LOCAL IMPACTS OF INTERNATIONAL TRADE

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The global economy has been evolving at an increased pace over the past two decades. The institutional support sector is only beginning to understand and respond to the resulting changes. Community impacts, structural change and technological innovation are but a few of the factors under review. While some fifty companies do about 80 percent of U.S. export business, the amount of export activity undertaken by smaller businesses has grown rapidly in actual and proportional numbers. Opportunities for value-added exports are among the fastest growing in the market, and small business is particularly suited to that market.

Information such as the following is key to identifying and understanding local impacts of international trade:

- Current Situation (trade data; export-dependent states; export potential; import status).
- Community Needs/Implications (support/services; economic development; state support).
- Market Implications (global versus international opportunities for communities; trade-offs; etc.).
- Policy Implications (local, state, national, international; likely changes).

This paper will provide an overview and discussion of the above. Before discussing specific trade data it is useful to have a common community economic model to which to refer.

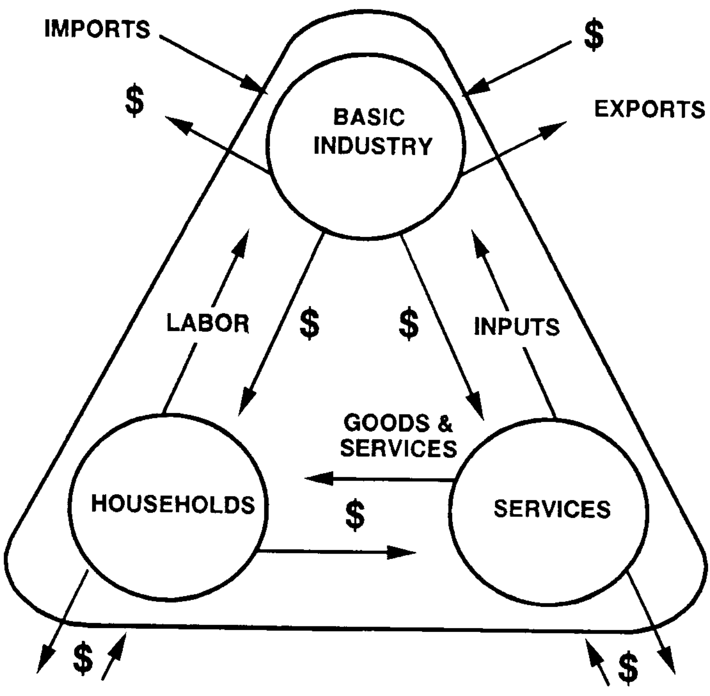
Community Model

A distinction has surfaced between "global" and "international" relative to trade and social relations. International trade's definition is obvious—trade with other countries, whether overseas or along our borders. Global trade, on the other hand, has come to be used to refer to a broader concept of trade—both regional (with other parts of the state or other states) *and* international trade. To some the distinction is artificial and trivial. To others it is fundamental and strategic—if private and public policies are to expand economic well-being through trade, they should, according to these proponents, be comprehensive in targeting regional markets as well as international markets.

In one sense, trade is trade. Local communities may not care whether their markets are local, regional (with other parts of the state or other states), or international. To a certain extent that is true. Few studies have attempted to isolate the net benefits of regional versus international trade.

Important components of all area economic systems are the industries that produce goods primarily for sale outside the economy. These basic industries are usually involved in agriculture, mining (including oil and natural gas production), or manufacturing and are called basic industries. Economic systems have two other major structural elements—service firms and households. The major flows of goods, services and dollars among these sectors of an economy are indicated in Figure 1.

Figure 1. Overview of Community Economic System



Basic industries purchase labor from households, reimbursing them with dollars. Many of the inputs used by basic industries are purchased from local service firms. Local service firms also provide goods and services to households (consumers). Of course, each of these three sectors of an economy purchases goods and services from outside the economy, but local transactions determine the relationships that exist among the various types of firms in an economy.

