be one set of EC health standards that all member countries must accept as adequate. Just because Italy, for instance, must accept the one set of EC health standards does not mean that it is required to accept U.S. health standards. It is permitted to reject them and any American commodities based on them, if it so desires.\textsuperscript{18} In addition, some of the new standards may be incompatible with those already existing in the United States.\textsuperscript{19}

One sector of American exporting which is not likely to benefit from EC '92 is agriculture. A cornerstone of the EC's Common Agricultural Policy (CAP) is Community preference, i.e., numerous agricultural products produced by EC farmers are subsidized to make them marketable within the European Community.\textsuperscript{20} Because of this policy, many American agricultural products will continue to be at a price disadvantage relative to their European produced counterparts. The question of agricultural subsidies was a sticking point in the GATT talks of December 1990. The inability to arrive at an agreement in this area caused the talks to be unfruitful in all other areas as well.\textsuperscript{21} Talks have now resumed, and it remains to be seen whether this issue will continue to be a problem.
Subsidiary effects from EC '92 will also affect U.S. exporters. As European firms within the EC greenhouse become stronger, American companies will face greater competition.\textsuperscript{22} The Community may also demand that the U.S. reciprocate in such policy areas as our "buy American" stance. The nature of the American federal system—dividing power between the states and the Federal government—may not permit an easy reduction in trade barriers that are decided within the states, such as the "buy American" policy.\textsuperscript{23} It is possible that lack of reciprocation may cause retaliation within the EC, making exporting to certain sectors there more difficult.\textsuperscript{24} Luckily for American owned banks operating in Europe, the EC adopted a national treatment standard, which allows banks from outside the EC to operate in Europe as long as EC banks can participate in that country on the same basis as its domestic banks. There had been concern that Europe would discriminate against American banks since they would not likely be able to liberalize as much as those of Europe due to the nature of America's federal system. The national treatment standard relieved these worries.\textsuperscript{25}

A United States of Europe?

In spite of the excitement about the Europe of 1992, a new country will not magically be created on that date. It is true that the EC is beginning to take over some of its individual members' powers, and that the same rules of international law apply to the EC as apply to nations.\textsuperscript{26} It
is also true that the U.S. maintains relations both with EC institutions and with individual member countries. The EC's delegation head has full ambassadorial status in the U.S., a privilege usually reserved for sovereign nations. However, even if all the changes planned for 1992 do occur by then, the European Community will still be a Common Market--a voluntary grouping of nation-states; it will not be a state in and of itself. Even though the EC has the power to execute foreign trade policy for its members--representing them in the GATT and other trade forums and establishing a common commercial policy toward third countries--the members still maintain sovereignty in most aspects of their political and economic foreign policy. Thus, exporters will need to think of the nations making up the EC both separately and as a unit.

Other than policy making differences, there are additional divisions between the members of the European Community. Of primary importance are the various languages and preferences of consumers across borders. No secret formula ensures that a product successful in Spain will also sell well in Ireland; their membership in the European Community does not smooth away the myriad differences that separate them. Thus, although changes after 1992 may make it easier to market the same product in several Community nations, they will not homogenize the market. Anyone wishing to export to a member nation must be cognizant of its individual culture and language.
Unanticipated Charges in Europe

Even the best prepared exporter will not be able to anticipate all the changes taking place within the EC that will affect his shipments abroad. For instance, how the European Community will accommodate its newly freed neighbors to the East remains, for the most part, to be seen. According to Alan Thoms, former director of the Iowa Department of Economic Development:

Six months ago, EC '92 meant one thing... Today, after Eastern Europe, the equation has changed entirely. Now, given the seemingly impending unification of the two Germanies, it is hard to know what it means or how realistic the timetable for completion (of EC '92) is.32

Just a few months since the writing of this article, East and West Germany did unite. Some people wonder if the process of German unification will, in fact, slow the process of European unification. Political volatility in the region is likely to play a role in policy formation within Western Europe, affecting EC attitudes towards American products.

The Other Western Europe

Although most U.S. and Virginia exports to Western Europe go to the nations of the European Community, some of them are sold to non-members. The European Free Trade Area (EFTA) is another organization within Western Europe designed to permit free trade between members; but it is a much looser coalition than the EC. Nations belonging to EFTA are: Austria, Norway, Sweden, Switzerland, Iceland and Finland. These countries are, in fact, harmonizing their standards with those of the
EC. It is likely that some EFTA members will follow the example of their former partners—Great Britain, Denmark and Portugal—and drop out of EFTA to join the EC. The only nation not aligned with either one of these groupings which receives a significant portion of Virginia’s exports is Turkey, and it is hoping soon to join the European Community.

Virginia and Europe

For Virginia, Western Europe is the diamond cluster in its necklace of export markets. Over half of all Virginia exports go to the Europeans. Within that cluster, the greatest carat weight belongs to Belgium and Luxembourg. In 1989 over 1.2 billion dollars in exports left the Commonwealth for this market. The chief products going there were tobacco, industrial machinery, coal and chemicals. Virginia’s share of the lucrative Belgium/Luxembourg import market accounts for a hefty 14 percent of all U.S. sales to it. Belgium and Luxembourg are not the greatest consumers of the Commonwealth’s goods, however, either in the world or in Europe. A great deal of what Belgium and Luxembourg import is distributed throughout Europe.

West Germany wins the prize as the largest actual European consumer of the Old Dominion’s products in 1989, and it takes second place as a market for Virginia’s products in Europe and third place as a market for the Commonwealth’s goods worldwide. Sales to Germany have multiplied rapidly since 1987, due in large part to an increase in sales of
fabricated metal products from 1.8 million dollars in 1987 to almost 229 million dollars in 1989. Transportation equipment and industrial machinery were also strong sellers in the same year.\textsuperscript{38} The prospects for the export of high-tech products, machinery, tobacco and coal to Germany in the future look good.\textsuperscript{39}

The United Kingdom, France, Italy and the Netherlands rank third through sixth respectively as purchasers of Virginia's products, with each of them buying over 300 million dollars worth from the Commonwealth. Coal was by far the dominant import of all four nations.\textsuperscript{40}

Western Europe as a whole buys approximately 91 percent of the Old Dominion's coal exports\textsuperscript{41} and Italy buys more of Virginia's coal than any other nation on Earth.\textsuperscript{42} As stated above, changes occurring in Europe after 1992 are expected to further increase demand for American coal. Mr. Arnold McKinnon, Chairman and Chief Executive Officer of Norfolk Southern Corp. said that EC '92 will end the subsidization of inefficient mines and, thus, benefit Virginia's coal producers.\textsuperscript{43} For example, German mines produce coal at $150/ton, but Virginia can produce and ship coal to Germany for $50/ton. In the past, Germany has subsidized its coal to bring down the price;\textsuperscript{44} if this subsidization ends, Germany will most certainly import more of Virginia's coal. Thus, the Old Dominion's clean burning profit maker has a bright future.

It is anticipated that the effects of EC '92 on Virginia's exports to the region will be positive, for the
most part. The process of restructuring within the European Community is likely to create a demand for capital and high-tech equipment, and Virginia produces both of these. Virginians should also find opportunities within the new Europe in the areas of banking and telecommunications. Similar to their counterparts in the other American states, however, if Virginia exporters want to benefit from EC '92, they need to be cognizant of all changes which will affect them and prepare accordingly.

Thomas Myers of the James River Corp., a Virginia firm exporting to the European Community, states that his company is actively pursuing a strategy for the single market. He expects 1992 to increase his firm's opportunities, permitting them "to sell products across the country lines without restrictions." Systems Center, a firm in Reston, Virginia, is also preparing for EC '92. It recently decided to standardize its pricing within Europe. A company representative explains the change: "We are going to move in that direction very fast, so that the packaging is consistent among European countries and how we price it." John Harker, executive vice-president of Genicom Corp. of Waynesboro, Virginia, also sees advantages for his company in the European Community after 1992. He says: "If Europe becomes one country in concept, we may not need six company headquarters;" we may need only one with some branches.

Mary Virginians believe that the effects of a "fortress Europe" can be minimized or eliminated by producing within the
walls of such a Europe. Thomas Myers of James River Corp. believes that the joint venture is the best way to do business in Europe because it combines James River's technical and marketing know-how with local knowledge. James River Corp. considers that the most propitious way to meet Europe's demands is to produce within Europe. Another Virginia company, with its parent company in Germany, figures that EC '92 can only benefit it since it already has a presence in Europe. A spokesperson says: "We are represented through our parent company. We don't have to establish facilities within fortress Europe." The Virginia firm Sumitomo & Stihl says that if EC '92 "heats up," it too may decide to manufacture within Europe.

