

## **“The Export Imperative”**

Testimony prepared for  
The Senate Finance Committee  
Subcommittee on International Trade

By Howard Rosen<sup>1</sup>

December 9, 2009

### **Introduction**

Exports benefit the US economy in many ways.

- Exports enable firms to sell beyond their domestic market, thereby enabling them to increase production, sales and jobs.
- Exporting firms, on average, employ almost twice as many workers and produce twice as much as non-exporting firms.
- Exporting firms pay their workers more than non-exporting firms, and they are more likely to provide health insurance and pension coverage to their workers.<sup>2</sup>
- Exporting firms have higher productivity, making them more competitive and prosperous.

Despite these significant benefits, it is surprising that more US firms don't export.<sup>3</sup>

- Only 4 percent of US companies export
- 500 companies account for 60 percent of US exports
- Companies with more than 500 employees, which constitute only 3 percent of our exporting companies, account 70 percent of US exports

---

<sup>1</sup> Howard Rosen is a Visiting Fellow at the Peterson Institute for International Economics. He is also Executive Director of the Trade Adjustment Assistance Coalition, a non-profit organization he founded which advocates on behalf of workers, firms, farmers, fishermen and communities facing dislocations as a result of increased imports and offshore outsourcing.

<sup>2</sup> Bernard, Andrew B. and J. Bradford Jensen, Stephen J. Redding and Peter K. Schott, “Firms in International Trade,” Journal of Economic Perspectives 21:3, Summer 2007.

<sup>3</sup> US Department of Commerce, “A Profile of US Exporting Companies, 2006-2007,” US Census Bureau News, April 9, 2009.

- Less than one half of one percent of US companies operate in more than one country
- 58 percent of exporting companies trade with only one country

Although US exports of goods and service have grown on average by 10 percent each year over the last 50 years, they currently constitute only a little more than 10 percent of GDP, considerably less than the world average. (See Table 1) By contrast, exports of goods and services are 40 percent of GDP in Europe, 40 percent of GDP in China, 36 percent of GDP in Canada, 22 percent of GDP in India and 16 percent of GDP in Japan.

Table 1  
Export of Goods and Services

	Percent of GDP
Singapore	243
Hong Kong, China	206
Euro area	40
China	40
Canada	36
Average for high income OECD countries	24
India	22
Japan	16
<b>United States</b>	<b>11</b>
World average	28

Source: World Bank, World Development Indicators, 2009

Historically low household saving rates and growing government and private debt have made the US economy dependent on foreign capital. By the end of 2008, US net debt to the rest of world was \$3.5 trillion, 24 percent of GDP. The US net debtor position has deteriorated since 2000, rising at a rate of 23 percent *per year*, more than 4 times the annual growth of the US economy.