One of the principal characteristics of a local economy, whether it be a community or state, is the level of export activity. These exports bring dollars and income to the local economy and are multiplied through interaction with households and service firms. The level of export activity is one component of the impact international trade will have on local economies.

Current Situation

One indicator of state trade data is the level of exports by state. Figure 2a presents state exports for 1992 in millions of dollars. Figure 2b ranks these exports across the states. A distinct geographical pattern emerges with California and Texas receiving the highest ranking. Two western states (California and Washington) and three southern states (Texas, Louisiana and Florida) receive high ranking as well as several Great Lakes states. The bottom ten are dominated

Figure 2a. Exports—Millions of Dollars

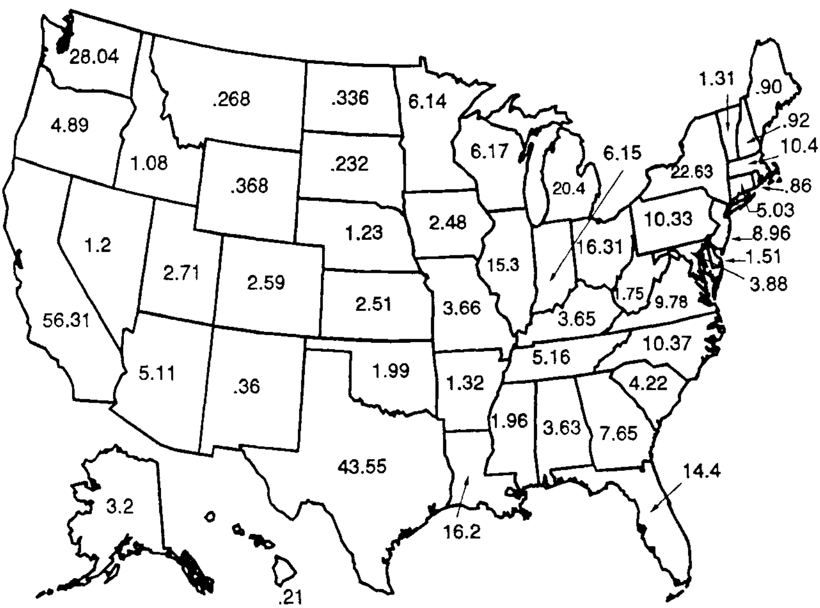


Figure 2b. Exports Ranked by Absolute Value

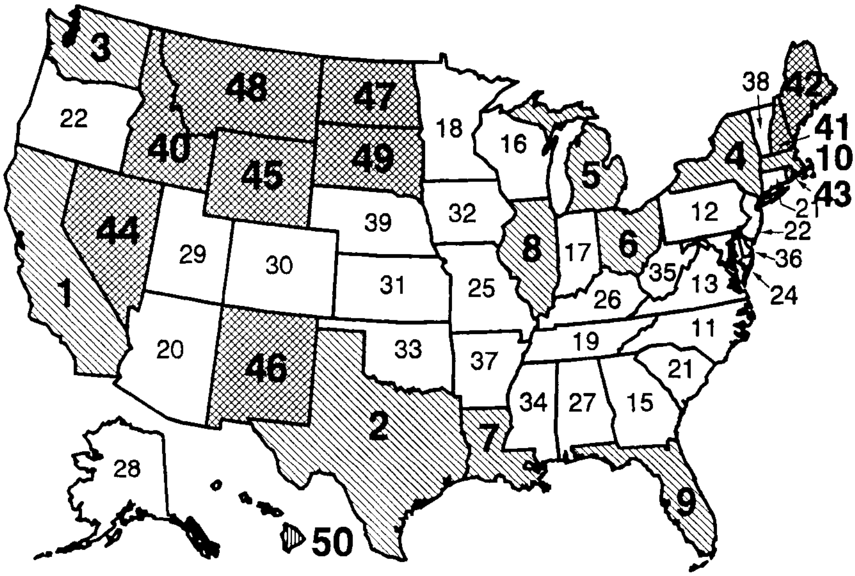
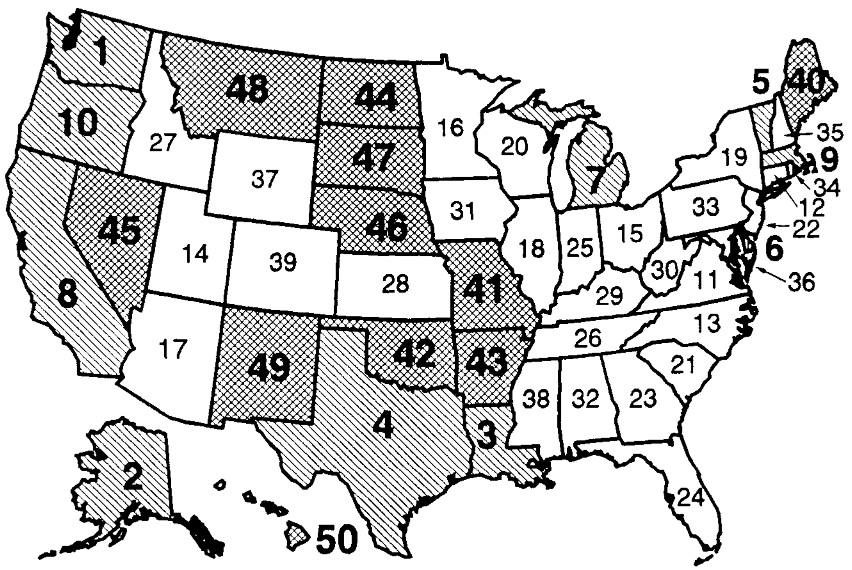


