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INSIDE

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Trade partners: States help budding exporters

Rise in exports key to region's long-term prosperity

by Ilene Grossman (igrossman@csg.org)

When officials at the Wisconsin manufacturing company Spee-Dee Packaging Machinery began seeking ways to expand the business, it became clear that one of their best options was to export.

The 30-year-old firm — which makes automated machines used to measure and dispense dry foods such as coffee and cereal — primarily sells its equipment to large businesses (many of them are Fortune 500 companies) and, as a result, has a limited U.S. customer market.

"We needed to find other customers, so it was important for us to look globally," says Timm Johnson, vice president for sales and manufacturing at Spee-Dee, which employs 45 people and is based in the southeast Wisconsin town of Sturtevant.

But just as is the case for many other small- and medium-sized firms, exporting was not an easy step for Spee-Dee.

How would the staff at a small company find the time — and gain the expertise — to understand different global markets, overcome language barriers, find buyers and develop an overseas presence?

The decision to move ahead with an export plan was not taken lightly, Johnson says, and he credits the assistance provided by the state with helping the company through the process.

Spee-Dee is an early success story: In less than a year, exports have helped increase the company's sales figures by $300,000.

And as states in the Midwest look to rebound from the Great Recession, these stories of exporting success will be one barometer of the health of the region's economy.

"Ninety-five percent of the world's customers live outside of the United States," notes Laura Baughman, an economist with Trade Partnership Worldwide, a trade and economics research firm.

She adds that the U.S. does not have the world's fastest-growing economy, so growing and emerging markets are good targets for American companies.

Common export services provided by states*

1) Export counseling for firms
2) Trade missions (may include travel support)
3) Training programs and seminars
4) Market research
5) Overseas trade offices or representatives
6) Trade shows (may include travel support)
7) Training on export readiness
8) Strategy development for entering new markets
9) Searches for sales agents/distributors

* Ranked in order, based on number of survey respondents who said service was provided to businesses

Source: State International Development Organizations (2010 survey)

Room for growth: Exports lag compared to other countries

In the Midwest, with its rich tradition as a global leader in the manufacturing and agricultural sectors, states have long relied on their export economies.

Today, exports account for a significant portion of total state gross domestic product in all 11 Midwestern states — from 11.8 percent in Michigan to 4.5 percent in South Dakota, according to 2008 data compiled by Baughman for the Business Roundtable, an association of CEOs at leading U.S. companies. (See table on page 6 for percentages for all 11 Midwestern states.)

Yet these figures are much smaller than those of many key U.S. trading partners and competitors, note the authors of a fall 2010 report by the Brookings Institution.

For example, exports account for 35.8 percent of GDP in China and 35.1 percent in Canada.

Though exporting is still vitally important to the Midwest, the region has lost some of its dominance in recent years.

"The region can no longer take it for granted that it will be an export powerhouse," says Jennifer Bradley, a co-author

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Employees use Spee-Dee Packaging Machinery equipment at a frozen-food plant. Spee-Dee recently began exporting its products, thanks in part to the help of the state's Bureau of Export Development. Increasing export activity is seen by many economists and policymakers as critical to long-term economic growth for the Midwest.

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States can't break down trade barriers, but can help firms overcome obstacles to exporting

of the report and co-director of Brookings' Great Lakes Economic Initiative.

"Other places [other regions and offshore locations] have come up to speed in manufacturing, and metropolitan areas [in the Midwest] have not done a good job of replacing what has left with new, more innovative, high value-added products," she adds.

In the 2010 study, Bradley and her co-authors argue that the prosperity of the Great Lakes region will depend on a shift toward a more export-oriented economy and away from a consumption-based economy.