Nonetheless, producing in Virginia and selling in the European Community are not incompatible objectives. The firm manufacturing within the Old Dominion will perhaps need to be more diligent about seeking sales leads, however. Virginia-based companies will need to exhibit actively their products in order to have a presence in Europe. In order to sell successfully to Europe, firms within the Commonwealth should find a market niche, have a system of distribution, check their conformity with EC rules and go to trade fairs. Fortunately, the United States and the Commonwealth both sponsor trade shows and other events in which Virginia firms can take part. For instance the former VDWT coordinated the participation of a diverse variety of companies from the Commonwealth at the Milan Fair in Italy in 1989. The VDED is
planning to participate in a trade show in March in Germany featuring computers and high-tech products,\textsuperscript{56} and the VDACS will take part in a food products exhibit in Cologne, Germany in October of 1991. A trade mission of Virginia lumbermen to Germany is also planned for April of this year.\textsuperscript{57} In addition, the Virginia Department of Economic Development, the Virginia Port Authority, and the Virginia Department of Agriculture and Consumer Services all maintain offices in Brussels, Belgium.\textsuperscript{58}

In 1987 the United States sold over 500 billion dollars worth of goods to the EC, and Virginia sold 2.64 billion dollars worth.\textsuperscript{59} These figures are likely to continue to rise. The wise Virginia exporter will stay up-to-date on all changes happening in Europe so that she may slice for herself a corner of this valuable market.
FOOTNOTES


3 Dr. Art Gunlicks, University of Richmond, Information given to author, March 1991, Richmond, Virginia.


5 Ibid.

6 Ibid., pp. 13-14.


11 Lemov, p. 51.

12 Sally Kirby Hartman, "Going Global," Virginia Business, 5, No. 7 (July 1990), p. 44.


22. Roberts, p. 17.

23. Ibid.

24. Ibid.


31 Ginsberg, p. 1.

32 Roberts, p. 18.

33 Lemov, p. 49.


35 Ibid.

36 Ibid., p. 31.

37 Ibid., pp. 8-9.

38 Ibid., p. 41.


41 "Virginia Exports Grew $800 Million in 1989." Virginia Maritimer, 10, No. 8 (September 1990), p. 4.


44 "West Germany: A Solid Economy," p. 4.


49 Hartman, p. 41.


51 Hartman, p. 41.

52 Ibid., p. 44.


Chapter Five
Japan

Following its devastation after World War II, Japan began an arduous climb from xenophobia to prosperous trade with its global neighbors. In less than half a century, it became the world's largest creditor nation and achieved a huge trade surplus with the United States. Its strategy involved "borrowing" and adapting the latest technology, and aiming exports at vulnerable product markets in the United States and Europe. Other aspects of its plan for success included, and still include today, cooperation between business and government, a flexible response to obstructions to its growth, and an emphasis on investment. Although changing, the idea that imports are harmful to Japan was incorporated into the plans of both government and business leaders, and many Japanese still adhere to a buy-Japanese policy. In addition, an artificially low yen (until 1971) made Japanese exports more attractive abroad and, hence, aided Japan's economy. Of course, Japanese plans for success were liberally salted with hard work. For example, the work week in Japan is only today being reduced to five days, and school children go to school...
sixty days more each year than their American counterparts. In spite of its definite strategy and its hard work, however, Japan's meteoric rise to economic superpower status seems to many Americans to be inscrutable—as difficult to understand as its language, its culture and its people.

**Differences between the United States and Japan**

As the world's two largest economic superpowers, the U.S. and Japan share an important relationship; yet, vast differences strain this association. Most obvious among the distinctions are the people inhabiting each country. Japan is highly homogeneous. The people there share, for the most part, a common history, common religious beliefs and a common racial and cultural identification. The United States of America, however, is probably the most heterogeneous nation on earth. Long identified as a refuge to the downtrodden of other lands, it is made up of a wide range of nationalities. Its people are of many different races and cultural backgrounds, and they identify with a myriad of religions. The culture which has developed from this melting pot does not share the same values or habits as that of Japan. Since indigenous values naturally seep into business attitudes and policies, they are important to the international trader. Americans believe, for example, that disagreements should be discussed, whereas the Japanese value harmony to such an extent that they will shun conflict at almost any cost. In fact, they so want to avoid causing offense that they will
sometimes say "yes" when they actually mean "no," causing frustration and confusion to the American wishing to sell to Japan. In addition, the Japanese have great patience and often will wait a long time before deciding to purchase. Americans, on the other hand, expect to receive an immediate response after displaying the features of what they are hoping to sell. The Japanese also believe that business relationships should be personal and often will wait until a friendship has developed before purchasing any product, whereas many Americans like to keep separate their business and personal lives. These are just some of the variances between American and Japanese attitudes that can cause misunderstanding and confusion in business dealings. Thus, the commercial relationship between the two nations depends on social and cultural factors as well as on economic and political ones.

Economic elements affecting trade between Japan and the United States, however, are sometimes as nebulous to the Western eye as are the cultural factors. One clear difference between the two economies is the fact that the U.S. is running a rather large trade deficit with Japan. In 1989 the U.S. imported 93.8 billion dollars worth of Japanese goods, while only selling 44.2 billion worth to the Japanese—a deficit of 49.6 billion dollars. The burgeoning deficit has caused many Americans to demand a political and/or economic solution. To reduce the imbalance, the U.S. has tried many of the traditional techniques used to redress a trade
disequilibrium. It has gotten Japan to relax many of its import barriers, to attempt to accelerate domestic demand and to exhort its people to import more. In addition, the yen has been raised against the dollar and the U.S. has pushed the use of Voluntary Export Restraints (VERs) on certain products. All of these efforts have failed. In fact, VERs have not only not achieved the desired goal, but have also actually caused higher prices to American consumers while increasing profits for Japanese firms.

Japan argues that its market is now open to imports due to its reduction of many tariffs and non-tariff barriers. In fact, this claim is true: it has reduced many formal barriers to imports. Its argument about the openness of its markets, however, would be more convincing "if most of its trading partners were not voicing the same market-access complaints as the admittedly export-indifferent United States."

Why, then, is it so difficult for companies to sell in Japan? Japan's distribution system is considered to be one of the larger obstacles to selling to Japan. Trading companies, however, can often help shippers overcome the difficulties associated with distribution. Another large constraint is the cultural bias which predisposes the Japanese to favor home-grown products. In addition, domestic regulations concerning health, safety and content can act as barriers to exports. Furthermore, the powerful farm lobby in Japan effectively convinces politicians to protect many of its interests by keeping competing products out of the country.
For instance, it is quite difficult to sell apples and cherries to Japan due to farm lobby persuasion. Another example of an agricultural product which producers from other lands cannot easily sell is rice: foreign rice will not sell profitably in Japan due to heavy government subsidies to Japanese rice farmers. Two other barriers to imports include the industrial structure in which some Japanese companies buy from each other without ever looking abroad, and the rigid Japanese pricing system for some imports.

Thus, the U.S. complaint that Japan's markets are informally closed to a great extent seems justified. However, Japanese claims that in order to reduce its deficit the U.S. should reduce consumption, improve industrial productivity and try harder to sell in Japan also appear valid. Unfortunately, a discussion (the Structural Impediments Initiative) between the United States and Japan attempting to analyze both of these opinions did not bear much fruit due to the widely varying views expressed.

In spite of the rhetoric on both sides, the United States does manage to sell quite a few of its exports to Japan. In 1985 Japan took 10.6 percent of America's exports, and ranked second-place as a purchaser of products from the U.S. In addition, in spite of import barriers, Japan is the best customer for American farmers, buying approximately 18 percent of U.S. agricultural exports. Japan Airlines is also the largest customer for U.S. manufactured goods. Even though the U.S. runs a trade deficit with Japan, the average Japanese
person in 1983 spent 204 U.S. dollars on American products while the average consumer in the U.S. was spending only 155 dollars on Japanese goods. Thus, the general impression of sparse sales of American products to Japan is bleaker than reality warrants. Since Japan is home to the second largest consumer market in the free world, and since its people seem to be heeding the call to consume more, it seems true that in spite of the difficulties, anyone "interested in . . . exporting . . . would be foolish to ignore Japan."  

Senator Bill Bradley has said that "No country is more important to our economic future than Japan." As important as Japanese trade is to America, however, U.S. trade is even more important to Japan: a majority of Japan's exports are sold to the United States. Since the combined GNP of the U.S. and Japan makes up a full one-third of the global GNP, it is in the interest of the entire world, as well as of the United States and Japan, for the two countries to have a prosperous trading relationship. In the past, the U.S. has largely followed a piecemeal approach to rectifying its trade imbalance with Japan, complaining about trade barriers on a product-by-product basis. Japan's policy in response to U.S. requests has been to demonstrate responsiveness, but not necessarily to induce adjustment in the bilateral disequilibrium. In the future, the United States needs to follow a more unified strategy, pursuing the causes of the malady, rather than its symptoms.
instead of just a placebo. Both nations need to ingest the idea that different ways of doing business, as well as different people, can live together quite nicely on one planet.

**Virginia and Japan**

Sperry Corp., Du Pont, Philip Morris, Babcock and Wilcox, and Wiley and Wilson are prominent Virginia firms that want their employees to speak Japanese. They are taking advantage of Japanese language courses taught at Virginia's community colleges. Their interest in Japan is not academic; learning Japanese is a way to improve their business relationships with the prosperous island nation.

These firms are cognizant of the importance of the Japanese market for Virginia exporters. Unlike the United States, Virginia runs a trade surplus with Japan. Japan is the second largest foreign market for Virginia's exports, and it is the largest actual consumer of the Old Dominion's products. In 1989, exports from the Commonwealth to Japan equalled over 800 million dollars, increasing 17 percent over 1988's figures.

One reason for the increase is the opening of the Japanese tobacco market. In 1989, sales of this commodity from Virginia grew 72 percent over 1988, making up 23 percent of the Commonwealth's tobacco sales worldwide. In fact, the Virginia tobacco giant Philip Morris would be seeing a net decrease in sales if not for exports to Japan and other
Japan has also recently opened its market for wood and paper products and reduced its tariff on these items. Correspondingly, Virginia sales of lumber and paper to Japan in 1989 increased 61.5 percent and 81.5 percent respectively over 1988 levels. Since the Japanese have a penchant for seafood, a smart exporter could develop a scheme to sell this Virginia comestible to them. To ensure its freshness, he could ship it by air from one of Virginia's international airports. As part of a seafood export development program, samples of soft-shell blue crabs have been sent to the Far East. The value of soft shell crab exports to Japan could potentially reach almost one million dollars per year. One Virginian, Randall E. Bowling, is profiting by selling flounder to the Japanese. In 1989, fish products sold to Japan brought 248,000 dollars to the Commonwealth's exporters. Barring a disaster, such as long-term damage to Virginia's marine life from pollution, the seafood industry has the potential to benefit from increased exports to Japan. Other Commonwealth items showing significant increases in sales to Japan include textiles, petroleum products, and transportation equipment. Chemical sales to Japan also remain strong, increasing in 1989 almost 30 percent over the 1988 level to equal over 68 million dollars.