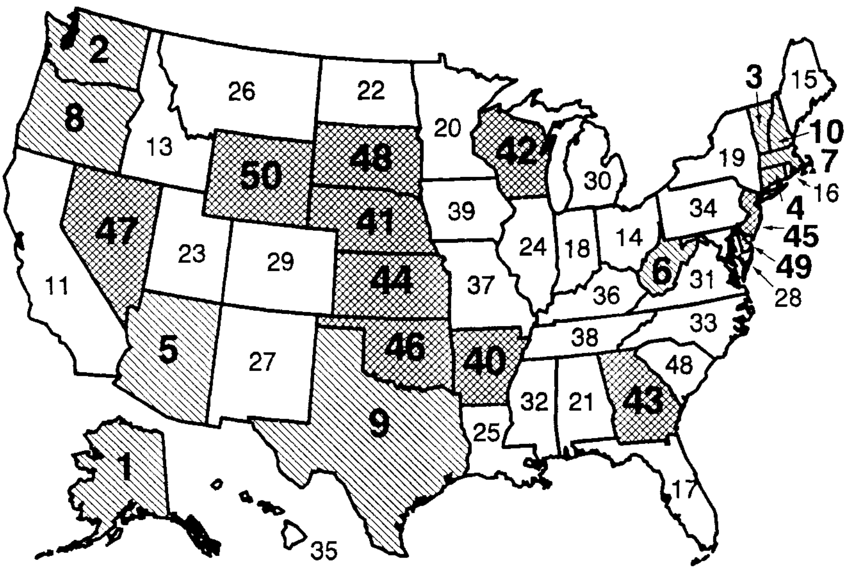
Figure 2c. Per Capita Experts—Ranking



by western states with the majority of the heartland falling in the middle. A slightly different picture emerges when the export values are presented in a per capita ranking (Figure 2c).

Exports can include many types of goods or products. Another indicator of local trade diversity is the level of manufacturing export activity by state. Manufacturing shipments can be either export related or domestic. Export- related shipments as a percent of total shipments are analyzed in Figure 3 and ranked across states. This figure should be viewed with some caution—the percent of shipments that are export related may be high while the total volume of shipments may be relatively low.

