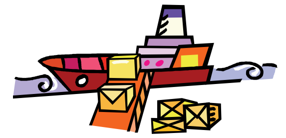
Virginia ExportVirginia.org BUSINESS WITHOUT BORDERS

Fast Facts



IMPORTS AND VIRGINIA'S ECONOMY

EXPORTS GOOD, IMPORTS BAD: A COMMON MISCONCEPTION

Imports: The Other Side of the Trade Coin

While exports are viewed as a validation of national productivity and competitiveness, imports are often perceived as taking jobs from one's own workers. After all, if the product was not made in the U.S.A, then potential jobs were lost or, worse yet, "outsourced" to another country with lower labor costs, right? This common misconception overlooks the important role imports play in *creating* jobs and making U.S. exports competitive. Almost 9,000 jobs are created in Virginia by pass-through imports: cargo that lands here from another country and is shipped to final users elsewhere in the United States. Direct jobs are concentrated in import handling, mainly transportation-related services. Another 80,100 jobs are supported by imports that stay in Virginia to be used as inputs in production or as consumer goods. Most of the jobs supported by imports to the state are within the wholesale and retail trade sectors. When combined with the 6% share of jobs that are connected to exports, the entire trade-related employment base of Virginia is about 8% of the state's total, or nearly one in every twelve jobs.

Exports Depend on Imports

As much as 40% of U.S. imports are producer goods- inputs to products that U.S. firms export or sell at competitive prices to American consumers. Rising import prices can result in domestic businesses closing down or moving operations to another country. Moreover, our purchase of imports assists the economic expansion of other nations, which in turn boosts their ability to purchase our exports.

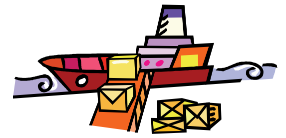
Benefits of Imports are Widespread

Imports allow U.S. consumers to buy a wider selection of goods they want at lower prices, which stretches the purchasing power of their paychecks. Low priced imports help hold down inflation. This allows the Federal Reserve to hold down interest rates and keep credit affordable- a key ingredient in the post-9/11 economic recovery.

HOW VIRGINIA BENEFITS FROM IMPORTS

In 2009, Virginia imports amounted to $18.6 billion. The bulk of these imports arrived via ocean vessels, which unloaded $12.2 billion in goods at Virginia's coastal ports. Air freight, which tends to be higher value goods (like computer chips), represented nearly one-quarter of Virginia's imports in 2009, and was valued at $4.3 billion. Top sources for imports were, in order (with percentage of total in parentheses): China (16.8%), Canada (8.3%), Brazil (7.6%), Germany (7.3%), and the United Kingdom (6.8%).

In states with major gateway ports, like Virginia, the import trade is a major source of economic activity. The Port of Virginia is a heavy lifter of international trade, ranked among the top ten by dollar value among all U.S. maritime ports. Washington Dulles International Airport is among the busiest in the nation in moving U.S. merchandise trade, ranked among the top 20 by value among all U.S. airports. Imported goods in Virginia require handling and processing by in-state transportation service providers like customs brokers, freight forwarders, stevedores, truckers, etc. All play an important role in efficiently transporting these goods to their final destination.



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HOW VIRGINIA BENEFITS FROM IMPORTS (cont.)

Distribution Centers

The Commonwealth of Virginia is strategically located for international trade and import warehouse distribution. Major retailers and leading distributors are increasingly taking advantage of Virginia's proximity to markets in the eastern and Midwestern United States. Virginia has seen significant growth in distribution center business in recent years, and now boasts over 80 distribution centers filled with international imported consumer goods. Mass marketers like Wal-Mart, The Home Depot, Target, and Dollar Tree now account for over two-fifths of containerized imports at the Port of Virginia. Import distribution centers are expanding throughout Virginia and beyond the major shipping hubs like the Port of Virginia, the Virginia Inland Port, Dulles International Airport, and the Port of Richmond. Some 13 million square feet of new warehousing space has been added at more than 30 new distribution centers around the state.

Foreign Trade Zones

Manufacturers are utilizing six Foreign Trade Zones (FTZs) located throughout Virginia. These FTZs provide fiscal incentives to companies that import goods in to the FTZs to be further processed and re-exported, thus creating jobs and providing tax revenue to the Commonwealth.

BUT AREN'T IMPORTS TO BLAME FOR THE TRADE DEFICIT?

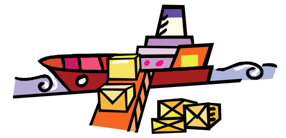
Trade deficits -and trade imbalances in general- are in large part determined by currency exchange rates, which in turn are determined by the market as well as central banks and government intervention. A country's specific cultural habits, such as consumer behavior and consumption patterns, may also influence its trade balance. Finally, trade deficits are influenced by *what* a country imports and exports. For example, if a country imports the bulk of its energy needs, like petroleum, a spike in this commodity can negatively affect that country's trade balance. Conversely, if a country is a substantial exporter of a particular commodity, like petroleum, a spike in this commodity can positively affect that country's trade balance.

Markets and Exchange Rates

Currencies, like any other commodity, are traded on the open market and are subject to the whims of supply and demand. In theory, *ceteris paribus*, if there is strong demand for a particular currency, its value tends to rise relative to other currencies. Likewise, if the market is flooded with a particular currency, its value tends to decrease relative to other currencies.

