

Virginia Embracing Globalization

by Patrick O. Gottschalk



From left to right: Brent D. Sheffler of the Virginia Economic Development Partnership, Virginia Secretary of Commerce and Trade Patrick O. Gottschalk, Gov. Timothy M. Kaine, and Virginia Deputy Secretary of Commerce and Trade Rick Siger on a 2006 trade mission to Canada.

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In his Economic Development Strategic Plan, Gov. Timothy M. Kaine set forth nine broad goals that focus on strengthening and maintaining Virginia's award-winning business climate, while expanding opportunities for all of Virginia's regions and citizens. In keeping with Virginia's history of international commerce, the Governor's Economic Development Strategic Plan contains a goal directly related to international business. This goal is to "develop a coordinated international marketing strategy for Virginia including both foreign direct investment and export/import features."

The position of Governor Kaine's administration regarding globalization is clear—Virginia is better positioned than many other states to be a winner in a global economy. Targeted international investments, increased exports, dependable transportation, and strong governmental leadership have all contributed to placing Virginia in a position to prosper from globalization.

There are many questions regarding both the short- and long-term implications of globalization, but there is no question that globalization is upon us. The world's economy continues to expand. In a recent study, the International Monetary Fund projected that the global economy will grow by 4.8 percent in 2008, while the U.S. economy will grow by only 1.9 percent.

Increased international trade by U.S. companies has helped maintain the strength of the U.S. economy. The growth of the world's economy, combined with advances in technology and transportation, has produced a global business climate that was unimaginable fifty years ago. Over the past several decades, Virginia, like the United States as a whole, has benefited from the increase in global trade. Since 1950, the volume of world trade has increased twenty-fold from \$320 billion to \$6.8 trillion.

Virginia is already a winner in globalization. There are more than seven hundred

foreign-affiliated firms located in Virginia. Virginia's total exports of goods and services are estimated to be \$21 billion worldwide. The Port of Virginia is the third largest on the East Coast, and earlier this year Governor Kaine launched the Virginia International Trade Alliance, a public-private partnership aimed at leading Virginia's international business strategy.

There are challenges that come with the benefits of globalization. Virginia has lost jobs in certain manufacturing industries. While the loss of any job in Virginia is a concern, the reality is that the net impact of trade on the number of manufacturing jobs in the United States is positive. All fifty states, including Virginia, have realized a net gain in jobs directly attributable to trade.

Virginia Attracts International Investment

One benefit of globalization is the foreign dollars it brings to the commonwealth through investment. Foreign investment has long been a priority for Virginia. In 1968, Virginia became one of the first states to set up an overseas investment presence in Europe when it opened an office in Brussels, Belgium. Successful foreign companies in Virginia not only reinvest in their operations here, but also become examples to other companies in their home countries and in their industries. Their success makes it easier to attract similar companies to Virginia.

Foreign investment in Virginia totals \$19.6 billion—just 1.6 percent of all foreign investment in the U.S. Leading countries for Virginia foreign investment are Germany, Japan, the United Kingdom, Denmark, and Canada. Industry sectors in Virginia with high levels of foreign direct investment are information technology, transportation equipment, electronics, plastics, rubber, and machinery manufacturing. Not all foreign direct investment is for big projects. The average size project based on jobs created is seventy-one jobs, and based on capital investment is just more than \$10 million.

According to the U.S. Bureau of Economic Analysis, Virginia accounts for 2.5 percent

of foreign employment in the U.S., or approximately 144,800 jobs. The top countries for foreign employment are Germany, the United Kingdom, Japan, Canada, and Sweden. The average compensation per employee was nearly \$60,000 for U.S. subsidiaries of foreign companies, higher than the national average annual pay as calculated by the U.S. Bureau of Labor Statistics.

Foreign Companies in Virginia

Some of the successes of foreign businesses in Virginia speak volumes to the importance of foreign investment to the commonwealth.

Maersk—In September 2007, the Danish shipping line Maersk and its sister company APM Terminals opened a \$450 million new container terminal in Portsmouth that will employ 210 people. This facility is the first privately developed container terminal in the U.S. Maersk's current facility is adjacent to the Port of Virginia. The proximity provides the state an opportunity to improve capacity at its port operations.

"This facility will create opportunities in global commerce for our customers while maintaining the highest standards in safety and security. Our vision is to create a port that will act as a catalyst for international business in the local and regional economies by creating a new, broader long term platform for business growth," said Thomas Thune Andersen, president and chief executive officer of Maersk Inc.