Profiles of Midwest's export economies: Leading markets and products

State	Leading export products	Leading export markets
Illinois	1) Machinery, 28% 2) Chemicals, 13% 3) Transportation equipment, 11% 4) Computers/Electronics, 10% 5) Electrical equipment, 5%	1) Canada, 28% 2) Mexico, 8% 3) China, 5% 4) Australia, 5% 5) Japan, 4%
Indiana	1) Transportation equipment, 26% 2) Chemicals, 20% 3) Machinery, 16% 4) Computers/Electronics, 7% 5) Primary metal manufacturing, 7%	1) Canada, 40% 2) Mexico, 8% 3) United Kingdom, 7% 4) France, 5% 5) Germany, 5%
Iowa	1) Machinery, 29% 2) Processed foods, 18% 3) Crop production, 10% 4) Chemicals, 9% 5) Transportation equipment, 7%	1) Canada, 32% 2) Mexico, 16% 3) Japan, 7% 4) Germany, 5% 5) Russia, 3%
Kansas	1) Transportation equipment, 39% 2) Crop production, 12% 3) Processed foods, 12% 4) Machinery, 9% 5) Computers/Electronics, 8%	1) Canada, 21% 2) Mexico, 11% 3) Japan, 7% 4) Germany, 5% 5) United Kingdom, 5%
Michigan	1) Transportation equipment, 47% 2) Machinery, 9% 3) Chemicals, 9% 4) Oil and gas, 7% 5) Primary metal manufacturing, 5%	1) Canada, 53% 2) Mexico, 14% 3) Germany, 3% 4) Japan, 3% 5) China, 3%
Minnesota	1) Computers/electronics, 21% 2) Machinery, 15% 3) Transportation equipment, 11% 4) Medical equipment and miscellaneous manufacturing, 10% 5) Processed foods, 7%	1) Canada, 29% 2) China, 5% 3) Japan, 5% 4) Ireland, 5% 5) Mexico, 4%
Nebraska	1) Processed foods, 27% 2) Machinery, 19% 3) Crop production, 15% 4) Transportation equipment, 9% 5) Chemicals, 7%	1) Canada, 28% 2) Mexico, 21% 3) Japan, 7% 4) China, 4% 5) Korea, 3%
North Dakota	1) Machinery, 43% 2) Crop production, 22% 3) Transportation equipment, 8% 4) Processed foods, 8% 5) Oil and gas, 8%	1) Canada, 52% 2) Mexico, 7% 3) Russia, 5% 4) Belgium, 3% 5) Germany, 3%
Ohio	1) Transportation equipment, 35% 2) Machinery, 13% 3) Chemicals, 11% 4) Computers/Electronics, 7% 5) Fabricated Metals, 6%	1) Canada, 44% 2) Mexico, 8% 3) Brazil, 4% 4) China, 4% 5) Japan, 3%
South Dakota	1) Computers/Electronics, 31% 2) Processed foods, 21% 3) Machinery, 16% 4) Beverages and tobacco products, 7% 5) Transportation equipment, 6%	1) Canada, 35%, 2) Mexico, 18%, 3) Thailand, 12% 4) Hong Kong, 10% 5) Germany, 4%
Wisconsin	1) Machinery, 30%, 2) Computers/Electronics, 15% 3) Transportation equipment, 13% 4) Processed foods, 6% 5) Electrical equipment, 5%	1) Canada, 32% 2) Mexico, 9% 3) China, 6% 4) Germany, 4% 5) Japan, 4%

Source: Trade Partnership Worldwide (for Business Roundtable)

Niche for states is helping small and medium-sized firms sell goods overseas

When it comes to export assistance, Baughman says, large firms mostly need help from the federal government in breaking down trade barriers.

States are best suited to help small and mid-sized firms, which often require the type of personalized assistance that the Wisconsin Bureau of Export Development gave to Spee-Dee.

Unlike larger companies, smaller firms often don't have the staff needed to develop and execute an export strategy, which, to be successful, must address how to overcome language barriers, regulatory hurdles, and various banking and legal issues.

States' no- or low-cost assistance to these smaller operations generally cover four broad areas.

• Education — Counseling firms about the value of exporting;

• Training — Helping firms get ready to export;

• Market development — Assisting firms with market research and development and helping locate sales agents and distributors; and

• Market access — Aiding firms in entering markets and selling their products through trade missions, participation in trade shows and other targeted assistance.

Recent federal data indicate there is significant room for export growth among small- and medium-sized enterprises (SMEs): Of the nation's approximately 6 million firms with 500 or fewer employees, only about 270,000 export. Over a 10-year time frame, SMEs accounted for approximately 30 percent of total U.S. export activity.

In Wisconsin, assistance to these firms is provided in several ways, says Mary Regel, director of the Wisconsin Bureau of Export Development.

The bureau first serves as a facilitator, reaching out to companies that have not sold goods in foreign markets and encouraging them to explore the possibility. The bureau partners with 25 organizations around the state — including community colleges, chambers of commerce, local economic development corporations and university business schools — to conduct outreach and offer seminars to prospective exporters.

The next step is to provide technical assistance: for example, information on financing, customs

'Export-rich' Midwest still relies heavily on ability of its companies to sell goods and services overseas

In the 1930s, exports accounted for just 3 percent of the nation's GDP.

Eighty years later, the goods and services sold to other countries made up 12 percent of GDP, note Bruce Katz and Emilia Istrate in a recent report for Export Nation, a research project of the Brookings Institution's Metropolitan Policy Program.