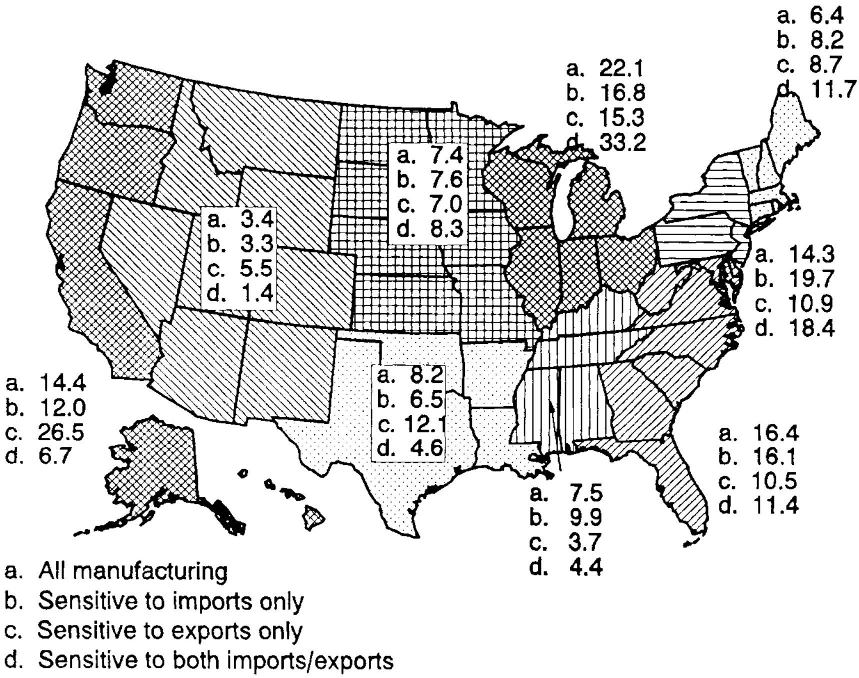
Figure 3. Percent of Manufacturing Shipments—Ranking



There are other studies in the literature that address the issue of geographic distribution of trade-sensitive industries. A study by Shelburne and Bednarzik analyzed both export-sensitive and import-sensitive manufacturing industries. Part of their findings are summarized in Figure 4. Employment in manufacturing sensitive to export activities is significant in the western region of the United States as well as the Great Lakes region and the Texas-Louisiana region. Again the upper Midwest and many western states display lower sensitivity to export activity (or import activity).

Agriculture is another key activity related to state end local export activity. A ranking of states by value of agricultural products sold is

Figure 4. Distribution of Employment in Trade-Sensitive Manufacturing Industries, by Region, 1990 (Percent)



Source: Shelburne and Bednarzik

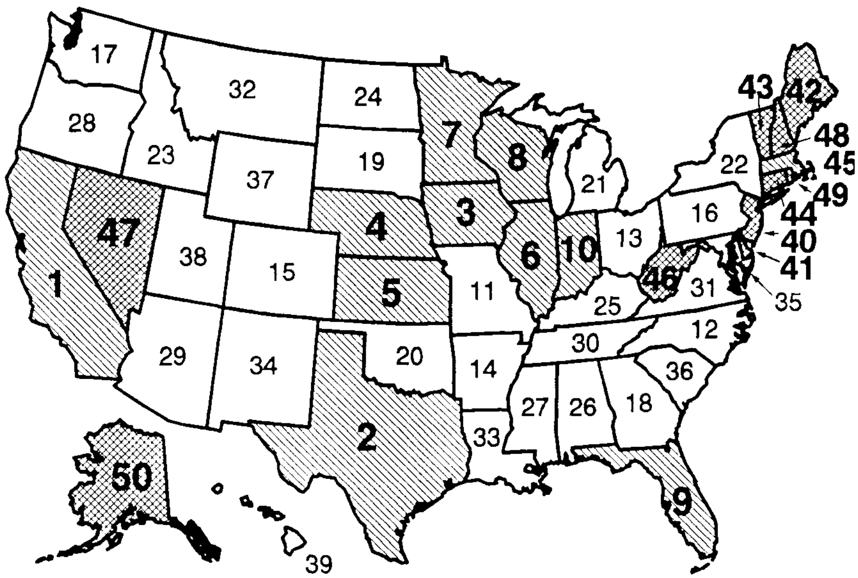
presented in Figure 5. Texas, California, Florida and several upper Midwest states lead in the ranking.