Coal sales to the island nation in 1989 amounted to nearly 190 million dollars. Yet this figure represents a 26 percent fall in sales from 1988. Virginia's agricultural
products experienced the most dramatic decrease in sales: exports dropped 91.8 percent in 1989 from 1988.\(^{42}\) Bob Rich, International Marketing Director for the Virginia Department of Agriculture, states that it is difficult to determine why the sale of agricultural products decreased so dramatically since the category combines many different agricultural items.\(^{43}\)

Despite a decline in demand for some products, overall the quantity of exports leaving Virginia for Japan is expected to increase. In addition to factors listed above which will affect the whole United States, Virginia has been conscientiously courting Japanese businesses for some years now. Governor Linwood Holton first visited Japan in the early 1970's.\(^{44}\) In the 1980's Governor Baliles also traveled to this prosperous island, and intensely promoted Virginia's products. Recognizing the differences between the American and Japanese cultures, Baliles did his homework before leaving for the island. He learned that the Japanese do not like a boastful attitude, and so did a soft-sell of Virginia's goods.\(^{45}\) His speech at the meeting of the Southeast U.S./Japan Association in Japan was impressive enough for a reporter from a local paper to say it set him apart from the other attending governors.\(^{46}\) Virginia's hard work seems to be bearing fruit. Mitsubishi, Mitsui, Sumitomo, the Japanese Personal Computer Association, and other Japanese firms have expressed a desire to help Virginia market its products in the region. In addition, contacts Virginia made in Japan put it
in a good position to help its companies assess their potential to do business in the area.\textsuperscript{47} Says former Secretary of Economic Development Curry Roberts: there is no question that Japan is eager to increase its purchases from our region.\textsuperscript{48}

Dr. Samuel Hancock of Hancock International says that in terms of exporting Virginia is no different from Wyoming. He says the strategies for exporting to Japan should be the same regardless of the U.S. state.\textsuperscript{49} One factor which separates Virginia exporters from their counterparts on the West coast, however, is distance; the Pacific states are several thousand miles closer to their Japanese customers than are states in the East. Virginia compensates for the distance by maintaining a presence in Tokyo: the VPA and the VDED both have offices in Tokyo.\textsuperscript{50} Although compared with its neighbors, Tennessee and North Carolina, Virginia may have lagged in "plucking the Asian plums,"\textsuperscript{51} Virginia has a strategy involving hard work, patience and perseverance--character qualities which the Japanese themselves value--and it seems to be working.
FOOTNOTES


6 Axtell, p. 249.


9 Ibid., p. 128.

10 Ibid.

11 Richard Harris, "Why Voluntary Export Restraints are 'Voluntary,'" Canadian Journal of Economics, 18, No. 4 (November 1985), p. 800.
12 Coher., p. 128.


14 Ibid., p. 229.

15 Ibid., p. 235.

16 Coher., p. 127.

17 Ibid., p. 124.

18 Ibid., p. 127.


20 Ibid., pp. 13-14.

21 Ibid., p. 1.

22 Morar., p. 157.

23 Axtell, p. 240.

24 Ibid., p. 236.

25 Coher., p. 124.


27 Cohen, pp. 131-2.

28 Ibid., p. 123.


Ibid., p. 52.

Ibid., p. 96.


Gary Horgenson, "Pacific Rim trade opportunities," Virginia Maritimer, 6, Nos. 9-10 (Summer 1986), 21-23.


Tony Cappasso, "VIMS researchers harvest technology to increase water-bred commerce," Virginia Maritimer, 6, Nos. 9-10 (Summer 1986), p. 47.

Sally Kirby Hartman, "All the World's a Market," Virginia Business, 5, No. 7 (July 1990), p. 36.


Ibid.

Ibid.


46 Ibid., p. 73.


48 Ibid., p. 2.

49 Hancock, interview by author.


51 Jackson, p. 74.
Chapter Six

Canada

The United States' neighbor to the North provides it with the largest market for its exports. In 1987 the U.S. sold 59.8 billion dollars worth of exports to Canada; this figure represents 23.7 percent of total U.S. exports.\(^1\) Canada is even more dependent upon trade with the U.S. Approximately 80 percent of Canadian exports are earmarked for American consumers.\(^2\) Because of its proximity, the similarity of its culture and political system to those of the United States, and its use of English as its main language, there is an unfortunate tendency to take Canada for granted. To the chagrin of Canadians, their country is often viewed by Americans as simply a northern extension of the United States. The Canadian fear of being swallowed by its southern friend produced heated debate there on the Free Trade Agreement (FTA) between the U.S.A. and Canada. The U.S., for its part, stifled a yawn as it asserted to the new accord.

Signed by Canadian Prime Minister Brian Mulroney and U.S. President Reagan in January of 1988, the agreement was ratified by both governments in 1988 and went into effect in
January of 1989. The principal objectives of the pact are to remove a wide range of trade barriers over a ten-year period and to set up a panel to resolve trade disputes between the U.S. and Canada.³

Both nations hope to gain from the Free Trade Agreement. Canada, however, is likely to derive a greater benefit. Before obtaining the privilege of free trade with the United States, Canada was one of few industrialized non-socialist countries without unfettered access to a market of at least 100 million consumers.⁴ Free trade with the U.S. will permit Canadian manufacturers to produce on a more efficient scale.⁵ In addition, Canadian producers are likely to increase their sales in the U.S. by displacing previously protected American products. Furthermore, some Canadian goods may replace imports from more efficient third countries which are still plagued by U.S. trade barriers.⁶ The method of dispute resolution provided for by the FTA—using adjudication rather than negotiation—also favors Canada. Adjudication stresses rights and obligations rather than economic or political power. Since Canada is politically and economically weaker than the U.S., it stands to benefit.⁷

The new agreement will aid American exporters as well, however, by making it easier for them to do business in Canada. In addition to the elimination of all tariffs and of many non-tariff barriers, the FTA will make border crossing easier for business travelers and will increase government procurement opportunities, particularly for small
Free trade with Canada will prove particularly advantageous for producers of items which Canada had previously protected. U.S. manufacturers of furniture, electrical equipment, miscellaneous manufacturing and chemicals stand to benefit from the FTA.

Even before the Free Trade Agreement was signed, however, exporting to Canada was a profitable proposition for the U.S. For one thing, most American products were permitted duty-free entry before the FTA ratification. Other factors aiding the sale of American products in Canada are not dependent on the trade agreement. For instance, Canadian opinion about America is generally positive, especially in Quebec, which is anti-Canadian and pro-American. In addition, there is a good partnership between the Canadian and American markets. We have the same business practices and similar money. Of practical importance: we both use the same electrical current, transportation to Canada is relatively inexpensive, and Canadian markets are easily accessible by rail, truck and air. Because of the relative ease of selling and shipping to Canada, a company interested in exporting might want to use Canada as a testing ground; a product which sells well in the U.S. will probably sell in Canada.

Although Canada is the easiest foreign market for many American companies to enter, there are several obstacles of which exporters should be cognizant. In January of 1991, a goods and services tax took effect in Canada, equal to 7.5 percent of the item's value. This tax is allowed even with
the FTA. In addition, there are provincial, city and federal taxes on imported products.\textsuperscript{13}

The marketing and packaging of products for Canada is similar to in the United States. For the most part, there are only subtle differences, such as variances in humor and slogans. One exception is Quebec. If an exporter wants to sell there, he must ensure that he uses bilingual labeling as it is a requirement.\textsuperscript{14} An exporter should also be prepared to employ a representative in Canada, since direct sale to an end user is not as common there as in the United States.\textsuperscript{15}

\textbf{Virginia and Canada}

Like the United States, Virginia depends on Canada as a market for its exports. It is not the top foreign destination for the Old Dominion's products, but it is third from the top. In 1989 Virginia sold over 788 million dollars worth of commodities to Canada, a 5.5 percent increase from the previous year. Due to problems measuring exports, it is predicted that these figures may even be lower than the actual quantity of exports that left the Old Dominion for the Canadian border.\textsuperscript{16} A more accurate tally adds another 209 million dollars to the total amount sold in 1989.\textsuperscript{17} Compared with 1988, however, growth in 1989 was minimal: sales of Virginia products to Canada in 1988 were 39 percent higher than exports during 1987.\textsuperscript{18} One reason given for the relative slow-down in the rate of growth may be a general fear of the
newly ratified Free Trade Agreement. Changes often provoke reluctant acceptance among individuals accustomed to a set way of operating. Once exporters realize that there is much more to anticipate than to fear from the FTA, exports are likely to pick up again. It is predicted that an examination of 1990 export data will show that shipments to Canada in that year did, in fact, increase.

The elimination of tariffs on manufactured goods should prove especially beneficial to some Virginia exporters, particularly those selling furniture and upholstered items. Virginia already sells a large quantity of chemicals to Canada, and this is a product which is likely to be helped by the FTA. Rapid growth is also expected in the service sector. All Virginia exporters should find it easier to compete in Canada due to the FTA, however.