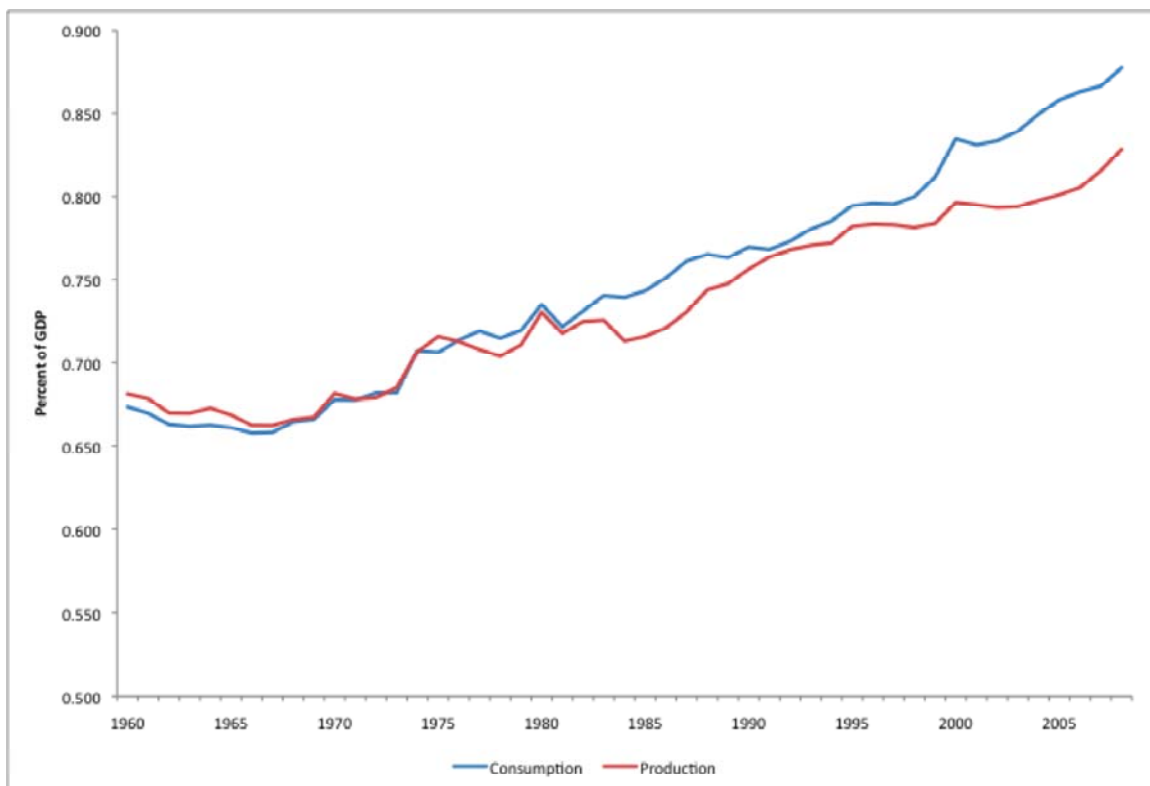
There are several ways the United States can reduce its debt burden, but most of them will require enormous sacrifice on behalf of American workers and their families, and bring considerable damage to the US economy. The only way out of the economic mess we currently find ourselves in, without causing more damage at home and abroad, is to significantly increase US exports.

Exporting is no longer just an option for the US economy; it is an imperative.

## Why Export?

Since the late 1970s Americans have been consuming more than we produce.<sup>4</sup> (See Figure 1) Since 1977, consumption as a percent of GDP has grown, on average, 77 percent faster than production each year. As a result, the gap between consumption and production increased from 1 percent of GDP to 5 percent of GDP over the last 3 decades. Between 2003 and 2008 consumption as a percent of GDP grew, on average, by almost 3 times more than the growth of production as a percent of GDP *each year*.

Figure 1  
US Production and Consumption



Source: Author's calculations

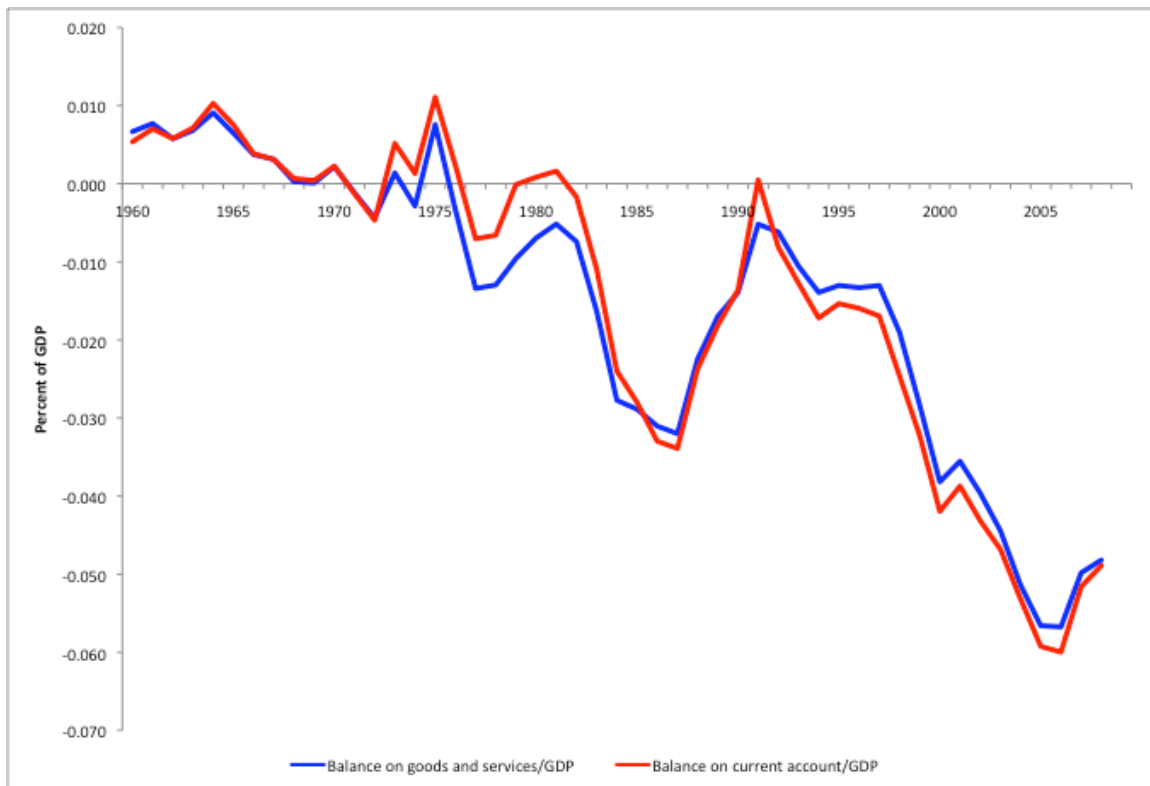
The gap between production and consumption is equal to the balance in exports and imports of goods and services, or the current account. Over the last 6 years,

