INTernational trade: trends and issues
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Introduction

The nations of the world are becoming increasingly interdependent from an economic perspective. Products and services are being designed, produced, distributed, and marketed on a global basis. Business opportunity and competition do not end at the water's edge; whether that water is the Pacific Ocean or Lake Michigan. Foreign trade and international finance have arrived in the heartland of America, and concern with exports, imports, and foreign investment have made the Central Wisconsin economy a more diverse and complex organization.

This report will describe recent trends in U.S. foreign economic activity, and it will emphasize the benefits and costs of this process to the state of Wisconsin and to our own region. The benefits of foreign trade include a greater variety of consumer goods for Central Wisconsin residents, and more choice for us in terms of price and quality. Local businesses have extended their markets through exports, and several firms have improved their competitiveness by importing materials and equipment. Costs of becoming involved with foreign trade include increased transportation costs, volatile exchange rates, more indirect marketing procedures, and more complex financial arrangements.

National Trends

In the 1980s, the merchandise balance of trade deficit has become the ultimate indicator of United States economic performance. Journalists, stock market speculators, and government officials anxiously await the release of each month's figures. Figure 1 shows the trend in this measure in current prices and adjusted for inflation.

If ten economists were arguing over the "cause" of the balance of trade deficit, they would come up with twenty plausible hypotheses. My own view is that national trends in U.S. economic structure, large deficits in the federal government budget, and reluctance to save by the American public are responsible for most of the balance of trade deficit. Please note the popular explanations of our trade deficit that I did not cite: lack of technological progress, poor management, greedy and uncooperative unions, unfair trade practices of other nations, volatile foreign exchange markets, and lack of direction by government. The problem with these "explanations" is that either they are inconsistent with the data or they existed long before there was a balance of trade problem.
The eagerness of foreigners to invest in America is closely correlated with our trade deficit. Whether this significant and expanding phenomenon is a cause or a result of our trade situation is debated by experts, but the fact remains that capital inflows are largely financing our excess of imports over exports. Figure 2 indicates that America's new status as the world's largest debtor nation is directly correlated with the attractiveness of our financial markets to international investors.

Wisconsin's International Economic Performance

Our state has become involved in many aspects of the global economy. In 1987 Wisconsin's exports were $3.07 billion, and its imports were $2.30 billion. Although data on a state's foreign transactions are not precise, Wisconsin's trade performance is noteworthy in a year when the United States ran a large deficit. A surplus of $773 million is a healthy accomplishment for a state that is located in the Midwest. 1988 represents a continuation of this trend with a surplus of $363 million during the first six months. Wisconsin's leading export industries are non-electrical and electrical machinery, primary metals, and fabricated metals. Export related jobs account for over 15 percent of employment in these industries.

The controversial phenomenon of foreign investment is highly significant for Wisconsin. Whether capital flows from abroad are welcomed as contributing to job creation and economic development, or criticized as increasing foreign influence on the American economy, Wisconsin is getting its share. In 1986 $3.2 billion of Wisconsin's property was owned by foreigners, and over 57,000 Wisconsin workers were employed by foreign controlled firms (figure 3). Most controversial of all, 95,000 acres of Wisconsin land were owned by foreign interests.

Although these figures are striking, employment of U.S. workers by foreign affiliates accounts for only 3.5 percent of the labor force, and for Wisconsin that percentage is no higher than in 1980. Acquisition of agricultural land by foreign interests has slowed, reflecting the recent investment performance of that industry. Less than 1% of state land is owned by foreigners.

State government in Wisconsin is actively promoting foreign trade and reverse investment. The Bureau of International Development in Madison is an important component of this effort with an annual budget of over $1.5 million. Wisconsin has established foreign trade offices in Frankfurt, Germany and Hong Kong, and is adding others in South Korea and Japan. Our state is providing financial, technical, and promotional assistance to potential exporting firms. The most visible activities include frequent trade missions to Europe and Asia led by the Governor.

Competition among states for marketing goods abroad is intense. At least 30 other states are operating foreign trade offices in 15 nations. Twenty-three states have passed legislation creating arrangements to provide financial assistance to exporters. The National Association of State Development Agencies estimates that states now
spend close to $40 million per year on export promotion, and that figure has been increasing at an annual rate of 15 percent.

**International Economic Activity in Central Wisconsin**

In preparation for this special report, the Central Wisconsin Economic Research Bureau conducted a survey of business firms in Marathon, Portage, and Wood counties. Of the 34 manufacturing companies interviewed, 32 or 94 percent indicated at least some involvement with international trade or foreign investment. As shown in Table 1, 79 percent of these Central Wisconsin firms engaged in some exporting in recent years. Canada was the most frequently mentioned destination, and for many of these companies exports accounted for a small percentage of their total output.