Many Virginians have known for some time the value of selling to Canada. In addition to chemicals, top Virginia exports include transportation equipment, fabricated metal products, industrial machinery, electronic components, rubber, paper, textiles, primary metals and forestry products. Virginia products experiencing notable growth in Canada include forestry products, miscellaneous manufactured goods, waste & scraps and furniture. Fabricated metal products win the prize for greatest growth, however; sales of this commodity to Canada in 1989 increased 354 percent over its sales in 1988.
Although there are no representatives from Commonwealth agencies in Canada, Virginia does seek to market its products and services there. The Virginia Department of World Trade promoted the Commonwealth's goods in Canada by participating in trade shows and educational seminars. For example, in May of 1990, five Virginia firms participated in the Canadian High Technology Catalog Show, generating several inquiries from Canadian buyers.

The present is an opportune time for Virginia companies to begin exporting to Canada, as the Free Trade Agreement augments an already favorable environment for American commodities. A Virginia company interested in selling in Canadian markets should also consider acting in the present a necessity in order to gain a place in the market before it is saturated by other American firms. If the trend in exporting from the Commonwealth continues, however, many of the Old Dominion's companies are likely to realize the advantages and profits of selling to America's Northern neighbor.
FOOTNOTES


4 Wonnacott, p. 17.

5 Ibid., p. 30.

6 McCulloch, p. 83.


9 Wonnacott, p. 3.


12 Ibid.
13 McCain, interview by author.
14 Ibid.
15 Ibid.
17 Ibid., p. 121.
18 Ibid., p. 12.
19 McCain, interview by author.
20 Ibid.
22 Ibid.
23 *Virginia in a Global Economy*, p. 33.
24 McCain, interview by author.
25 "Canada: More Than Just the 'Country Next Door,'" p. 4.
26 McCain, interview by author.
American newscasters eagerly broadcasting the peaceful revolutions in Eastern Europe generally have kept silent about the dramatic changes south of the border. In many Latin American countries, dictatorships are giving way to democracies, and unfruitful economic policies are being reformed to permit freer trade. During 1990 world residents witnessed the lifting of protection for over 700 products in the region, representing over 80 percent of all protected manufactured products.

From the 1950's to the 1980's, the Latin American strategy for economic development was import substitution, which is basically an attempt to develop domestic industry through various forms of protection. As witnessed by burgeoning debt and inefficiency, the strategy was not effective. Protected from the threat of competition from higher quality foreign-made products, local industries complacently resisted innovation and produced second-rate goods. Today, however, many nations are embracing a new strategy of building their economies by increasing revenue
from exports. Trade is a two-way street, however; to sell products abroad, Latin American nations must permit greater access to their own markets.

They have been doing just that. Almost all nations within the region have recognized the importance of participating in the global economy. As a result, they have lifted many import restrictions, including the reduction of tariffs and the removal of protection from inept national industries, forcing them to compete with their foreign counterparts and hopefully modernize as a result. The liberalization of import restrictions has caused imports to skyrocket. Ecuador persists as the only South American country that has recently tightened import restrictions.

Efforts toward free trade in specific countries include the following examples:

- Argentina has dropped thousands of items from a list of goods needing permission to be imported,
- Brazil has eliminated non-tariff trade barriers and lifted or reduced tariffs on 300 products,
- The new government of Chile has asserted that it will maintain free trade as a principle, and
- Venezuela has announced the lowering of maximum tariffs to 20 percent by 1993 and a desire for membership in the GATT.

These recent changes add fuel to an already strong consensus that Latin America is a good market for U.S. products. Historically, the United States has been the region's principal foreign supplier, and it remains so today, with the U.S. in 1987 providing approximately 45 percent of the region's imports. Another plus for U.S. businesses is
that they are on familiar territory in Latin America. Even though the region has a history of government intervention in economic affairs, it is no stranger to free enterprise: there has always been a strong private sector.\textsuperscript{11} In addition, there is a movement towards greater privatization, which will likely enhance the American exporter's familiarity with the business terrain.\textsuperscript{12} Another factor aiding the prospect of sales for United States companies is that domestic production in Latin America cannot adequately meet the demands of its 438 million inhabitants.\textsuperscript{13}

Thus, the American exporter can make a profit selling to Latin America; however, first, he must overcome the risks. Perhaps the greatest fear of someone selling to this region is whether or not she will get paid.\textsuperscript{14} Inflation and a shortage of hard currency plague the region.\textsuperscript{15} In addition, Latin America has a tremendous debt of 400 billion dollars---much of it in arrears---\textsuperscript{16} and creditors are nervous about loaning money to finance trade deals. The debt crisis has hurt American exporters; between 1981, the year the crisis began, and 1989, U.S. exports to Latin America dropped 30 percent.\textsuperscript{17} This represents a substantial loss in revenue for America, particularly at a time when we are focused on our trade deficit. Thus, the U.S. stands to benefit from a reduction in the Latin American debt. One proposal to do that coming from our side of the hemisphere was introduced by Treasury Secretary Nicholas Brady. It aims to reduce debt by
encouraging new investment and by calling for commercial banks to negotiate debt reductions. A salesperson does not have to shun this area until the debt is reduced, however; she just needs to be more careful and perhaps do more research into financing possibilities. She should make use of a secure payment agreement, such as the letter of credit, documents against payment or even cash in advance. In addition, an exporter may want to make use of less traditional means of financing, such as forfaits or countertrade. Support may also be available from the World Bank, the Inter-American Development Bank, Eximbank and the FCIA. In the final analysis, however, the exporter may likely have to assume some of the risk herself, and will, therefore, need to judge whether her potential profit justifies the hazard.

Exporters to Latin America should be aware of other factors which may affect their sales to the region. Since much of the area is poor, there are obstacles--other than debt and lack of hard currency--that affect commerce. For example, some areas have an inadequate infrastructure, hampering product distribution. In addition, because the recovering economies are so fragile, global disturbances may fracture them more easily than other parts of the world. For instance, an oil price hike would hit them harder than it would the industrialized nations, affecting their recovery and, hence, their ability to buy imported goods.

Even though privatization is changing the way business takes place in many South American nations, the governments
there still closely scrutinize many foreign trade deals. A Latin American business partner, however, can help overcome this obstacle by assisting in the navigation of the various government checklists.  

Like most of America's customers, the people of Latin America speak a different language and are of a different culture. However, Christine Walborn-Couturier of the Virginia Department of Economic Development, states that commercially Latin habits and patterns are similar to those of the United States, and that they are every bit as up to date in office technology as businesses within the U.S.

Common Markets

Another integral part of the Latin American commercial psyche is its formation of common markets. The key regional trade groups include: the Latin American Integration Association, the Andean Common Market and the Central American Common Market. Their formation is not proceeding at the pace of European integration, however, and in spite of the groups, there are still bilateral initiatives. Expanding on the idea of the regional free trade alliance, President Bush recently called for a hemispheric free trade area, including the United States, along the lines of the free trade agreement proposed between the U.S. and Mexico. The enactment of such an agreement in the near future seems unlikely, however, in part because of a lack of Latin American consensus on the subject.
Mexico

Because it is a next-door neighbor to the U.S., Mexico's trade relationship with America differs from those of other Latin American countries. For Mexico the American market is the "mainstay of its economic growth." It is highly dependent upon the United States, sending in recent years over 70 percent of its exports to and receiving two-thirds of its imports from its Northern neighbor. Thus, the United States also relies upon Mexico for a good percentage of its trade. Mexico is the third largest market for American exports, and is the fourth largest supplier of imports to the U.S. The relationship between the two countries should be compatible, as they both have something that the other needs: the U.S. has technology and heavy machinery, and Mexico has oil, raw materials and cheap labor. As a developing country, Mexico does not have domestic access to the technology which it needs to further develop. Its lack of high-tech products is compounded by the problem ubiquitous in Latin America, i.e., cash shortage. For Mexico, the situation is especially severe. In 1981, Mexico had amassed the second largest debt among all LDC's. By 1987, it owed well over 100 billion dollars. Thus, it is clear that Mexico needs U.S. capital in order to prosper.

One project designed to provide Mexico with capital and the U.S. with cheap labor is the Maquiladora industry. Under this agreement, America sends components to Mexican factories
(duty free); Mexicans assemble the parts; and the finished products are exported--duty free--back to the United States. The motivation behind the Maquiladora industry is to create efficiency by producing commodities where the labor is less expensive. Genicom Corp. of Waynesboro, Virginia is one firm participating in this type of project. Genicom's Mexican sister plant makes ribbons and assembles computer boards. Final assembly, testing and metal work then takes place in Waynesboro from where the product is shipped abroad.

Although some Americans feel bitter about maquiladoras, believing that they take jobs away from workers in the United States, others feel that the benefits of maquiladoras to Americans outweigh the drawbacks. Since it is in the American interest to have a strong and prosperous Southern neighbor, the U.S. should continue to seek trade opportunities which are mutually advantageous.

Like the rest of Latin America, Mexico has followed a protectionist trade policy for most of this century. In recent years, however, it has opened its markets to foreign competition. In 1986, Mexico entered the General Agreement on Tariffs and Trade (GATT), thus agreeing to play by the rules of the major trading nations. Its relationship with the United States has also improved recently and the two nations have hammered out several trade agreements. In 1987 the U.S. and Mexico set up a process to deal with bilateral trade disputes, and in October of 1989 Mexico announced plans to increase trade with the U.S. in key sectors like steel,
textiles, autos and electronics. Of larger import, there may soon be a free trade agreement between the U.S. and Mexico. In October, 1990, the Bush administration requested congressional authorization to begin talks with Mexico over a potential trade deal. Barring Congressional disapproval, the talks are to begin in earnest in mid-1991. What the U.S. wants from such a pact is more freedom for American banks to do business in Mexico and a greater share of Mexican oil. Mexico wants a decrease in U.S. import curbs on Mexican steel and textiles and permission for more Mexicans to work in the U.S. The signing of such an agreement could also lead the continent closer to the possible formation of a North American common market.