These data are presented on a state level. Within each state there will be impacts that vary across regions, counties and communities. For example, in Oklahoma the state ranking of value of agriculture products sold is not in the top ten. However, several western counties have significant agricultural export production (primarily wheat). At the state level, local impacts of trade will vary depending on the level and type of activity in export-related industries. Of course, these regions that do export may have strong ties and economic relationships with other regions that do little exporting. Many communities have expressed strong interest in the potential for export activity since they see this as one opportunity to enhance the economic base.

Community Needs

The data reported in the previous section emphasize the importance of international trade to specific regions of the United States.

Figure 5. Ranking of States by Value of Agricultural Products Sold



Many community leaders have expressed interest in export opportunities but little is known about the level of expertise or types of assistance needed.

Because of an awareness of expanding export sales in Colorado and an appreciation of the impacts of trade on the state and local economies, a survey of Colorado community leaders was completed in 1992. The survey was part of a larger survey effort conducted in the states of Texas, Oklahoma and Colorado. Community leaders surveyed included city officials (mayors), county commissioners, economic development specialists, and participants in the Colorado Leadership Program. Individuals surveyed were asked how aware people in their communities were about agricultural trade, involvement of persons and firms in foreign sales, responsibilities of community leaders in provision of trade information and assistance, and informational needs with respect to purchases and sales of agricultural products from and to foreign countries.

When those surveyed were asked how aware people in their communities were about expanding trade in agricultural products, 60 percent of respondents reported some activity within the public sector of their cities and counties. Eighty percent of respondents reported activity within the private sector. Sixty-nine percent of respondents said that awareness of international trade had prompted requests for information about, and assistance with, foreign sales.

Respondents were asked to identify those services thought necessary to community members interested in trade. Assistance with business contacts headed the list of services, followed closely by educational programs (Table 1). Assistance with marketing, tours for foreign visitors, assistance with grants and loans, and feasibility studies ranked high in the list of services.

Corresponding to the list of needed services were suggestions of roles to be played by community leaders in trade-related activities. Included in the list were recommendations for language/cultural training, location of potential foreign markets, attraction of foreign businessmen to communities, and provision of incentives for trade development (Table 2).

To discern the more specific interests in, and possibilities for, trade, respondents were asked to identify the primary economic activities in their communities. Sixty-four percent of them identified agriculture as the principal activity (Table 3). Thirteen percent said manufacturing was most important in their communities; ten percent identified recreation and tourism as the most important activity.

It is thus evident that within the non-metro cities and counties there is an awareness among residents of international trade; there is interest in involvement in trade; and there is a felt need for educational and other assistance in understanding trade and involvement in trade—with particular reference to agricultural products.

Table 1. Services Useful in Support of Trade-Related Activities in Communities

Kinds of Service	Response of Leaders
	pct.
Educational programs	60
Language/cultural training	35
Tours for foreign visitors	51
Feasibility studies	40
Impact studies	31
Business contacts	66
Business/management training	18
Promotion assistance	30
Trade show assistance	21
Marketing assistance	53
Licensing/packaging assistance	19
Grants/loans	42
Trade finance	21

Table 2. Roles and Services of Community Leaders in Trade-Related Activities

Roles/Services	Response of Leaders
	pct.
Sponsor educational activities	55
Sponsor language/cultural training	49
Employ trade consultants	13
Employ added staff for trade assistance	8
Provide incentives for trade development	26
Locate foreign markets	48
Attract foreign businessmen to community	49
Sponsor trade shows	19
Find and use interpreters	8
Initiate sister cities program	22
Sponsor exchange program	26
Organize speakers bureau	16
Other roles	12

Table 3. Primary Economic Activities in Communities

Economic Activity	Response of Leaders
	pct.
Agriculture	64
Mining	1
Manufacturing	13
Retirees services	3
Recreation/tourism	10
Government	1
Retail trade	4
Agribusiness	1
Other	3

Market Implications

Finding new markets for U.S. agriculture beyond the domestic arena can have direct benefits to farmers and others in the agricultural sector. Beyond that, however, it is a sensible policy to promote agricultural exports to fund U.S. growth and productivity in general. Exports bring more money from outside to increase the flow of spending in the domestic economy. This increase in exports multiplies to pay for industrialization and technological improvements. Increased imports reduce consumer costs and expand variety and subsidize general economic growth. To the extent such benefits improve income, trade prospects with other nations are enhanced.