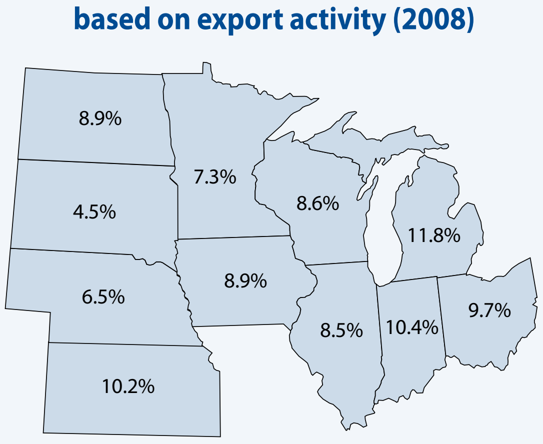
And over that time period, no region came to rely on the power of exports as an economic engine more than the Midwest.

Today, for example, exports support 398,000 jobs in Chicago and 20,000 jobs in Des Moines, according to Export Nation. Chicago and Detroit rank in the top 10 metropolitan areas in the nation for highest dollar volume of exports (and greatest reliance on exports as well). Minneapolis and Indianapolis are in the top 20.

"The Midwest has been a particularly export-rich region," says Jennifer Bradley, co-director of the Great Lakes Economic Initiative at the Metropolitan Policy Program, noting the region's strength as both an agricultural producer and a manufacturing hub.

But the region's status as an export powerhouse has been questioned in recent years, and retaining or regaining it will be critical to the overall economic recovery of states, Bradley says.

Approximate % of state's GDP that is based on export activity (2008)



Source: Business Roundtable

Nurturing growth in innovation, research and development, and technology firms is one overarching strategy for states to take. Another is to encourage more businesses to export.

Currently, only 1 percent of all firms in the United States export; most are content to sell domestically, viewing this country as having a big enough pool of customers.

But not only do 95 percent of the world's consumers live outside of the U.S., Bradley says, the middle class in Asian and Latin American countries is growing rapidly. And these areas have been much quicker to come out of the global recession than have Europe and U.S. regions such as the Midwest.

Laura Baughman, an economist with Trade Partnership Worldwide, notes, too, that U.S. exports are much more than the goods made by manufacturers or commodities produced by farmers.

Services are important as well. According to the Brookings Institution, U.S. exports of commercial services, including business and technical services, exceeded $500 billion in 2008.

In a recent report for the Business Roundtable, Baughman and her colleague estimated that more than 38 million U.S. jobs — 6.3 million in the Midwest — were dependent on trade in 2008.

regulations, legal requirements and regulatory compliance. Bureau staff also works with the company to explore the best global markets for the firm's products. Spee-Dee used the state of Wisconsin's low-cost, fee-based service to do research about potential customers.

Another common approach used by states is to help companies connect with local overseas sales agents and distributors. In Wisconsin, this work is done with the assistance of the state's four trade offices, located in Canada, China, Brazil and Mexico. (Some of these overseas offices are shared with other states.)

Wisconsin also helps companies develop an overseas presence through participation in foreign trade shows. The state offers $5,000 grants to companies to participate in these events; the grant covers the direct costs of participating in a show, such as registration fees, but cannot be used for travel costs.

Similarly, Iowa provides up to $3,000 for a company to travel overseas to meet with potential customers. Companies can receive these grants up to two times in a year, and the money can be used for participation in trade shows or trade missions.

> "The region can no longer take it for granted that it will be an export powerhouse."
>
> Jennifer Bradley, co-director, Great Lakes Economic Initiative at the Brookings Institution

Companies that export lead way on innovation, pay higher wages

Most states in the Midwest provide some level of export assistance to small and medium-sized companies.

Exactly what type of assistance proves to be most beneficial varies from firm to firm.

For Spee-Dee, Johnson says, the state of Wisconsin's ExporTech program is what gave the company the final push to begin selling its products overseas. Companies pay $1,000 to enroll in the program, which runs for three months, includes experts on everything from shipping to banking, and results in a customized export plan for every participating firm.

In the case of Spee-Dee, the plan called for the company to enter three new markets (Canada, Mexico and the United Kingdom), as well as to build on relationships it already had with international companies in order to get its products in overseas plants.

The company's exporting plan has quickly expanded to include India, where Spee-Dee's machines are well adapted to dispensing raw rice.

Along the way, the Bureau of Export Development helped Spee-Dee locate overseas distributors and sales agents and assisted the firm in understanding the different safety standards in overseas markets. And when Johnson made a recent sales trip to Mexico, he was able to use Wisconsin's trade office.

States offer most of their export services at reduced costs, and sometimes at no costs.

As result, there is a fiscal commitment to exporting — a commitment that, as in all areas of state government, is being tested due to today's difficult budget conditions.