Latin American Export Opportunities

In 1981, 20 percent of U.S. exports went to Latin America, but by 1987 this percentage had fallen to 14 percent. However, the changing Latin American trade policies described above should reduce this downward trend. Various products and services which the U.S. can provide are in demand in Latin America. Trade opportunities exist in construction projects, consumer goods, and in medical and high-tech equipment. The industries experiencing the greatest growth in the region are electronics and the information sector, or "informatics" as it is known there. Safety and security related products, such as computer software for image identification and cameras for border or intruder control, are
Reduced tariffs and the easing of trade restrictions, combined with the maturing of the consumer market for these products, promise considerable opportunity for the U.S. businesses selling them. The return to free market economics also offers opportunities for U.S. exporters of capital goods, such as those needed to help build infrastructure and aging machinery replacements.

**Virginia and Latin America**

Latin America represents Virginia's fourth largest regional export market. The value of the Old Dominion's products shipped there in 1989 equaled over 615 million dollars, a 9.3 percent increase from 1988. The major commodities which Latin America buys from the Commonwealth are coal, industrial machinery, chemicals, transportation equipment and electronic components. Brazil is by far Virginia's number one customer in the region, buying over half of all Commonwealth products sold to Latin America in 1989. The product representing the majority of its purchases in that year was coal. Brazilian reforms that limit the use of subsidized indigenous coal will likely increase its export of this commodity from the Old Dominion. The chief export in 1989 to Virginia's third largest customer, Argentina, was also coal. However, Mexico--which is Virginia's second largest export market--purchased no coal from the Old Dominion in 1989. Its chief import from the Commonwealth in that year was electronic components.
One advantage Virginia exporters who want to ship to Latin America have is access to the Old Dominion's port system; it offers excellent transportation links to Latin America. Shipments between South America and the Virginia Port of Hampton Roads represented just over 17 percent of total tonnage passing through the port in 1986. The majority of shipments were directed towards Brazil, with over 20 vessels a month sailing between Hampton Roads and Brazil.

The Old Dominion is represented by one office in South America: a Virginia Port Authority office located in Brazil. In addition to this physical presence, the Commonwealth takes part in various regional trade events. The Virginia Department of Economic Development participates in at least two trade events related to the region annually. In December of 1990, it attended such an event in Mexico City, and it plans to participate in April 1991 in a catalog show in four South American countries: Chile, Brazil, Argentina, and Uruguay. Virginia's participation in regional trade events have borne fruit. For example, the Virginia Department of World Trade participated in Rep-Corn '88, a show which assists U.S. firms in locating representatives, agents, distributors, licensees, and joint venture partners. As a result, 1,221 distribution/representation leads and almost 5,000 sales leads were generated. Sales from these leads the following year were reported to total 27 million dollars.

Historically, Virginia and the U.S. have not emphasized trade with Latin America. The lack of focus on these markets
is unfortunate since there is a greater potential for exports to the region than is being tapped. In spite of the relative lack of attention, however, the Commonwealth's exports to Latin America are expected to increase. Whether they will increase as much as is potentially possible remains to be seen.
FOOTNOTES


5 Zhihua, pp. 16-17.


7 "Other South American Markets," Export Today, July/August 1990, p. 36.

8 "Argentina, Brazil, Chile and Venezuela," Export Today, July/August 1990, pp. 26-35.

9 Adams, p. 22.


11 Chewning, p. 19.

12 Ibid.

14
Ibid.

15

16

17

18
Adams, p. 21.

19
Negrin, p. 4.

20
Westfall, p. 39.

21

22

23
Karamally, pp. 24-25.

24

25

26
Ibid., p. 2.

28 McCulloch, p. 81.

29 Fatemi, p. 5.

30 Ibid., p. 6.

31 Ibid., p. 10.

32 Ibid., p. 104.

33 Sally Kirby Hartman, "Going Global," Virginia Business, 5, No. 7 (July 1990), p. 44.


36 Ahc, p. 169.


38 Westfall, p. 39.

39 Adams, p. 22.

40 Negrin, p. 4.

41 Westfall, p. 39.


43 Ibid., pp. 16-17.
44 Ibid., p. 28.
46 Walborn-Couturier, interview by author.
48 Walborn-Couturier, interview by author.
49 Ibid.
50 Negrin, pp. 4-5.
51 Walborn-Couturier, interview by author.
52 Ibid.
Chapter Eight
Additional Regions of Significance to Exporters

THE FAR EAST (Hong Kong, Taiwan, Korea, China)

The world's economic center has moved closer to the Pacific Basin and farther from the Atlantic Basin in recent years. This transformation has affected the American export flow; U.S. exports to Pacific Rim countries were 72 percent higher in 1989 than in 1984. American exports to the region are being helped by the increasing value of the yen, which makes U.S. goods more affordable in comparison to what the Japanese are selling. Of course, Japan leads in attempting to usher in the "era of the Pacific." However, other nations in the region, particularly Hong Kong, Taiwan, and Korea, are no longer economic cubs; they have grown into full-fledged tigers and their roar is getting louder. Although Virginia's sales to the region constitute only a small percentage of total United States exports going there, they are not insignificant. The Old Dominion does have a geographic disadvantage relative to the nation's Western states since they are closer to the nations of the Far East. Former
Secretary of Economic Development, Curry Roberts, states, however, that Virginia has the potential to "be a bridge between the Pacific Rim and Atlantic Rim countries." The Commonwealth definitely recognizes the value, both potentially and currently, of the East Asian markets for its exporters. Former Governor Gerald Baliles visited the region three times. Part of the reason for the trade missions was to improve opportunities for Virginia's exporters. In addition, the state is represented by the Virginia Port Authority in Hong Kong and Korea and by the Virginia Department of Agriculture and Consumer Services in Hong Kong. The Virginia Department of Economic Development has plans to participate in a trade related event in Hong Kong in May of this year. United States Trade Representatives have encouraged cigarette markets in the region to open to foreign competition. The resulting increase in tobacco sales has helped the Virginia firms Philip Morris and Brown and Williamson offset a decline in tobacco sales from falling U.S. consumption. Virginia firms manufacturing pollution control equipment will also likely see a demand for their products in Korea and Taiwan, since pollution is a serious problem there.

Virginians and other Americans wanting to export to the region should be aware of the cultural peculiarities which might affect their sales. Although each country has its own unique culture, in many ways the region's attitudes are similar to those of Japan. Similar to Japan, group decision making is the norm, entertainment is a part of business,
business cards are formally exchanged, and a smile does not necessarily signal approval. As in the case of selling to Japan, an exporter to other Far Eastern nations must have patience and perseverance in order to succeed. Americans should also be aware of a cultural maxim that holds that ideas ought to be shared; because of this, intellectual property rights are sometimes infringed upon. Although reforms are gradually offering more protection, extra care should still be taken to protect trademarks and logos.

Hong Kong

In 1997 this prosperous British crown colony will be turned over to communist China. As a result, opportunities for exporters there may soon change and decrease. Already the United States Defense Department has put Hong Kong on a "watch list," fearing the potential diversion of sensitive high tech gear to China. A significant volume of trade is at stake since Hong Kong bought 3 billion dollars worth of high tech equipment in 1989. In fact, the American Chamber of Commerce in Hong Kong warns that sales of this product could be crippled by 1992 or 1993. Basically, the future of Hong Kong as a market for America's exports after 1997 is uncertain.

Whether Hong Kong will continue to purchase the same quantity and type of goods from the Commonwealth also remains uncertain. In 1989 the British crown colony bought more from the Old Dominion than any other market in the Far East, other than Japan. It purchased nearly 300 million dollars worth of
Virginia's products, a 24.8 percent increase from 1988.\textsuperscript{12} By far the dominant commodity leaving the Commonwealth for Hong Kong is tobacco. In 1989 it constituted 87 percent of the value of all Virginia goods exported to Hong Kong. Food products placed a distant second, with 13 million in sales.\textsuperscript{13}

**Taiwan**

This island nation has taken its place beside Japan as a jewel in the Far East's economic crown. Once a developing region which was given little notice, except for its political importance vis-a-vis mainland China, Taiwan today is strong and on the move. Between 1987 and 1989, its economy nearly doubled. Its foreign reserves equal approximately 75 billion dollars, an amount second only to Japan,\textsuperscript{14} and it is the world's 12th largest trader.\textsuperscript{15} Its growing prosperity has been transferred to its consumers who are willing to spend their newly acquired wealth on a variety of goods and services.\textsuperscript{16}

Since the Taiwanese government has responded to its large trade surplus with the United States by reducing many import barriers, American exporters now have much greater access to the Taiwanese consumer than just a few years ago. Steps taken by Taiwan include tariff cuts on over 3,500 items, a 57 percent appreciation of the New Taiwan dollar against the U.S. dollar, increased protection of intellectual property rights, and the adoption of a policy by state-owned enterprises to buy American products when they are competitive.\textsuperscript{17} In addition, the shifting of power to younger Western educated leaders
promises a continuation of democratic reforms and increased efforts to further liberalize the economy. With Hong Kong's future uncertain, Taiwan could potentially take its place as an Asian commercial center. 18

Virginia sold a broad array of products to Taiwan in 1989. Topping the list was industrial machinery with over 49 million dollars in sales. Tobacco, coal and chemicals also sold well. 19 Taiwan placed just after Hong Kong as a market for Virginia's exports in 1989, with sales decreasing slightly, but still equaling over 175 million dollars. 20 Due to efforts both by Taiwan to increase imports and by Virginia to tap into this lucrative market, sales by the Commonwealth's exporters to Taiwan are likely to increase. Areas of particular promise for Virginia's exporters include: consumer products, pharmaceuticals, 21 and pollution control equipment. 22

(South) Korea

Even as North Korea is living in a totalitarian ice age, South Korea is becoming a prosperous nation. Its economy is robust and growing--real growth in the GNP equalled 12 percent in 1986--and it has a large trade surplus, both with the United States and with the globe. 23 Nevertheless, it is affected by political uncertainty, visible in the student riots that frequently erupt there, and in 1986 it had a foreign debt of 47 billion dollars. 24 Thus, Korea is a nation experiencing the pangs of adolescence; it is not yet fully developed but it is clearly on its way.
In 1989 Korea had a 10 billion dollar trade surplus with the United States. This large figure could potentially cause a protectionist stance in the U.S. against the Koreans and they know it. Anxious to avoid offense to the country that buys 40 percent of its exports, the Korean government has liberalized some of its constraints on imports. Nevertheless, trade barriers still remain relatively high. Thus, products that tie into the Korean government's economic development goals have a better chance of selling. Technology and equipment needed for industrial growth might fit the bill here. Products which Korea already imports or which it produces inefficiently are also good bets for American exporters. In addition to a relative decrease in import barriers, American exports have also been helped by a depreciation of the U.S. dollar against the Korean won. As a result, U.S. exports to Korea have increased; in 1988 they grew 41 percent, making Korea the seventh largest export market for Uncle Sam. Strong future growth is predicted.