<sup>4</sup> For the purposes of this testimony, production is measured as consumption of domestically produced goods and services plus exports of goods and services. Consumption is measured as consumption of domestically produced goods and services plus imports of goods and services.

the US current account deficit has been on average, slightly above 5 percent of GDP each year. (See Figure 2) This deficit is not merely an accounting entry; it represents *how much more the United States must borrow from the rest of the world each year*, further worsening its net debtor position.

The US net international debt position at the end of 2008 was \$3.5 trillion or 24 percent of GDP. My colleague Bill Cline estimates that with no policy changes, the US net international debtor position could *double*, reaching \$8 trillion, or more than 42 percent of US GDP, *within just 7 years*.<sup>5</sup>

Figure 2  
Balance on US Current and Trade Accounts



<sup>5</sup> Cline, William R., "Long-Term, Fiscal Imbalances, US External Liabilities, and Future Living Standards," in Bergsten, C. Fred, ed., *The Long-Term International Economic Position of the United States*, Special Report 20, Washington, DC: Peterson Institute for International Economics, May 2009.

The continual build-up of US domestic and international debt diverts capital from less advanced economies that are in great need of capital to finance public and private investment in basic infrastructure and industry.

It is hard to imagine how this debt build-up can continue on its current course.

As former chairman of the Council of Economic Advisors and eminent economist Herb Stein was fond of saying, "if something can't go on for ever, it won't." The recent US financial crisis and resulting deep recession has once again proven him right.

There are several options for reducing US dependence on foreign capital. First, we can permanently raise our national saving rate. Given historically low private saving rates in the United States, the single most effective way to do this would be to eliminate the federal government budget deficit. This is an extremely ambitious goal, especially under current circumstances. According to the Congressional Budget Office (CBO), the federal budget deficit is estimated to be more than 11 percent of GDP in FY 2009. CBO also estimates that under relatively optimistic assumptions, the deficit is expected to remain above 4 percent of GDP each year, over the next 10 years.

Mandatory spending, i.e. entitlements and interest on outstanding debt, are expected to comprise about two-third of all federal spending, for at least the next decade. Although categorized as such for budget purposes, spending on defense, homeland security and intelligence cannot be considered "discretionary" given current security concerns around the world. And policymakers have not displayed any appetite for raising taxes.

Although not impossible, it would demand significant leadership and discipline to bring the federal budget into surplus, and keep it in surplus long enough to reduce the US economy's growing dependence on foreign capital.

Another option would be for individuals to significantly reduce their own debt. Total outstanding household debt is currently valued at \$13.7 trillion, a little less than total GDP. If the recent experience is any indication, one would expect that significantly reducing household debt, even enough to *stop the further accumulation* of net debt, would have a devastating effect on the US economy.