Though the recruitment of companies from other states or countries often gets more public attention, Bradley says, helping existing firms export and expand is an investment that pays off for states.

Kathy Hill, team leader in the Iowa Department of Economic Development's International Trade Office, says companies that export tend to be more innovative, and often spend more on research and development. These are characteristics seen as vital not only for individual firms, but for overall state economies to be able to compete in the global economy.

Regel says exporting companies bring many benefits to Wisconsin's economy. For example, they grow faster than non-exporters and pay higher wages to employees — between 10 and 14 percent more, according to state of Wisconsin data.

According to Bradley, Hill's and Regel's findings and observations about exporters in their states hold true across the country: These companies tend to innovate more and pay higher salaries.

Federal data show that jobs at exporting companies pay 15 percent more than the average U.S. salary. (In 2008, exports accounted for nearly 7 percent of total U.S. employment and one in three manufacturing jobs.)

Regel adds that as Wisconsin struggled through the national recession, exporting companies helped maintain the state's manufacturing base.

Companies that exported were more likely to be able to hold on their employees, Regel says, because of their ability to trade in markets whose economies were growing while the U.S. economy was contracting.

Now, as states in the Midwest position themselves for positive future growth, they will rely at least in part on having a thriving export economy. In turn, small- and medium-sized firms will continue to rely on states for assistance.

International presence: Countries where Midwestern states have trade offices or consultants (as of 2009)*

Country	# of Midwestern states with trade offices/ consultants
China	7 (Illinois, Indiana, Iowa, Kansas, Minnesota, Ohio and Wisconsin)
Japan	6 (Illinois, Indiana, Iowa, Kansas, Nebraska and Ohio)
Mexico	5 (Illinois, Iowa, Kansas, Ohio and Wisconsin)
Germany	1 (Iowa)
Canada	3 (Illinois, Ohio and Wisconsin)
United Kingdom	2 (Indiana and Kansas)
Israel	2 (Illinois and Ohio)
Taiwan	1 (Indiana)
Brazil	2 (Ohio and Wisconsin)
Chile	1 (Ohio)
Belgium	2 (Illinois and Ohio)
South Africa	2 (Illinois and Ohio)
India	2 (Illinois and Ohio)
Australia	1 (Indiana)
Hong Kong	1 (North Dakota)
Poland	1 (Illinois)
Kazakhstan	1 (North Dakota)
Ukraine	1 (North Dakota)

* In some cases, international trade offices are shared among multiple states.

Source: State International Development Organizations

New federal export initiative includes more grant money for state programs

During his State of the Union address in 2010, President Barack Obama announced his plans for the National Export Initiative, the goal of which is to double U.S. exports by 2015.

Meeting this objective would result in an additional 2 million jobs, administration officials estimate.

Traditionally, export assistance at the federal level has been fragmented. According to Joe Hurd, chair of the Trade Promotion Coordinating Council, 18 different federal agencies have a role in various aspects of export promotion.

The executive order creating the new federal initiative established an Export Promotion Cabinet, made up of a number of cabinet-level officials and agency directors.

In addition to trying to better coordinate export-development efforts at the federal level, the newly formed cabinet has developed 70 recommendations (published in September 2010) for how to increase U.S. exports. (Another document outlining a national export strategy was expected to be issued in June.)

One recommendation of the 2010 report focused on providing more coordinated export advocacy overseas. For example, senior-level executive officials in relevant agencies are now reporting their travel schedules. If a U.S. company is being considered for a government contract in another country, all department officials going to that country, for nearly any purpose, will be asked to mention this in their meetings.

In all, eight priority areas are targeted in the 70 recommendations. They include expanding government loan programs for exporters and negotiating international agreements that remove trade barriers in other countries.

Another priority is to provide additional assistance to small and mid-sized enterprises (companies with 500 or fewer employees).

For these firms, export assistance has often come from states, and the federal government is looking to expand on these state-level initiatives.

> "At a time when jobs are in short supply, building exports is an imperative."
>
> President Barack Obama, in a 2010 speech announcing his new Export Council

Under the three-year State Trade and Export Promotion (STEP) pilot program, up to $90 million in federal grants will be provided to states.

State initiatives likely to be funded through STEP include training workshops; support for overseas travel to develop foreign markets; and help in creating marketing products, campaigns and trade show exhibits.

This federal assistance comes at a time when states are struggling to maintain their export-assistance activities.

According to a recent survey done by the State International Development Organizations, an association of state trade agencies, more than two-thirds of the states cut funding last year to their international programs. The average reduction was 10 percent.

Collectively, though, states have historically devoted more staff resources to trade promotion than has the federal government, SIDO says. In 2008, states spent a combined $103 million on small-business export promotion and on attracting foreign plants and investment.