Korea is Virginia's fourth largest export market in the Far East, buying over 144 million dollars' worth of products from the Old Dominion in 1989. Korea's expanding steel industry, a key part of its industrial development, has fueled Korea's demand for Virginia's coal. Sales of coal from the Commonwealth to Korea almost doubled between 1987 and 1989, and it is expected to double again by 1995. Over 63 million dollars worth was sold in 1989, making it Virginia's top export to Korea. The increased demand for coal may also
create opportunities for Virginia firms specializing in coal related technology. Other Virginia products likely to be in future demand include hard and softwood pulp, chemicals, telecommunications equipment, tobacco, and pollution control equipment. The Commonwealth's efforts to promote exports to Korea are varied. In addition to Korea's inclusion on former Governor Baliles' foreign travel itinerary, the Virginia Department of World Trade coordinated the participation of Virginia firms at a product show, and co-sponsored a Korean buying mission which resulted in 56.3 million dollars' worth of sales for the Commonwealth. In 1988, sales from Virginia to Korea increased 78 percent, more than the national average. If trends persist, sales will continue to increase.

China

As a communist country, China's economy is centrally planned and foreign trade is controlled by a vast, confusing bureaucracy. Thus, China qualifies as the Asian nation presenting the biggest challenge to American exporters. Although China's open door policy meant greater opportunities for exporters, the vicious crackdown in Tiananmen Square served to isolate China from the trading world. As a result of the Chinese government's repression and murder of protesters in Tiananmen Square, many foreign lenders have closed their purses to the Chinese and tourism has decreased. Both of these factors decrease the amount of foreign exchange available to the Chinese. As a result, China may have to
import less, using the hard currency it does have to service its debt.\textsuperscript{46}

Because of the lack of hard currency, anyone interested in selling to China may need to consider alternative financing methods, such as countertrade. Dr. Cheng, president of Eastern Computers, Inc., of Virginia Beach, suggests the use of a good interpreter in dealing with the Chinese since they are naive about Western goods and may not, for instance, realize that they need to buy software if they are buying hardware. He also says that they will not dicker with a salesperson; if they do not like the price, they will simply walk away.\textsuperscript{47}

Virginia's exports to China doubled between 1988 and 1989 to 100 million dollars in spite of the troubles there after Tiananmen Square. China ranks fifth as a Far Eastern market for the Commonwealth's exports.\textsuperscript{48} Although China would like to get its hands on high tech equipment, which Virginia has the capacity to supply, the flow of this gear into China is limited by CoCom, an organization of Western states which regulates the flow of technology into communist nations. In 1989 the three main goods which the Old Dominion sold to China were chemicals, tobacco, and industrial machinery.\textsuperscript{49} Future sales of these and other Virginia products to China remain uncertain.
American women who would like to export to the Middle East will not find doors swinging open for them. The Islamic culture and religion—which are intertwined with government, law and business—regard women as second class citizens. The region denies many rights to half of its population. For instance, women may not leave Sudan without being accompanied by a brother, father or husband, and the women of Saudi Arabia will break the law if they attempt to drive. Needless to say, such an environment does not welcome any women seeking to do business on equal terms with the men of the region; if anything, the antipathy towards Western, and particularly American women, is even more fierce than towards women in general.

Nor will American men find the present a propitious time to execute trade deals with most of the Middle East either, in part, of course, because of the recent war. The war was an explosive manifestation of the political instability which plagues the area. Stuart Perkins of the Virginia Department of Economic Development identifies the region's volatility as the main drawback to trade. He says that long-term relationships are the key to exporting, but that the possibility of maintaining them in this region is questionable.

Other factors discouraging American businesses from exporting to the Middle East include a lack of market data,
language and cultural differences, foreign exchange restrictions or shortages, and logistical problems. The sight of people in some countries burning American flags and chanting anti-Western slogans does not encourage exporters to sell to this region either.

The region is not entirely inimical to imports, however. Israel, a Jewish rather than Arab state, maintains good relations with the United States, and it imported almost three billion dollars worth of American goods in 1989. In 1985, it signed a trade agreement with the U.S. Because of Israel's hostilities with its Arab neighbors, it has no nearby trading partners. Some of the other Middle-Eastern states appeal to exporters because they are rich from oil and can easily pay for what they buy. Affluence does not bless all nations of the region, however. The Soviet Union, Hungary, Czechoslovakia and Bulgaria are owed up to 85 billion dollars—much of it for weapons—mainly by Middle-Eastern states, including Iran, Iraq, Syria and Libya. The repayment of all of the debt is unlikely.

Virginia and the Middle East

Because of the war, Virginia lost two important export markets in the region: Iraq and Kuwait. Exports from Virginia to Iraq had grown over 1300 percent between 1988 and 1989, marking it as an area of potential for Virginia exporters. Of course, that prediction is no longer valid. The current strife in the country and the continuation of
economic sanctions eliminate Iraq as a market for Virginia's exports.

Although Virginia could not trade with Kuwait during the crisis in the Persian Gulf, exports to this nation will soon flow. The public-private group, the Kuwait Redevelopment Assistance Group (KRAG), begun by Governor Wilder and monitored by VDED, seeks to match Kuwaiti rebuilding needs with Virginia exporters and workers.60 The cost of rebuilding Kuwait is expected to be as much as 100 billion dollars.61 According to Richmond's channel six news, Virginia is to be awarded 30 million dollars worth of projects to rebuild Kuwait. In 1989 Kuwait represented the Commonwealth's third largest market in the area, buying over 46 million dollars in Virginia's products.62

Between 1987 and 1989, Virginia's exports to the Middle-East grew 36 percent, making it the fastest growing regional market for the Old Dominion.63 Statistics for the next several years, however, will likely reveal that this trend was short-term. Stuart Perkins predicts a decrease in the quantity of Virginia's exports going to the region.64

Nevertheless, demand for some Virginia products in the area will continue unabated, and salesmen in the Old Dominion will likely heed the temptation to meet the demand, in spite of the difficulties. Saudi Arabia, Virginia's biggest customer in the region in 1989, imported almost 120 million dollars worth of tobacco in that year.65 Other Arab nations also bought large quantities of this smokable commodity from
the Commonwealth. Demand is also predicted for other Virginia goods, including electronic components, transportation equipment, industrial machinery, chemicals, and construction equipment and materials.

When former Governor Baliles travelled to Egypt in March of 1989, his main purpose was to promote Virginia's coal, but he stumbled onto other potential export opportunities. For instance, he discovered that there may be markets there for paper and cheap furniture, as well as a need for expertise in building water purification facilities and dry docks.

Baliles also led the first major delegation from a U.S. state to Israel in 1988. No major immediate headway for Virginian exporters resulted as a consequence of the trip. Baliles insisted, however, that success takes time. For Baliles, the best prize for courting the Israelis would be the establishment later of joint ventures in which Virginia companies could make Israel a "duty-free shop" for goods bound for Europe, since Israel has free trade agreements with both the United States and the European Community.

Another trip by a Virginia official to the Middle-East was recently undertaken by John D. Covaney, senior managing director of marketing services for the Virginia Port Authority. He visited Kuwait as part of a goodwill group celebrating Kuwait's liberation. While there he met with top Kuwaiti officials on behalf of KRAG.

Other than Governor Baliles' and Covaney's trips to the region, Virginia's efforts at cracking the Middle-Eastern
market have been limited. No Virginia agencies are represented there, and except for a Mid-East water technology exhibit on the agenda for September of 1991, there are no programs in which Virginia is planning to participate in the near future. The Commonwealth is concentrating its efforts on more fertile ground within the global marketplace. Success in the region requires a presence through exhibitions, catalog shows and trade fairs, and through "proper representation." It also requires respect for the culture and laws of the area. The ability and willingness of Virginians to meet these criteria are questionable: sometimes it takes more than fertilizer to make the dessert bloom.
In the now well known scene, youths chisel away at the crumbling Wall between East and West Berlin, the concrete symbol of the East's self-confinement from the West. With the Wall down, not only can the people of the East travel into the West to sightsee, but the people of the West can venture into the East to do business. It is, of course, the political and economic transformation of the Soviet Union and Eastern Europe (Note: Although many prefer the region to be described as "Central Europe," "Eastern Europe" is used here because it is the more familiar description. It is also acknowledged that much of the Soviet Union is part of Eastern Europe, but it is listed separately to make descriptions easier) which make these regions significant for U.S. exporters; there is excitement over the opening of such a large market of consumers to the trade aspirations of Western capitalists.