Central Banks and Exchange Rates

The primary role of most central banks is to monitor and control inflation. They do this by setting targets for short-term interest rates. Relatively higher interest rates, *ceteris paribus,* have a tendency to attract foreign investment because they provide a higher rate of return. As foreign money pours in to a country to take advantage of investment opportunities, like higher rates of return, demand for the domestic currency increases and so does the relative value of the domestic currency. Another way that central banks can influence exchange rates is to buy and sell currencies, thus manipulating their relative values. For example, in an attempt to halt the depreciation of the Brazilian *Real* a few years ago, Brazil's central bank bought *Reais* and sold U.S. Dollars in order to prop up the value of the *Real* and contain investor panic and capital flight.



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The point is this: In general, as the relative value of a country's currency increases, the relative cost of its imports tends to decrease. Conversely, when the relative value of a country's currency decreases, the relative cost of its imports increases. The value of a country's currency strongly influences that country's trade balance.

Cultural Idiosyncrasies- Shop til' You Drop
A significant factor in the U.S. trade imbalance lies in the habits of American consumers, who tend to be spenders, not savers. Cheap imports, coupled with Americans' enthusiasm for consumption and willingness to take on debt, is a recipe for trade imbalances. While true that the United States imports more than any country in the world, it is important to remember that the United States is also among the world's largest total exporters, especially of services. In fact, the United States has a trade surplus in services, meaning we export more in services than we import. This is even the case with China, where the annual U.S. trade surplus in services has reached almost $4 billion over the last several years. Our overall trade deficit with the world results from the fact that, despite our high volume of goods exports and our trade surplus in services, these figures pale in comparison to the amount of goods we import.

The Real Threat of a Trade Imbalance

The real, or at least potential, threat of a trade deficit (importing more than we export) is not the loss of American jobs to foreigners. Rather, it is the risk of inflation, higher interest rates, and an economic recession. When we buy imports, dollars leave the U.S. economy. When we buy more imports than we export, the dollars coming in to the U.S. economy are not sufficient to replace those that are leaving. This deficit, or shortfall of dollars, has to be financed somehow. So, the U.S. government obtains the extra dollars needed to finance the trade deficit by printing IOUs in the form of Treasury bonds and other securities, and selling those to foreigners. The sale of these IOUs to foreigners brings dollars back in to the U.S. economy.

Most countries are not able to maintain trade deficits for a long period of time for the simple reason that foreign investors can easily and quickly lose confidence in the borrowing government's ability to pay its debt obligations- i.e., the IOUs it has issued to foreign investors. This uncertainty may lead foreign investors to pull their money out and stop buying IOUs. In this case, the value of borrowing country's currency may depreciate, making the relative price of goods more expensive for its consumers (inflation). The borrowing country's government must therefore give foreign investors an incentive to continue buying its IOUs, which is does by raising the interest rates on the IOUs it sells. When a country's interest rates go up, domestic lending and spending tend to go down, and the economy runs the risk of recession.

The United States, until recently, has been able to avoid this scenario because foreign investors continue to perceive the U.S. as a relatively safe, stable, and predictable place to park their money. This confidence arises from the fact that the U.S. government has never defaulted on a debt obligation to foreign investors, and from the relative instability and volatility of the world economy compared to the U.S. economy. Faith in the U.S. Dollar has made it the currency of choice for central banks' reserves, and many international transactions are denominated in U.S. Dollars.

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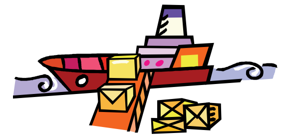

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IS CHICKEN LITTLE RIGHT?

So is the proverbial sky falling due to our disproportionate consumption of imports? Probably not, although politicians and media sensationalists might have you think otherwise. Several important developments at play will likely prove Chicken Little wrong:

First, the global economy is becoming less dependent on consumption in the United States, thanks mainly to the economic boom in China and India. This means that if Americans consume fewer imports, the impact on the growth of other nations' economies will not be as significant and disruptive as in the past. Furthermore, the strong growth of the Chinese and Indian economies creates higher demand for U.S. exports as domestic consumption in these two countries grows.

Second, the recent depreciation of the U.S. Dollar relative to other major currencies made imports relatively more expensive for Americans and U.S. exports relatively cheap in foreign markets. The result was that the U.S. trade deficit began to shrink in 2008, according to Department of Commerce data. Due to the global economic recession, however, the depreciation of the U.S. Dollar reversed as investors sought a safe haven for capital. Even with short-term interest rates close to zero, the United States is still perceived as one of the most stable places to invest. The appreciation of the Dollar contributed to a stubborn trade deficit that as recently as the second quarter of 2010 continued to increase. The U.S. trade deficit may nonetheless begin to shrink if the price of imported petroleum remains relatively low, if American consumers continue to tighten their belts and make fewer purchases, and if the relative value of the U.S. Dollar does not negatively affect the competitiveness of American exports.

Finally, it appears that the Chinese government is becoming more flexible with the exchange rate of its currency, the Yuan, starting with a minor re-valuation in July, 2005. Some economists maintain that the Yuan is still overvalued by as much as 40%, which keeps Chinese exports artificially cheap in foreign markets. Nevertheless, the chorus of countries mounting pressure on the Chinese government to let the market more freely determine the value of the Yuan is growing.

Value of One U.S. Dollar in Chinese Yuan as of September 13, 2010

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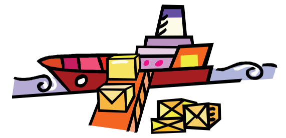

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VEDP SERVICES

The VEDP offers a number of export-related services to Virginia businesses, including group market visits and market research by our Global Network of in-country consultants. These services are available to all Virginia exporters. For more information, please visit our website: www.exportvirginia.org.

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Last Revision: November 2010

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