Most countries, including the United States, also intervene in the global market with domestic policy that may erect barriers to prevent import competition, subsidize domestic producers to make them more competitive in global markets, and develop foreign markets for their own industries. These are several implications regarding U.S. firms and expanded trade through new markets:

More Options and Power

When considering the trade options for a firm, there are some similarities to the national example. When a firm reaches the limits of its local or domestic market, foreign customers can support the business growth and bring in new revenue. Such revenue will multiply as it flows into the local and regional markets in which the firm interacts. The business expansion may give the firm market power or leverage to get better deals on selected inputs. Both regional and international trade can achieve this advantage.

Smoother Business Cyclical Downturns

There are other considerations as well. Many industries accept cycles that may or may not be unique to the industry, but nonetheless cause periodic shrinking of business activity. This can affect employment with layoffs and profits with sales declines, costly inventory swings and unreliable input flows. Just as business growth boosts the economy in the community in which a firm is located, so too will such cyclical downturns adversely affect the local economy. Both regional and international trade can achieve this advantage, although other countries may be less likely to be tied to the same temporal business cycles.

Smoother Seasonal Downturns

One reason some firms consider the international market is to counter seasonal cycles. Depending on the business, a seasonal cycle can be compensated for by finding a southern hemisphere country with a potential need for the firm's output. When the domestic market takes a seasonal downturn, the foreign market will hopefully be facing a seasonal upswing. Similarly, national economies typically cycle through ups and down, both minor and major. Finding foreign markets that do not follow the same pattern can provide a safety net for recessionary times. Thus, a carefully selected foreign customer can help management stabilize the business. International trade is more likely to achieve this advantage, although some countries may be tied to the same seasonal cycles.

Prevent Downsizing with Maturity

Another situation faced by many mature firms is a declining domestic market. Tastes and preferences may change or other competitors may become more efficient. In the former case, there may be a foreign market in which demand for such output remains strong and/or potential demand could be developed. The mature U.S. firm has the product confidence and expertise on which to base such market development and thus maintain/expand sales. In the latter case, one reason for improved efficiency of competitors is often their larger size. While bigger is *not* always better, opportunities for growth, including global markets, need to be explored. International trade is more likely to achieve this advantage, although some countries may reflect the same level of mature market.

Alternatives for New Ideas

There is also the situation in which a business has the ability to add new product lines efficiently, but the domestic market does not exist for such goods. Explorations and development of market niches in other countries may greatly expand the opportunities available to such a firm. It may even be the case that the domestic problem is one of timing and a domestic demand may eventually surface. So much the better for the firm if it is already providing product, albeit to a foreign customer. International trade is more likely to achieve this advantage, although some countries may reflect the same barriers to new ideas.

Possible Government Support

Another category of possible opportunities comes somewhat artificially when governments, ours or others, intervene in markets to spur growth. Such activity provides international opportunities that might not normally be open to a domestic firm. Additionally, the government action may even subsidize the firm's venture to some extent. If the opportunity fits the firm and is carefully managed, it can provide a foundation for solid growth of both the firm and the importing country. However, exploitation of the firm or the country, or lack of long-term market strength and sound management principles could damage the survivability of the firm. International trade is more likely to achieve this advantage, although there may be some state programs that comparably support development of regional markets. Such cautions lead to the following discussion on policy implications.