The area has potential. Historically and currently, however, U.S. trade with the region is insignificant. In 1989 U.S. exports to Eastern Europe and the Soviet Union amounted to a mere 1.6 percent of global American exports. The shop doors in the East are open; but clerks working within them are inexperienced and they are using abacuses instead of cash registers. In other words, Eastern Europe and the Soviet Union have to travel a long way before they will be in the
same shopping center with the more advanced free market economies of the West.

Americans seeking to export to the region encounter a variety of difficulties. The main problem is getting paid. Foreign exchange is scarce in both the USSR and in Eastern Europe. The Soviet ruble is currently not convertible into hard currency, but there are plans to make it so by 1994 or 1995. Until more foreign exchange is available, exporters to the region may need to look into alternative financing methods, such as countertrade.

Inflation is also an impediment. Economists say inflation is natural during the transition from a planned to a market economy; when more products become available under the new system, prices will stabilize, they say. The vast quantity of problems which have festered in Eastern Europe during decades of Soviet control place it beyond the scope of many economic models, however. For example, inflation could run wild in the region for quite some time meaning that Western products may become too expensive. In the meantime, Eastern Europe and the Soviet Union may continue their trend of buying only "essentials" from the West; and any other items they choose to purchase may be those which can be used immediately, such as computers.

Other factors hampering American export efforts to the region are those experienced by developing countries everywhere--only these factors are intensified by the area's lack of experience in free market economics. In some places,
there is an inability to provide the most rudimentary business services, such as adequate hotels, intercity transportation, working phones and fax machines. In addition, the distribution networks are unreliable. Basically, the overall business culture is less developed.

National security concerns also restrict the sale of American products to Eastern Europe and the Soviet Union. In addition to wanting to prevent the Soviet acquisition of technology which might help its military machine, the U.S. is also concerned that an unrestrained flow of goods and services to the Soviet Union might affect the global balance of power to the benefit of the USSR. Although the U.S. recognizes that the nations of Eastern Europe are now independent of the Soviet Union, William Rudman, Undersecretary of Defense for Trade Security Policy, says that intelligence sharing with the KGB still goes on in Eastern Europe. Thus, even though the Bush administration is committed to distinguishing between its export control policy for the Soviet Union and for other Eastern European nations, it sees a need for safeguards to prohibit the unauthorized diversion of technology to the Soviet Union.

The U.S. hesitation to form a more liberal trade policy towards the Soviet Union is criticized by some, however. The U.S. position in a new world order which focuses on economic power may be damaged if it sits back while other nations capitalize on potential profits in the USSR. Naturally, an untapped market of 280 million Soviet consumers is not going
unnoticed by America's economic competitors. Western Europe has been quietly building links with the East for years; and it has the advantage of closer proximity and better language skills. The U.S. may need to weigh its need for a good position vis-a-vis its economic competitors in the coming world order against some of its traditional fears about the Soviet Union.

Attempting to gain a slice of the possible Soviet pie, President Bush signed a trade agreement with President Gorbachev in June of 1990. Among other things, it aims to establish a basis for converting Russian rubles into dollars and to improve protection for U.S. patents, copyrights and trademarks in the Soviet Union. It also is expected to lower U.S. tariffs on some Soviet products. Before the agreement can take effect, however, it must be ratified by the U.S. Senate. As of February, 1991, it has not been. Elizabeth Feldstein of U.S. Senator Robb's office states that it will probably be considered in the Summer of 1991. A similar agreement signed by Nixon and Brezhnev was struck down by Congress in 1972. The situation in the Soviet Union is so politically volatile at present that actions there, such as a more severe crackdown on the Baltic states, may harden the Senate against the trade deal.

Export Opportunities

Because the Soviets and other Eastern Europeans are not in a position to import very much at the present time, there
is a greater opportunity for investment there than for exporting. The two words used most frequently in the vocabulary of an American business person interested in the region are "joint venture." As part of trade reforms in the Soviet Union, Gorbachev signed a decree on the establishment of joint ventures, allowing Western partners to own up to 90 percent of an operation; the Western partner can also be the general director of a joint venture enterprise. Eight hundred joint venture agreements were signed in 1989.

The potential for more direct forms of exporting exist, however. Starved of even basic staples for years, the area is hungry. There is an interest in almost anything which the West wants to sell, and the voices of consumers are now audible. U.S. products with the greatest export potential to the Soviet Union include food processing equipment, manufactured housing, chemical products, medical supplies, paper products, heavy machinery and waste treatment services. Because the Soviet Union has the largest railroad system in the world, there may also soon be demand for improved transportation equipment. As stated earlier, however, individuals selling these products to the Soviet Union will need to depend on alternative financing methods, since the ruble is not convertible into hard currency.

In Eastern Europe, the most urgent demand may be for pollution control and clean-up equipment and technology. While living under the rule of communist authorities, their factories "did not pollute" so scrubbers and other devices
were not used. As a result, pollution has reached absolutely intolerable levels. One of the myriad reports exemplifying the horrible quantity of pollution is that children in some places go into salt mines to breathe better air. In the section of Germany which was once East Germany, the people currently are in need of 3,000 sewage treatment plants. At least the residents there will be able to buy what they need. The reunification of Germany is expected to help them—as well as Americans selling to them—because the conversion of soft East German money into the West German mark combined with assistance from the country's western half to its eastern part will enable the former East Germans to pay for what they want to import. Other promising items for export from the U.S. to Eastern Europe include telecommunications, food processing, health care, business equipment and especially goods and services needed for economic restructuring.

So the people in Eastern Europe and the Soviet Union are hungry—in fact, starving for Western goods and services. Like destitute people everywhere, however, their pockets are empty. The curtain which kept them empty has been lifted, though, so there is the potential that they will not always be that way. Based on this hope, American and Western business people are looking eagerly towards the East.

Virginia, the Soviet Union and Eastern Europe

Like their counterparts in the other forty-nine American states, this region is significant to Virginia's exporters,
not because of past or current sales--Eastern Europe and the Soviet Union ranked last in 1989 of all global regions receiving Virginia products\textsuperscript{97} --but because of the potential for increased exports in the future. Virginia has made much less headway than the nation as a whole in expanding its sales to this area, however. For instance, the United States increased its exports to the Soviet Union and Eastern Europe by 39 percent between 1988 and 1989. By contrast, Virginia's sales to the region in the same period dropped 22.6 percent.\textsuperscript{98} Yet, there is a demand for what Virginia makes.\textsuperscript{99} Governor Wilder has said that "Virginia produces many of the key building blocks for economic growth in these (Eastern European) countries".\textsuperscript{100} The obstacles listed above make their sale to the region difficult. In addition, the Soviets and the Eastern Europeans lack the commercial advantage which most of the world has: access to Virginia's ports. Existing rules barring Communist Bloc vessels from Hampton Roads still apply to ships coming from the Soviet Union and Eastern Europe. Bob Rich, Director of International Marketing for the VDACS, predicts that the rules prohibiting these vessels from using the Commonwealth's ports will not change any time in the near future.\textsuperscript{101}

Another reason for Virginia's poor sales record to the nations of Eastern Europe and the Soviet Union is that demand there for the Old Dominion's top two products, coal and tobacco, has been slight.\textsuperscript{102} As freedom allows concerns for the environment to be voiced, however, demand for Virginia's
clean burning coal may increase. In fact, Virginia's coal industry could become a leading supplier to Eastern Europe, replacing the brown coal which is high in sulfur and ash content that is currently used in much of heavy industry.103

Pollution is creating a demand for other of the Commonwealth's goods and services. The Virginia Department of Economic Development is participating with the University of Virginia in a pollution control equipment study with potential sales to Eastern Europe.104 Additional opportunities for cooperation between Virginia and Eastern European research institutes on pollution related subjects may arise, creating a window for exports. For instance, Virginia university professionals experienced in handling fly ash could tutor Eastern Europeans facing the same problem.105

Some Virginia firms are also taking part in the popular joint venture. Reynolds International, a wholly-owned subsidiary of Reynolds Metals, has a $200 million aluminum foil production plant in Siberia; some of its product is consumed in the Soviet Union and the rest is re-exported worldwide. It plans to expand this type of venture into Eastern Europe.106

In 1989 the top importer of Virginia's products in Eastern Europe was Yugoslavia. The value of the Commonwealth's exports going there was almost $20.2 million, a 50 percent decrease from 1987. Hungary placed a distant second with almost $6 million in purchases from the Old Dominion, and Poland placed third. In the same year, the
Soviet Union imported approximately $7 million worth of Virginia's goods. 107

Virginia's poor export performance in this region relative to other American states indicates a need for increased vigilance in seeking opportunities to sell there. Just as the U.S. must compete with other Western nations for a share of this regional market, Virginia competes with other American states. It needs to stay abreast of all political and economic changes there and in the United States which may open doors for exports, and it needs to step inside this trade arena before the room is full, or before an unforeseen wind blows the door shut.
FOOTNOTES


9. Ibid.

10. Ibid.


13. Ibid.


16. Ibid., p. 2.

17. Ibid.

18. Yang, p. 60.


22. Perkins, interview by author.


28. Verespej, p. 94.


32 Ibid.


35 Ibid.

36 Ibid., p. 54.


38 Virginia in a Global Economy 1989, p. 54.


40 Ibid.

41 Perkins, interview by author.


45 Anne Gibbs, "Business the Asian Way," Virginia Maritimer, 6, Nos. 9-10 (Summer 1986), p. 16.


49 Ibid., p. 35.


51 Perkins, interview by author.

52 "Africa and the Middle East," *Virginia Dept. of World Trade News*, 4, No. 3 (June 1990), pp. 1-4.


56 Perkins, interview by author.


59 "Africa and the Middle East," p. 4.