A third option, printing more money to pay off our debt, brings back images of Germany in the 1920s, Hungary immediately after World War II and Argentina, Bolivia and Israel during the 1980s, when store prices changed several times a day. This cannot be an option for United States.

The only remaining option is to either reduce imports of goods and services, increase exports of goods and services, or some combination of both.

The US economy imported \$2.5 trillion in goods and services in 2008, 20 percent of everything Americans consumed. Complete abstinence, or even an absolute reduction in imports that was enough to stem our growing dependence on foreign

capital, would have drastic consequences for US consumers, causing a severe decline in living standards. An absolute decline of US imports of this magnitude would also wreck havoc on almost every economy around the world.

The only possible option for reducing our increasing dependence on foreign capital, while maintaining, or even improving our standard of living is to expand exports.

In order to increase exports, we must start producing more than we consume.

Expanding domestic production requires more private and public investment. The government needs to continue its current efforts to update and expand the nation's physical and human infrastructure. Private companies need to increase investment in plant and equipment *here in the United States*. Increased investment, resulting in higher production, will enable companies to hire more workers.

The combination of facing domestic and international competition and investing in plant, equipment, technology and worker training will enhance companies' long-run productivity, thereby enabling them to pay their workers higher wages. Higher incomes, in turn, will enable workers and their families to increase consumption, including imports, in *absolute* terms. As long as the growth of production is greater than the growth of consumption, the ratio of consumption to production will fall.

Increasing exports also addresses another US deficit – the jobs deficit. The “Great Recession” of 2008-2009 has so far resulted in a doubling of the unemployment rate. Currently 31 million Americans are either unemployed (15.4 million), working part-time because they could not find a full-time job (9.2 million), not in the labor force, but willing to work (5.6 million) or discouraged and marginally attached to the labor force due to poor job prospects (1 million). Despite some recent positive signs, most indicators suggest that it is going to take considerable time for the labor market to fully recover from the recession.

The US “jobs machine” petered out long before the recent recession began. Total job gains were flat from 2001 to 2006 and most of the increase in the number of people employed over this period resulted from fewer lay offs, not the creation of new jobs. (See Figure 3)

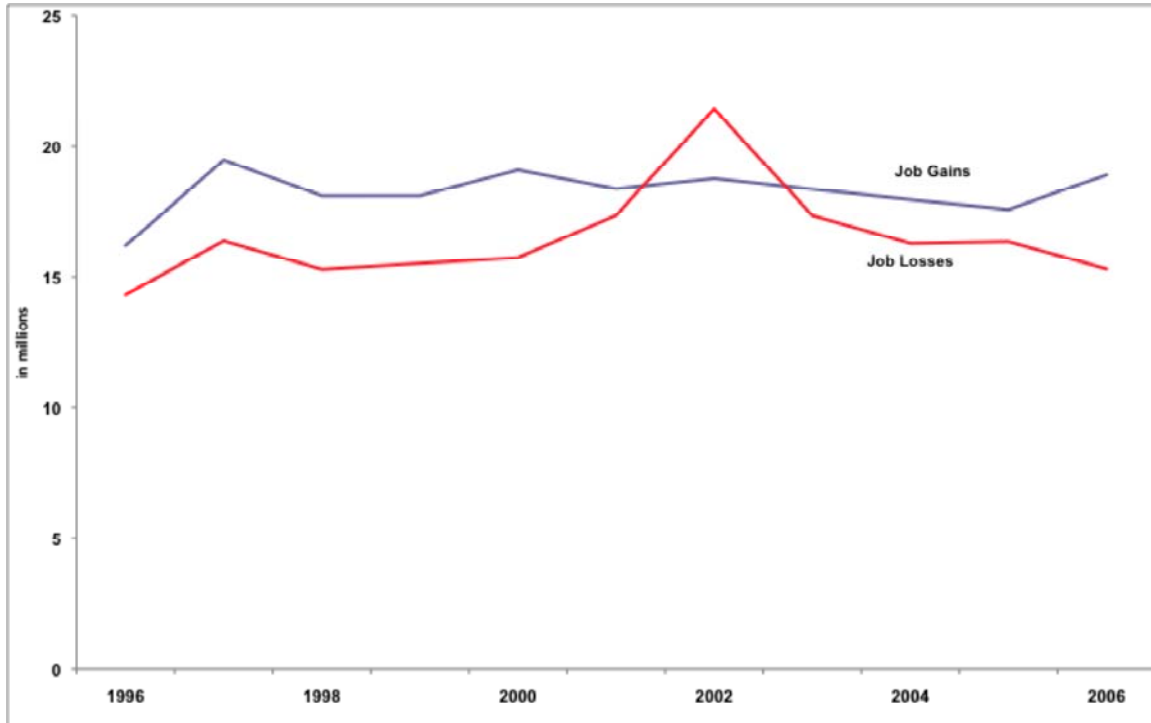
Poor job creation over the last decade, as opposed to the mere increase in employment, contributed to worker anxiety over technological change, offshore outsourcing and increased import competition. The lack of new high wage jobs makes it very difficult for workers to recover from job losses. As a result, most workers feel safer in their current jobs, even if they pay less well and don't provide benefits, than seeking new employment opportunities that pay more and provide better benefits.