Policy Implications

Global activities have made their impact in various ways in recent years. While the U.S. economy was far advanced over other nations' economies and world trade was a relatively small portion of the business activity for many sectors, state economies were generally stable and predictable. However, as other oil-rich countries began to flex their muscles and agricultural exports became proportionally more important to the United States, state and national economies that bought and sold in natural resource markets such as mining, oil and agriculture began to be whipsawed by forces seemingly beyond their control. That forced the United States to recognize the realities of global competition.

As sectors such as agriculture in an economy begin to reach limits in the domestic market, the next obvious choice is to accept the limit and stop growing or look outside for new customers. Export markets can provide a boost to the farm and agribusiness sector as well as expand the capital base for the nation as a whole. Farm exports were a small but important share of total receipts until the 1970s when the U.S. Department of Agriculture (USDA) began to actively promote "planting fence row to fence row . . . to feed the world." What was not anticipated was that many former customers of U.S. commodities decided to either become self-sufficient or expand production and get a piece of that global market we thought was ripe for the picking. Some countries did that by becoming more efficient, while others did it with government support.

But nothing is free. The price for participation in the global market includes becoming more competitive as well as accepting the variability in the market or paying more for protecting domestic industries. For some producers and agribusinesses that either could not become more efficient or bear more risk, the interaction with the global market meant one of three things:

1. Restrict business activity to the local market (and that may cost potential profits and economic development for the community).
2. Expect government assistance to keep the business viable (and that may cost taxpayers or consumers and still be of no benefit to the community).
3. Go out of business (which will be an economic loss to the community).

In the intermediate to long term, trade based on comparative advantage provides net gains to society. In the short run, however, there is often much economic malaise and human agony as a result. Witness past stories of farm auctions and farm family tragedy, of mining communities becoming ghost towns, of manufacturing towns turning to rust. While no excuses can gloss over such conditions, society can improve its responsiveness to the adjustment process. For example, surveys of farm families who have survived the transition suggest their quality of life actually improves afterward, although they felt abandoned during the crisis.

While the United States continues to import more goods than it exports in general, the reverse is true for farm exports. In fact, agricultural markets are recovering and the United States is regaining its market share that was lost in the early 1980s. Recent policy efforts that are significant actions are the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA).

General Agreement on Tariffs and Trade

GATT, signed by more than one hundred nations, serves as a legal institution and a forum for legal confrontation among member nations to hopefully resolve trade conflicts. The most recent Uruguay Round concluded with a signed agreement in late 1993. Each country's legislative body must vote approval of the agreement by the summer of 1995.

The agreement improves *import access* among member countries. There can be no new tariff increases, members must convert nontariff barriers to tariffs, and tariffs must be reduced. Global trade will increase and the market will increasingly determine trade flows, government policy less so. *Export subsidies* and differential export taxes must be phased out in five years. Little change is expected in relative United States-European Community (EC) positions in world markets. Little change is expected in *internal supports*, although change appears in the agreement. While members must phase out trade-distorting policies over ten years, recent changes in U.S. and EC domestic policy already satisfy minimum requirements. Members may continue farm income support and other payments not linked to production or marketing. There must be reductions in artificial barriers. These changes will make the United States somewhat more competitive; the EC and Japan will be generally less so. Members must harmonize *health and sanitary measures.* Sound scientific standards, not arbitrary decisions, will be used to settle disputes.

Tariffs and *export subsidies* will be cut and, where appropriate, quotas increased and import licenses eliminated on wheat, feed grains, cotton, peanuts, livestock, dairy and agricultural products. There likely will be increases in U.S. exports of wheat and flour, feed grains and products, beef and processed meat, pork, soybeans and products, other minor oilseeds, and poultry. There likely will be increases in U.S. imports of cotton, textiles and apparel, along with a decrease in U.S. exports of such. There also likely will be increases in U.S. imports of peanuts and dairy products.

Tariffs will be cut by the year 2000 for medical equipment, scientific instruments, pharmaceuticals, wood, paper, aluminum, chemicals and construction equipment. Harmonization of rules of origin will be completed by 1998. An anti-dumping code is planned by 1995. Financial services were incorporated in GATT, but more talks are necessary to gain safeguards for U.S. firms overseas.