IKEA—In October 2006, Swedwood North America, a furniture manufacturer and subsidiary of IKEA, announced that it would build its North American manufacturing operation in an industrial park jointly developed by Pittsylvania County and the City of Danville. With a projected completion date on the first of three phases slated for the end of 2007, the Swedwood facility will employ up to 740 people.

"Swedwood's new facility represents the second largest investment ever in Southside Virginia," said Governor Kaine in making the announcement. "The available, trained workforce pushed Virginia ahead."

Volkswagen of America Inc.—In September 2007, Virginia welcomed Volkswagen of America Inc. as it relocated its U.S. corporate headquarters to Fairfax County. Volkswagen will invest more than \$100 million in a 185,000-square-foot facility to serve as the headquarters for both Volkswagen and Audi. This project will create four hundred new jobs paying an average wage in excess of \$120,000.

"Virginia's work force and business culture are in line with our strategy of connecting even more closely with our customers, and its location is convenient to vitally important markets for all of our brands. We are excited to become part of the Virginia community," Stefan Jacoby, CEO of Volkswagen of America, said in the September announcement.

Virginia's foreign company activity has been on an upward trend since 1994, and I am confident this trend will continue. Based on the Virginia Economic Development Partnership's (VEDP) current pipeline of projects, foreign investment should continue to play an important role in Virginia's economic growth. The VEDP is currently pursuing projects with major multinational companies in the medical equipment, energy, metal building materials, food products, and automotive industries.

Virginia's Products and Services Are World-Class

Virginia products and services are found around the world, and the demand for Virginia products and services continues to grow. The commonwealth has incredible assets that support Virginia companies as they expand their international business. The twenty-fourth largest exporting state in the U.S., Virginia has seen exports steadily rise over the years. In fact, Virginia saw a more than 15 percent growth in exported goods from 2005 to 2006, an increase for the fourth consecutive year. From 2002 to 2006, the export of Virginia goods rose an astounding 31 percent.

Thanks in part to our strategic location and infrastructure, globalization via export trade thrives in Virginia. Virginia industries have proven flexible, open to meet the

changing needs of a global economy and recognizing the need to diversify their customer base via export trade. Although traditionally dominated by coal and tobacco exports, Virginia's strengths have shifted to the manufactured goods sector, and more recently toward technology and services. Top exports in recent years include industrial and electrical machinery, vehicles, plastics, and paper products.

Tobacco and, more recently, coal have dominated Virginia exports since the state's founding in 1607. Virginia has diversified to make up for market shifts pertaining to declining coal and tobacco sales, although these products remain in demand worldwide. Coal and tobacco remain in the top five exported Virginia goods. As Virginia develops its strengths in technology, services, and manufacturing, the rate of growth for other commodities, along with changing demand, will likely decrease the dominance of tobacco and coal exports. Virginia exported 54 percent less tobacco in 2005 than in 2001, and although coal exports increased by nearly one-third in the same period, other commodities play stronger roles in Virginia's economy each year.

One clear example of Virginia's shift away from coal and tobacco and toward technology is the recent rise of digital integrated circuit exports. Otherwise known as microchips, integrated circuit exports rose to the top of Virginia's export list in 2006 with more than \$1.5 billion in international sales, overtaking both coal and tobacco products. Export volume of microchips in 2006 nearly tripled that of 2004. This represents growth at an astounding pace.

Another sign of globalization is found in Virginia's increased export of services. For the past decade, service exports have been slowly growing to dominate Virginia's gross domestic product (GDP) and employment. Service exports contribute heavily to Virginia's technological innovation and growth in skilled jobs, although the subject does not typically draw much attention.



Map courtesy of Theodora Maps, www.theodora.com/maps; 2006 data from World Trade Atlas, www.worldtrade-statistics.com

The service sector is large and lucrative. According to the United States Coalition of Service Industries, more than 80 percent of Virginia's GDP is generated by the service sector, and employs more than 80 percent of Virginians. In 2005, Virginia exported close to \$12 billion in services.

Encompassing travel, financial, legal, security, and many other industries, the service economy in Virginia has a huge impact on the local economy. In fact, the price and quality of services influence other parts of the economy, including our competitiveness in the manufacturing arena, according to the Coalition of Service Industries. The coalition also estimates that the U.S. only exports about 5 percent of its services. Compared with 20 percent of American-made goods that are exported, it is evident that there is ample room to grow service exports.

Whether the export is a service or a tangible good, Virginia businesses export to every geographic region in the world. Top trading partners include Canada, European Union countries, China, and Japan.