The lack of sustainable and high wage job creation is a threat to the US economy, not globalization.

Exporting is the only way to reduce the US economy's dependence on foreign capital and create high wage jobs, while *simultaneously* improving the standard of living of American workers and their families.



Figure 3  
Total Job Gains and Losses



Source: US Census Bureau, Statistics of US Business

### What to Export?

Exporting more alone will not be enough to solve all our economic ills. Given its level of development, the US economy must export high value-added goods and services that require high skilled workers in order for an export-led growth strategy to result in sustainable improvements in US living standards. In other words, we need to improve both the quantity and quality of the goods and services we produce and export.

Anxiety over consideration of an explicit industrial policy, i.e. picking “winners and losers,” has caused many policymakers to overlook analyses which identify those US industries that excel in facing international competition. Any export-led growth strategy should build upon an analysis of our strengths.

Contrary to all the naysayers, the United States has a comparative advantage in many products.<sup>6</sup>

---

<sup>6</sup> Due to data limitations, this analysis is confined to industrial products, as defined by the Harmonized Tariff Schedule (HTS).

Over the years economists have developed numerous indices of industrial competitiveness. Each of these indices has their own strengths and weaknesses. The most common index used is the value of an industry's exports as a share of total exports. Although this is a useful measure for some purposes, the index is obviously biased by the value of the product itself. For example, it would be a mistake to conclude that US exports of vehicles are more competitive than exports of cereals, purely based on the fact that the *value* of vehicle exports is greater than the *value* of cereal exports.

Another index of industrial competitiveness is the ratio of exports to imports in a particular industry. In this case, competitiveness is measured by the fact that the value of a country's exports in one product or group of products is greater than the value of imports of that same product or group of products. This index is less meaningful at higher levels of industry aggregations, since there is considerable trade *within* industries. For example, the United States exports trucks and imports cars, both of which are included under the same broad industry classification, i.e. vehicles.

Bela Balassa refined the simple export-import ratio index by comparing it to the ratio of a country's total exports and imports. This index is called the Revealed Comparative Advantage (RCA) index. A higher RCA index suggests that the ratio of exports to imports for one product or group of products is greater than the ratio of the all the country's exports to imports.

Table 2 presents the indicators outline above, i.e. the industry's share of total exports, its ratio of exports to imports and its RCA index, for the top 25 US export industries, according to 2-digit Harmonized Tariff System (HTS) system. The final column, the "weighted" RCA index, is an industry's RCA index multiplied by that industry's share of total exports. This index is an attempt to provide some insight into the "quality and quantity" of an industry's export performance.

The top 25 industries, ranked by the weighted RCA index, comprise 80 percent of US exports. Almost half of these exports are concentrated in four broad industrial categories, i.e. electrical and non-electrical machinery (HTS 84 and 85), vehicles (HTS 87) and aircraft (HTS 88). As suggested above, these products are primarily high value-added, thus their large share of total exports is not a surprise. A more careful look provides more insight into the actual international competitiveness of these industries.