61 Ibid.


63 Ibid.
Perkins, interview by author.


"Africa and the Middle East," p. 4.


Alcott, pp. 8-10.

Gore.

Perkins, interview by author.

"Africa and the Middle East," p. 4.

Virginia in a Global Economy 1989, p. 3.


79  Charris, p. 119.
80  Ibid., p. 110.
82  Ibid.
84  Ibid.
85  Collier, p. 40.
88  McClenahen, p. 87.
90  Brana, p. 6.
91  "Soviet Briefing, p. 5.
93  Perkins, interview by author.
94  Virginia in a Global Economy 1989, p. 11.
95  Ibid.
96  Ibid., p. 3.
120  Ibid., p. 11.

99  Ibid.


102  Virginia in a Global Economy 1989, p. 11.

103  Brain, pp. 6-7.

104  Perkins, interview by author.

105  Brain, p. 8.

106  Ibid., p. 6.

107  Virginia in a Global Economy 1989, p. 11.
Chapter Nine

Conclusion

As frequently happens in international relations, the recipe for power has changed, along with the nations possessing it. The equation for power today stresses economic as much as military might. Although America's position as a military superpower continues undisputed, whether it will remain an economic superpower into the next century will depend on its response to current challenges from the international community. Japan and the European Community are America's allies, but they are also economic competitors. While the United States can benefit from the wealth of its neighbors, it can only do so if it is an active participant in the global marketplace.

As revealed by America's trade deficit, it has been importing more than it has been exporting. The popular isolationist sentiment which was extended from political to commercial matters for most of America's history is no longer a permissible luxury. The unification of the globe into one giant marketplace means that the United States will have to take part or be left out, in which case it will forfeit its
economic superpower status. To play an active role, the U.S. needs to learn more about foreign cultures, political systems, and economic structures. Girded with this much needed information, it will be better able to meet the demands of its new customers in Seoul, Glasgow, Buenos Aires, and other parts of the world. The quantity of its exports, and, correspondingly, its economic power will then increase.

One feature of the new expanded marketplace is the role which subnational actors are able to play in it. Within the United States, individual states are realizing that the federal government cannot always best represent their interests, so they are endeavoring to promote these interests themselves. Without the constraint of a nation-size bureaucracy, states are able to be more responsive than the Federal government to local concerns. They also have greater maneuverability than the nation as a whole; although the Constitution places some limits on what the states can do, their smaller size allows them to formulate and follow through on various policies without navigating an overly sticky web of Red Tape.

Typical, and relatively recent, state actions include the establishment of offices in foreign countries, and the undertaking of trade missions by Governors. Virginia has participated in both of these types of efforts, as well as in many others. Virginia can be lauded for its development of an adequate infrastructure to meet the demands of foreign trade.
A significant investment has been put into the Port at Hampton Roads, so that it might attract more business. The efforts undertaken formerly by VDWT and currently by VDED and the VDACS can also be applauded, as well as actions by former Governor Baliles. For the future, the Commonwealth might consider a more comprehensive strategy, such as the XPORT program undertaken by New York and New Jersey. XPORT is a trading company that basically adopts small to medium-size companies that want to export, assisting them through every step of the export process, from market research to guidance after contact with a potential buyer has been made. 1

The current strategy in Virginia can be viewed as a success, however. The quantity of exports leaving the Commonwealth has greatly increased in recent years. The booming export sector has contributed to the overall well being of Virginia's citizens, creating jobs and adding money to the state's coffers. Continued success in exporting, as in any other field, however, requires vigilant hard work and ongoing innovation.
FOOTNOTES

BIBLIOGRAPHY

Books


Magazines and Journals


"Africa and the Middle East." *Virginia Department of World Trade News,* 4, No. 3 (June 1990), 1-4.


"Argentina, Brazil, Chile and Venezuela." *Export Today*, July/August 1990, pp. 26-35.


"Brady, Anyone?" *Fortune*, 120, No. 5 (28 August 1989), 20.

Brana, Monica. "Distribution Channels in a United Europe." *Virginia Department of World Trade News*, 4, No. 3 (June 1990), 2.


"Canada: More Than Just the 'Country Next Door.'" *Virginia Department of World Trade News*, 4, No. 4 (August 1990), 1+.


Cappasso, Tony. "VIMS researchers harvest technology to increase water-bred commerce." *Virginia Maritimer*, 6, Nos. 9-10 (Summer 1986), 46-47.


"Economic Impact Study Released." Virginia Maritimer, 10, No. 2 (February 1990), 4-8.


"Erasing the 49th Parallel." The Economist, 309 (22 October 1988), 16.


"The Free Trade Helter Skelter." The Economist, 309 (5 November 1988), 44.


Gibbs, Anne. "Business the Asian Way." Virginia Maritimer, 6, Nos. 9-10 (Summer 1986), 16-17.


"Going Global." Virginia Business, 5, No. 7 (July 1990), 41-46.


Horgenson, Gary. "Pacific Rim trade opportunities." Virginia Maritimer, 6, Nos. 9-10 (Summer 1986), 21-23.


"Interested in the European Market?" Virginia Department of World Trade News, 4, No. 3 (June 1990), 2.


"Other South American Market." Export Today, July/August 1990, p. 36.


Reich, Robert B. "The Real Economy." The Atlantic, 267, No. 2 (February 1991), 35+.


"Virginia Export Climate." Virginia Department of World Trade News, 3, No. 4 (October 1989), 1-3.

"Virginia Exports Grew $800 Million in 1989." Virginia Maritimer, 10, No. 8 (September 1990), 4.

"Virginia Exports Grew 13 Percent in First Quarter '90." Virginia Department of World Trade News, 4, No. 3 (June, 1990), 1-3.

"Virginia Exports Surge." Virginia Maritimer, 10, No. 10 (November 1990), 8.

"Virginia Ports 9.8% Ahead of 1989."  Virginia Maritimer, 10, No. 7 (October 1990), 4.

"Virginia's Ports No. 1 in Total Cargo."  Virginia Business, 10, No. 7 (July 1990), 4.


"Virginia's 'Year of Trade.'"  Crescent Monitor, 1 (Summer 1988), 2-3.

"Visiting Traders."  Virginia Maritimer, 7, No. 8 (June 1987), 16-17.


Yang, Dori Jones.  "The Other China is Starting to Soar."  Business Week, 6 November 1989, pp. 60-62.


Interviews & Seminar Lectures


Hancock, Samuel, Hancock International.  Interview by author, 30 January 1991, Richmond, Virginia.
King, Rob, University of Richmond. Interview by author, March 1991, Richmond, Virginia.


Porter, Bill, Deputy Secretary for Economic Development for the state of Virginia. Interview by author, 15 January 1991, Richmond, Virginia.

Preston, Janie. Trade Specialist, U.S. Dept. of Commerce. Information gained from her lecture at the "Marketing Your Export Product" seminar. It was sponsored by the Virginia Department of World Trade and the Virginia Community College System and held on 7 November 1990.


Rothberg, Louis. Attorney, U.S. Dept. of Commerce. Information gained from his lecture at the "Marketing Your Export Product" seminar. It was sponsored by the Virginia Department of World Trade and the Virginia Community College System and held on 7 November 1990.

Ryle, Martin, Ph.D., University of Richmond. Interview by author, 11 February 1991, Richmond, Virginia.

Vidrick, Rob, University of Richmond. Interview by author, March 1991, Richmond, Virginia.

Walborn-Couturier, Christine. Export Development Manager, VDED. Information gained from her lecture at the "Marketing Your Export Product" seminar. It was sponsored by the Virginia Department of World Trade and the Virginia Community College System and held on 7 November 1990.

Other


Export Trade. (A handbook for the seminar series presented by the Virginia Department of World Trade and the Virginia Community College System), 1990.

Governor's Office, Division of Industrial Development. Virginia Facts and Figures 1983 (Richmond, Virginia: Governor's Office, Division of Industrial Development).

Gunlicks, Art, Ph.D., University of Richmond. Information provided to author, March 1991, Richmond, Virginia.


KIMBERLY SUE WILLIAMS
818 St. John's Wood Drive
Richmond, Virginia 23225
(804) 323-4077

Education:
University of Richmond, Richmond, Virginia.
M.A. candidate in political science.
GPA = 3.8

University of Virginia, Charlottesville, Virginia.
B.A. in foreign affairs with a concentration in
developing areas and a minor in Spanish. May, 1986.

University of Valencia, Valencia, Spain.
Spanish language, literature and art. Spring, 1985.

Experience:
Joint Legislative Audit and Review Commission, Richmond,
Virginia. Member of teams studying the Virginia
Community College System and Virginia's Homes for
Adults. Researched issues, designed and administered a
survey, analyzed data, met with and interviewed related
officials, and participated in an enrollment audit and

Intertek International (pre-shipment inspection
company), Fairfax, Virginia. Pricing and Document
Analyst. Evaluated prices and documentation of goods
being shipped to Peru and Venezuela, effectively
negotiated adjustments with exporters, obtained
corrected or needed documents, calculated savings of
foreign exchange, answered exporter questions regarding
pre-shipment inspection, helped set up framework for

U.S. Senator Donald Riegle, Washington, D.C.
Research and letter writing to constituents. Fall, 1986

WUVA (UVA radio station), Charlottesville, Virginia.
Newscaster and Production Coordinator. 1983-86.


Skills/ Interests:

Honors:
Pi Sigma Alpha; Graduate assistantship awarded by the
University of Richmond; Dean's List; Outstanding College
Students of America; National Honor Society.

Travel:
Travelled through England, Scotland, Italy, Germany,
France, Switzerland, Spain, and many states in the U.S.

Excellent references gladly furnished upon request.