

Indiana's Trading Partners

A Closer Look at Canada, the Far East

By Tom Schuman

Geography, culture and the auto industry help make Canada the leading trade partner for both Indiana and the United States as a whole.

Canada bought more than 45% of Indiana's exports (\$6.8 billion value) in 2002, up from 43% a year earlier. The U.S. Canada trade flow approaches \$450 billion annually – an average of nearly \$1.3 billion per day.

Rocco Delvecchio, consul general of Canada, believes that relationship should continue to grow because of those three key factors.

Geography

The U.S. link with Canada is particularly strong in the Midwest. Nearly 17.5 million vehicles traveled between the two countries in 2002 at the adjacent Ambassador Bridge and Detroit-Windsor Tunnel. More than 40% of the trade takes place at the Windsor and Port Huron crossings.

"A lot of the trade is fairly sophisticated, high value products and goods," notes Detroit-based Delvecchio, adding that European and Far East investment can also benefit both countries. "Foreign investment in the southern states may not be particularly good for Indiana, but there are win-win opportunities between this region and our country.

"Investment doesn't really respect borders. There should be development of a regional strategy to exploit some of those opportunities."

Culture

Commonly cited difficulties for companies looking to expand beyond domestic markets are dealing with the various business customs and traditions that vary from country to country. Not so with Canada, Delvecchio points out.

"Small businesses in Indiana should be looking north to Canada. It has big markets. You can stay close to home and the resources are available to assist you. There are not a lot of differences. Canada is almost an extension of the U.S. market.

The cultural and business ties grew deeper 14 years ago with the institution of a free trade agreement between the U.S. and Canada. That was extended to include Mexico in 1993 with the North American Free Trade Agreement.

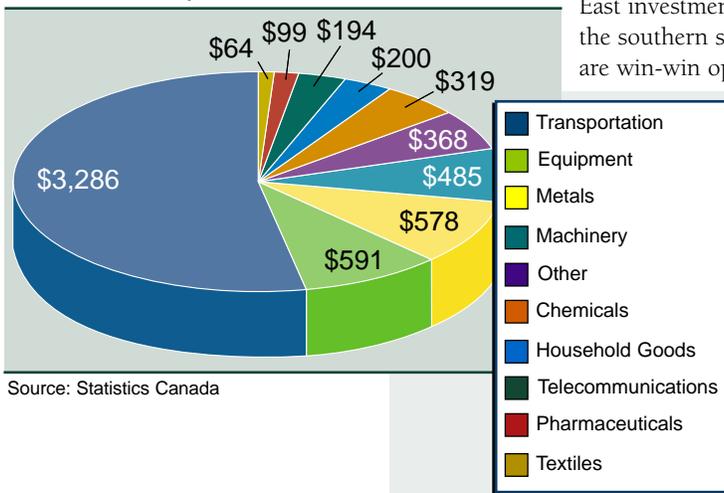
Delvecchio says each country has had to make adjustments, but the winners far outweigh those industries that might have suffered. "Companies can address larger markets and focus on what they do best. It leads to a degree of specialization."

Auto industry

Approximately half of the Indiana exports to Canada involve transportation products. Delvecchio terms the 401 highway between Detroit and Toronto "a long conveyor belt" for the auto parts and supplies that make their way between the two destinations. Similar U.S. corridors, such

Indiana's Merchandise Exports to Canada

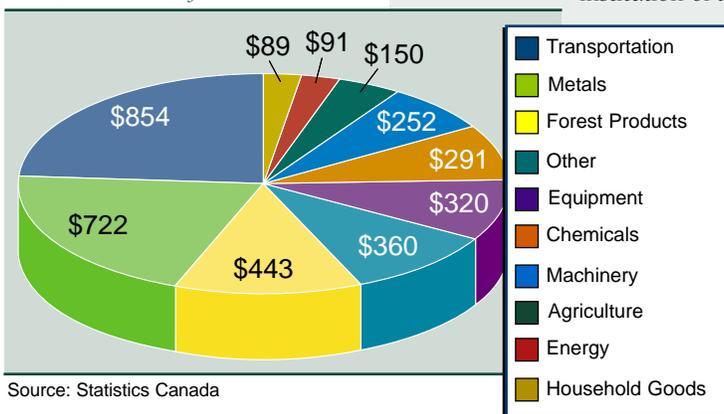
2001, in millions of U.S. dollars



Source: Statistics Canada

Indiana's Merchandise Imports from Canada

2001, in millions of U.S. dollars



Source: Statistics Canada

as Interstate 69, also generate additional industrial activity.