Virginia sold more than \$2 billion in goods to Canada last year, marking the tenth year in a row that Canada has been Virginia's number one export destination. Western Europe ranked as Virginia's top export region for the ninth consecutive year. Virginia export volumes soared to China as well; they rose more than 30 percent last year, making China Virginia's third-highest export destination at more than \$900 million.

Emerging markets such as China and India have become key trading partners for Virginia. Emerging markets also present

interesting opportunities for growth in Virginia's future exports. These markets and others—such as Brazil and Russia—are currently industrializing. They have a growing middle class and governments instituting reforms that will likely lead to increased trade and investment.

Connecting Virginia to the World

Virginia's advantages for international trade are its location and transportation system. These valuable resources offer companies engaged in international business opportunities to get people and products to or from anywhere in the world. With its East Coast location, Virginia is a gateway to the U.S. for international business by virtue of the Port of Virginia and Washington Dulles International Airport, as well as the six major interstate highways and eleven railroads that crisscross the commonwealth. These world-class facilities enable products and people to enter the U.S. market and access international markets with ease and efficiency.

The Port of Virginia comprises three marine terminals operated by the Virginia Port Authority. The Port of Virginia is the seventh-largest container port in the U.S. and the third-largest on the East Coast. Over 55 percent of the cargo that is transported via the Port of Virginia originates or is destined for locations outside of Virginia.

Virginia's air transportation system also contributes to its strength as an internationally competitive state. Dulles Airport continues to see remarkable growth and expansion. International passenger traffic increased by 13.2 percent in 2006 and 2007. In 2007, 145 new weekly flights to

eight new international destinations were added, and flights to six new countries—China, Ireland, Kuwait, Panama, Qatar, and Spain—were added. In fact, I had the pleasure of being on the first flight from Dulles to Beijing, China, in March 2007.

While Virginia is proactively building upon its rail and port infrastructure, the commonwealth must continue to address issues related to congestion on its interstate highways to ensure that the flow of goods is uninterrupted. To address this issue, Governor Kaine has made transportation investments a key priority for his administration.

Virginia Supports International Business

In addition to the Kaine administration's dedication to improving infrastructure, the commonwealth also has a wide variety of state resources devoted to promoting international trade in general. The Virginia Economic Development Partnership focuses on two aspects of international business—investment promotion and export trade promotion.

VEDP maintains investment offices in Brussels, Belgium, Tokyo, Japan, Seoul, South Korea, and Hong Kong. The agency's trade offices in Mexico City, Mexico, and São Paulo, Brazil, also offer investment assistance. VEDP maintains an aggressive marketing program to attract foreign companies to Virginia, as staff in Virginia and the overseas offices make direct calls on foreign-owned companies.

VDEP's services geared toward export trade promotion include not only in-country market research and export programs such as Virginia Leaders in Export Trade and Accessing International Markets, but also business matchmaking visits to other countries as part of VDEP's regular cadre of trade missions. As Virginia's secretary of commerce and trade, I've been honored to participate in three trade missions with Governor Kaine, other members of his

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cabinet, and Virginia business leaders. It is a tremendous opportunity to personally emphasize to our world partners the importance the commonwealth places on our standing in the global marketplace.

One foreign trade mission, in May 2006, took us to Canada, Virginia's top trading partner. There, we visited Toronto and Montreal to strengthen our economic ties and promote Virginia's four hundredth anniversary at Jamestown. In November 2006, we traveled to Denmark, Sweden, the United Kingdom, and Germany to focus on trade development and business recruitment. While in London, Governor Kaine also kicked off the Jamestown four hundredth anniversary celebration at Tower Bridge.

More recently, I had the opportunity to lead with my colleague Aneesh P. Chopra, the Virginia secretary of technology, what is believed to be the largest and most strategically significant state delegation to India. At more than one hundred strong, we traveled to New Delhi, Chennai, and Mumbai in April 2007 to cultivate Virginia's relationship with India and open more doors to increased mutual trade and investment, particularly in the areas of global logistics, agriculture, infrastructure, technology, and research and development.

Poised for the Future of Globalization

Thanks in part to Virginia's strategic location, transportation system, and businesses dedicated to trade and investment, Virginia has responded well to the demands of a global economy. We are, however, far

from finished in our efforts to adapt to globalization.

There inevitably will be challenges related to globalization that Virginia businesses and state organizations must face. Business leaders, our government, and other stakeholders continue to be aggressive and deliberate regarding Virginia's role in the global economy. Issues surrounding the advantages and disadvantages of globalization will continue to challenge us.

Founded as a trading company four hundred years ago, Virginia has exceeded every expectation as a global player. I am confident that Virginians will continue to embrace globalization, ensuring success and profitability in the commonwealth for years to come. ♁