US exports of aircrafts are more than 3 times the size of imports in the same category. By contrast, US exports of electrical and non-electrical machinery and vehicles are *less* than similar imports. The ratio of US exports to imports for electrical and non-electrical machinery are slightly better than the overall ratio of total US exports to imports, thereby signifying a comparative advantage.

Table 2  
US Export Industries  
Ranked by Weighted Revealed Comparative Advantage

HTS		Average Value 2004-2008 in \$millions	Average Share 2004-2008	X/M	Revealed Comparative Advantage (RCA)	Weighted RCA
	TOTAL	1,044,183		0.577		
10	CEREALS	17,618	1.7	12.391	21.479	0.362
88	AIRCRAFT, SPACECRAFT, AND PARTS THEREOF	61,328	5.9	3.263	5.656	0.332
84	NUCLEAR REACTORS, BOILERS, MACHINERY AND MECHANICAL APPLIANCES; PARTS THEREOF	181,617	17.4	0.778	1.349	0.235
12	OIL SEEDS AND OLEAGINOUS FRUITS; MISCELLANEOUS GRAINS, SEEDS AND FRUITS; INDUSTRIAL OR MEDICINAL PLANTS; STRAW AND FODDER	11,510	1.1	8.835	15.313	0.169
85	ELECTRICAL MACHINERY AND EQUIPMENT AND PARTS THEREOF; SOUND RECORDERS AND REPRODUCERS, TELEVISION RECORDERS AND REPRODUCERS, PARTS AND ACCESSORIES	140,239	13.4	0.625	1.083	0.145
90	OPTICAL, PHOTOGRAPHIC, CINEMATOGRAPHIC, MEASURING, CHECKING, PRECISION, MEDICAL OR SURGICAL INSTRUMENTS AND APPARATUS; PARTS AND ACCESSORIES THEREOF	61,034	5.8	1.206	2.091	0.122
39	PLASTICS AND ARTICLES THEREOF	42,699	4.1	1.311	2.272	0.093
87	VEHICLES, OTHER THAN RAILWAY OR TRAMWAY ROLLING STOCK, AND PARTS AND ACCESSORIES THEREOF	93,483	9.0	0.460	0.797	0.071
38	MISCELLANEOUS CHEMICAL PRODUCTS	16,492	1.6	2.077	3.600	0.057

52	COTTON, INCLUDING YARNS AND WOVEN FABRICS THEREOF	6,350	0.6	4.191	7.264	0.044
29	ORGANIC CHEMICALS	33,976	3.3	0.771	1.336	0.043
71	NATURAL OR CULTURED PEARLS, PRECIOUS OR SEMIPRECIOUS STONES, PRECIOUS METALS; PRECIOUS METAL CLAD METALS, ARTICLES THEREOF; IMITATION JEWELRY; COIN	32,683	3.1	0.771	1.337	0.042
98	SPECIAL CLASSIFICATION PROVISIONS, NESOI	30,436	2.9	0.803	1.392	0.041
23	RESIDUES AND WASTE FROM THE FOOD INDUSTRIES; PREPARED ANIMAL FEED	4,707	0.5	4.931	8.547	0.039
30	PHARMACEUTICAL PRODUCTS	25,935	2.5	0.616	1.067	0.027
2	MEAT AND EDIBLE MEAT OFFAL	7,487	0.7	1.581	2.740	0.020
47	PULP OF WOOD OR OTHER FIBROUS CELLULOSIC MATERIAL; RECOVERED (WASTE AND SCRAP) PAPER AND PAPERBOARD	6,132	0.6	1.812	3.141	0.018
32	TANNING OR DYEING EXTRACTS; TANNINS AND DERIVATIVES; DYES, PIGMENTS AND OTHER COLORING MATTER; PAINTS AND VARNISHES; PUTTY AND OTHER MASTICS; INKS	5,563	0.5	1.850	3.207	0.017
48	PAPER AND PAPERBOARD; ARTICLES OF PAPER PULP, PAPER OR PAPERBOARD	13,377	1.3	0.742	1.287	0.016
41	RAW HIDES AND SKINS (OTHER THAN FURSKINS) AND LEATHER	2,831	0.3	3.394	5.882	0.016
72	IRON AND STEEL	14,756	1.4	0.562	0.974	0.014
28	INORGANIC CHEMICALS; ORGANIC OR INORGANIC COMPOUNDS OF PRECIOUS METALS, OF RARE-EARTH METALS, OF RADIOACTIVE ELEMENTS OR OF ISOTOPES	10,164	1.0	0.801	1.388	0.014