Even long-term changes in the industry – away from some of the heavy engine components that are part of Indiana’s strength and toward fuel cells and other technologies – could open up new opportunities. Ballard Power Systems, based in western Canada, is a fuel cell leader and partner on a recent project with Crane Naval Surface Warfare Center.

“Ballard will be working with major companies, developing truly collaborative partnerships,” Delvecchio explains. “If the U.S. government makes it a priority, a number of states will be competing for resources, but I would think Indiana and Michigan would be more successful than most.”

He cautions, however, that manufacturing, as we know it, is not going away anytime soon.

“The trade patterns show very strong links and the auto industry is compact because of the nature of the supply chain,” Delvecchio concludes. “As more European automakers come here, there will be additional opportunities for parts manufacturing.”

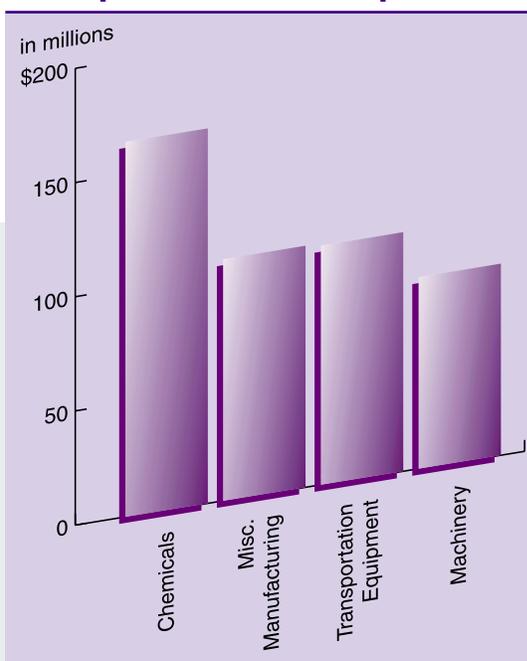
Japan

The Indiana-Japan trade relationship is a solid one, despite the presence of only one of the three factors that bind the state and Canada. Geography and similar culture do not apply to the midwestern part of the United States and the Far East. But the auto industry is once again a strong connection.

Larry Ingraham operates a Carmel-based consulting company that works with both Japanese and American companies, as well as communities trying to attract Japanese investment. From 1983-86, he was director of the Indiana Department of Commerce’s trade office in Tokyo.

Prior to that time, there were fewer than 20 Japanese companies operating in the state. In June 1983, Sony made the decision to build its compact disc factory in Terre Haute after a lengthy search in a number of states. At that point, Indiana was one of the few Midwest states that did not have a Japanese auto assembly plant. Today, Subaru in Lafayette and Toyota in Princeton are major employers.

2001 Exports from Indiana to Japan



Source: Statistics Canada



Rocco Delvecchio, general consul of Canada, sees additional opportunities for collaboration with Indiana companies.

“From 1983-88, under Gov. (Bob) Orr and Lt. Gov. (John) Mutz, there was a high priority on attracting Japanese investment. A number of parts suppliers came,” Ingraham recalls. “Most of the 200 Japanese companies (in Indiana) today are auto related. Because of the geography and highway system, they realized they could establish a factory in Indiana, yet supply customers throughout much of the country within a day’s trucking time.”

Although the pace of Japanese companies coming to Indiana has slowed, it has not stopped. FCC Co. Ltd., an auto parts supplier with worldwide operations, announced in mid-May that a \$45.8 million facility will bring 210 full-time jobs to Berne in Adams County.

Nearby Portland, Indiana, remains home to the company’s U.S. operations.