North American Free Trade Agreement

Canada, Mexico and the United States completed negotiation of NAFTA in 1992 and Congress subsequently approved it in 1993. The agreement is technically three agreements between: United States and Canada, United States and Mexico, and Mexico and Canada. The United States and Canada are already each other's top trading partners (1992: $183 billion in trade). The Canadian-United States Free Trade Agreement has been in effect since 1989. Canada exports to the United States autos/parts, paper and crude oil. The United States exports to Canada vehicles/parts, engines, cathodes and valves. Mexico is the third leading trading partner of the United States (1992: $75 billion), with a $5 billion surplus of U.S. exports in 1992. The United States is Mexico's top trading partner. Three-fourths of United States-Mexico trade is manufactured products (one half machinery and auto parts). Much of the trade is tied to Maquiladora industries. Mexico has liberalized trade rules and foreign investment law since 1986. Mexico exports to the United States crude oil, vehicles/parts, electricity equipment and piston engines. The United States exports to Mexico auto parts, electrical equipment, cathodes, valves, telecommunications, office machinery and computers.

All nontariff barriers have been converted immediately to tariff-rate quotas (TRQs) or tariffs. For TRQs there are no tariffs within the quota amount; over- quota tariffs are set at equivalent current value and will decline to zero over ten to fifteen years. The United States and Mexico will eliminate tariffs on a broad range of agricultural products covering half of bilateral trade. Mexico will replace import licenses with tariffs or TRQs phased out over ten years. During the first ten years, a NAFTA country may invoke a mechanism limiting imports set by "trigger" levels in the agreement. The tariff is then imposed for that year. There is encouragement to move to domestic support policies that are not trade distorting. It allows support changes in compliance with GATT. The agreement prohibits the use of sanitary/phytosanitary measures designed to be disguised trade restrictions. Each country has sovereign rights for measures that are based on scientific principles or risk assessment to meet the country's chosen level of protection, provided they do not result in unfair discrimination/disguised trade restrictions. Harmonization and equivalence are the goals.

Early analysis by USDA and the U.S. International Trade Commission suggest net benefits for the three countries. Specifically, studies show U.S. gains in wheat and feed grains, oilseeds, wood products, raw cotton and textiles, peanuts, beef and processed meat, pork, poultry and dairy products. There likely will be Mexican gains in fruits and vegetables and apparel, while benefits to the Mexico and the United States are mixed for livestock and products. Mexico, currently the major market for U.S. cottonseed, will increase imports. There likely will be an increase in Mexican cattle feeding in the United States as well as exports of slaughter cattle to Mexico and processed beef. Increasing Mexican consumption of horticultural products will limit export supplies for U.S. markets. There likely will be increases in U.S. exports of fresh apples, pears, peaches, nuts and seasonal fresh vegetables.

About two-thirds of U.S. industrial and agricultural exports to Mexico are eligible for duty-free treatment in zero to five years. Mexican export-performance requirements, which require U.S. companies to export as a condition of being allowed to invest in Mexico, are eliminated. Mexican "local content" regulations are eliminated. Tariffs and other barriers will be significantly reduced for automobiles, textiles and apparel, land transportation, telecommunications, financial services, and advertising. Intellectual property rights will be honored. Increases in U.S. auto exports, telecommunications, financial services, investment in Mexico, technology, advertising company operations are likely. A decrease in U.S. auto imports from Mexico is possible. An increase in textile and apparel imports from Mexico is likely, but will largely offset imports from other countries, especially the Pacific Rim. Increased U.S. transportation into Mexico is probable.

Summary

Using state and regional data as a starting point, this paper has discussed the impacts trade has on local economies. Trade data were reviewed to demonstrate the geographic differences that exist. Different regions of the country and thus different communities have varying levels of trade activity. Manufacturing and agricultural production are two key industries that provide examples.

Community needs were discussed indicating an interest and awareness in international trade as well as a need for further educational and technical assistance. There are several market implications that can lead to more diversification for local economies. International trade offers a very important option for businesses and communities searching for economic solutions.

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