**TABLE 1**

**SURVEY OF CENTRAL WISCONSIN FIRMS**

<table>
<thead>
<tr>
<th>Question</th>
<th>Response</th>
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<tbody>
<tr>
<td>1. Have you exported recently?</td>
<td>Yes: 79% No: 21% No Response: 0%</td>
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<tr>
<td>2. Do you use imports in your business?</td>
<td>Yes: 71% No: 29% No Response: 0%</td>
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<tr>
<td>3. Does foreign investment provide ownership or financing for your firm?</td>
<td>Yes: 26% No: 68% No Response: 6%</td>
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<tr>
<td>4. Has the ownership of your firm invested in foreign enterprise?</td>
<td>Yes: 24% No: 68% No Response: 9%</td>
</tr>
<tr>
<td>5. Have government agencies assisted your firm?</td>
<td>Yes: 21% No: 71% No Response: 9%</td>
</tr>
<tr>
<td>6. Would you like to expand foreign sales?</td>
<td>Yes: 79% No: 15% No Response: 6%</td>
</tr>
</tbody>
</table>

Exports from this region include: agricultural machinery and equipment, furniture, paper, electrical machinery, food products (raw and processed), construction components, industrial equipment, tools, and recreational products.

Seventy-one percent of the companies surveyed use some imported raw materials, processed goods, or equipment in their business. Their reasons for using foreign sources included price, quality, and availability in the few cases where no comparable American product could be obtained.

A minority but significant number of these firms would qualify as participating in some form of foreign investment. Several area firms are branches or affiliates of national or multinational enterprises with full participation in the global economy.

Only 21 percent of the respondents indicated that they have received any help or encouragement from federal or state government agencies in their international
activities. Finally, the vast majority were enthusiastic about the prospect of increasing their foreign trade involvement in the near future.

The CWERB has documented a high degree of participation and interest in foreign trade among Central Wisconsin firms. However, our interviews revealed significant barriers to further expansion. First, transportation costs of shipping some manufactured products from our region are high relative to the weight and value of these goods. This situation along with unfavorable exchange rates, creates problems of cost competitiveness. Second, several smaller firms began exporting through unsolicited orders from abroad. This "over the transom" business may not lead to a systematic, effective international marketing effort. In fact, identifying sales representatives in foreign markets has been one of the difficulties faced by local manufacturers. Third, many potential exporters lack knowledge and experience in the financial aspects of foreign trade. Arranging payment and credit terms for foreign buyers was mentioned as a significant concern.

Conclusions

Clearly, the global economy extends to the Central Wisconsin Region. Local firms are profiting by export sales, foreign sources of materials and equipment, and financial arrangements with multinational enterprises. The downside of international activity is increasing competition and uncertainty. Local firms cited concerns with transportation costs, exchange rate fluctuations, foreign marketing, and complex financing terms.

Information and assistance for potential exporters can come from several sources: federal and state government agencies, providers of consulting and business services, and voluntary associations (Table 2). However, our evidence indicates an information gap still exists that creates a barrier to the expansion of export sales for smaller firms.

TABLE 2
INTERNATIONAL TRADE ORGANIZATIONS
District Export Council
Jerry D. Maahs, Chair c/o Alto-Shaam, Inc.
W164 N9221 Water St.
Menomonee Falls, WI 53051
(414) 251-3800

U.S. Department of Commerce
International Trade Administration
District Office
517 E. Wisconsin Ave.
Milwaukee, WI 53202
Tel: (414) 291-3473

Waukesha County Technical College
800 Main St.
James K. Eigenfeld, Director
School of International Trade
Barbara Moebius, Project Manager,
International Trade Technical Center
Pewaukee, WI 53072
(414) 691-5230

Wisconsin Department of Agriculture,
Trade and Consumer Protection
International Agri-business Center
801 W. Badger Road
P.O. Box 8911
Madison, WI 53708
(608) 266-2221
Fax: (608) 266-1300

Wisconsin Department of Development
Bureau of International Development
123 W. Washington Ave.
P.O. Box 7970
Madison, WI 53707
(608) 266-1480
Fax: (608) 267-2829
Telex: 882108 WI DEPT DEV UD

Wisconsin World Trade Center Inc.
Pfister Hotel
424 E. Wisconsin Ave.
Milwaukee, WI 53202
(414) 274-3840
Fax: (414) 274-3846
Central Wisconsin World Trade Association
Richard B. Judy, President
P.O. Box 803
Stevens Point, WI 54481
(715) 346-3774/2728
Central Wisconsin Business Development Center
George E. Seyfarth, Director
UW-Stevens Point
Stevens Point, WI 54481
(715) 346-2004
Northcentral Technical College
Business Division
Small Business Management Program
Business Outreach
Fred Boller, Director
1000 Campus Drive
Wausau, WI 54401
(715) 675-3331 ext. 360