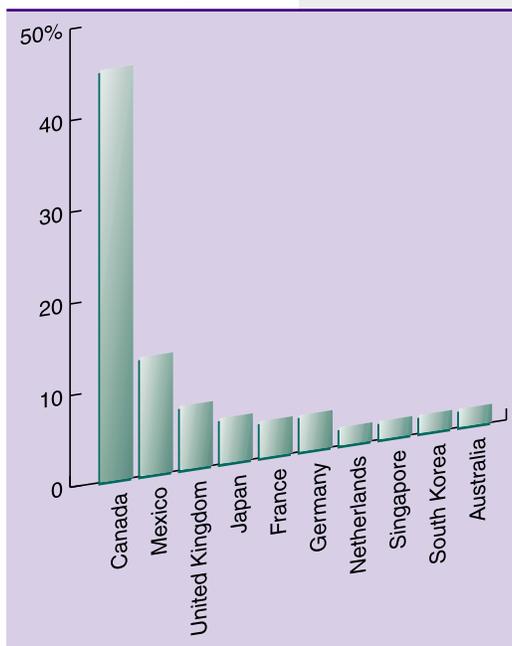
“FCC came to Portland in the 1980s. This new investment is really a second plant location,” Ingraham points out. “Companies like that might be looking at bringing new lines of products over here.”

Developing industries

Ingraham and Tomoharu Washio, chief executive director of the Japan External Trade Organization (JETRO), both believe there are additional opportunities beyond the auto industry.

Washio, based in Chicago, says that includes the state’s life sciences initiative. While Japanese biotechnology companies have established operations in California and New Jersey, for example, they are just beginning to discover the Midwest.

2001 Indiana Export Destinations



Source: Statistics Canada

His organization, which is supported by the Japanese government, “can invite Japanese pharmaceutical companies operating here to make their cases before Midwest groups. It’s helpful that Japanese company (leaders) have begun networking and Midwest companies are collaborating with each other.”

Ingraham reiterates that a number of Japanese companies that originally set up operations on the coasts “now realize they need to be in the Midwest. I believe we’ll see more agribusiness, more petrochemical companies here in the future.”

What are the reasons for the continuing strong ties between Indiana and Japan?

Washio says it began with the strong state presence in his home country, including what he terms as “trade delegations that were very active.” He adds that the state’s manufacturing prowess and a strong relationship that has grown over the years produce benefits for both sides.

The logistics and the manufacturing history are important, according to Ingraham, with the Japanese also impressed by the part-time citizen legislature, even though it is not unique to Indiana.

“They do like the fact that the people who pass the laws have to live under them. Probably the greatest advertisement is the success Japanese companies have had here.”

Japan’s continued economic troubles also present opportunities for Indiana businesses looking to expand their market share. Ingraham singles out the financial sector as one example, with Washio identifying his country’s security industry as “lagging far behind that of the U.S. There are very good opportunities for Indiana companies.”

China/Vietnam

Orie Fritts, as president of Columbus-based Tradespan International, makes about eight to 10 trips a year to China. He has been doing business in the country for 20 years.

“There are extremely dynamic places in China. You see major cities come up out of the dust,” he says. “I see changes every time I go.”

Tradespan has four offices in China and one in Vietnam. It imports various products, including furniture, hardwood and a number of specialty items. Key exports include lumber, logs, veneer and leather. Fritts also does consulting, site location and other work for companies looking to locate in China.

Fritts acknowledges the cultural differences, but says Americans and Hoosiers must simply be a little more flexible in their approach. After all, we are living in a global world, and China represents a marketplace of 1.3 billion people.

“Doing business there is somewhat confusing for Americans,” he claims. “I don’t think most people really understand China and its dynamics. I like to get them to go over and see the country. Then we can sit down and discuss a strategy.”

What they see might include 1 million square-foot manufacturing plants filled with modern equipment. That can quickly erase the fear of the unknown.

Vietnam, with a similar political background

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as China, is still a few years away from emerging as a true open trade arena. While China already has wholly owned enterprises and private purchases of property and homes, doing business in Vietnam today would require a joint venture with a native company.

“Vietnam is like China was seven or eight years ago,” Fritts explains. “It is on the verge of coming into modern trading. Both countries are looking at the growth of entrepreneurship, but are politically worried about losing control.”

Education and worker training are generally very strong in Vietnam, according to Fritts. Many people speak English. In China, where earlier strong influences from Japan and Russia are a factor, age is often a determinant in what second language is most prevalent.

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