34	SOAP ETC.; LUBRICATING PRODUCTS; WAXES, POLISHING OR SCOURING PRODUCTS; CANDLES ETC., MODELING PASTES; DENTAL WAXES AND DENTAL PLASTER PREPARATIONS	4,079	0.4	1.945	3.371	0.013
8	EDIBLE FRUIT AND NUTS; PEEL OF CITRUS FRUIT OR MELONS	6,911	0.7	1.080	1.872	0.012
26	ORES, SLAG AND ASH	4,471	0.4	1.560	2.704	0.012

Source: Author's calculations based on US International Trade Commission Interactive International Tariff and Trade Database

According to the RCA index, the United States has a comparative advantage in scientific equipment (HTS 90), which comprises almost 6 percent of total US exports. US exports in this category are 20 percent higher than similar imports, which is much higher than the average ratio of total US exports to imports (1.206 versus 0.577). Chemicals, plastics and pharmaceuticals, which together account for 12.5 percent of US exports, are also highly competitive, even though US exports of pharmaceuticals and organic chemicals are less than similar US imports of similar products.

Many of the findings presented above are not too surprising. The United States is well known for its production of capital equipment and high-tech products. Despite this conventional wisdom, according to this analysis, the most competitive US export is cereals. Although cereal exports constitute only 1.7 percent of total US exports (probably due to the low value-added nature of the product), they are more than 12 times the size of cereal imports. Taken together, cereals have the highest weighted RCA index of the 97 broad industrial categories analyzed. The two other industries with high RCA indices are oil seeds and grains, and cotton, which together constitute 1.7 percent of all US exports.

A list of competitive products at a more detailed level of disaggregation is appended to this testimony.

The bottom line is that there are many products made in the United States that meet the test of international competition. The challenge is to allocate the necessary resources for investment in physical and human capital to expand production and export of these products.

## How to Promote Exports

### Creating an Export Culture and Developing an Export-led Growth Strategy

For much of the last century the US economy has been defined by a culture of consumerism. People's success is measured by how much and what they consume, e.g. large houses, expensive cars, technological gadgets, etc. Secular and religious holidays have both become opportunities for sales and shopping sprees. The health of the economy is measured by how much we consume, not by how much we produce.

This culture of consumerism has led to an enormous build up of individual debt. Total current consumer debt amounts to approximately \$117,000 per US household. As evident by the recent financial crisis, this debt overhang places Americans and the entire US economy at great risk to external shocks.

One way to reduce our dependence on consumer debt would be to increase the share of production and exports in the US economy. This would require a cultural transformation, from one that focuses almost exclusively on consumption to one that focuses on production and exports. This transformation could begin by replacing indicators of consumption with indicators of production and exports as measures of the health of the US economy.

For example, firms might report large export sales, similar to the way they currently report purchases by US consumers. The Department of Labor might report employment statistics for export-oriented companies and/or industries as part of its monthly release on the employment situation. The government could also report the number of new jobs, which is different from merely the increase in employment.<sup>7</sup> Job creation data for exporting companies and/or industries could be reported separately. Increased export sales might become one of the variables considered in setting executive compensation.

The government and the private sector might work together to develop an aggressive export strategy. This strategy should be based on an accurate assessment of the economy's existing capacity to produce and export, as well as an analysis of industrial strengths and weaknesses.

A body comprised of representatives from the private and public sector might set certain targets for increasing production and exports and estimate what resources would be necessary in order to meet those targets.<sup>8</sup> These targets

---

<sup>7</sup> For a start, a measure of new jobs could be taken from changes in the Unemployment Insurance system, i.e. workers who change their employers and new hires.

<sup>8</sup> The Congressionally-mandated Competitiveness Policy Council undertook a similar exercise in the 1990s, estimating how much national saving and investment would be needed in order to doubling productivity growth. The Council developed detailed policy recommendations aimed at achieving that target.

might include doubling export's share of GDP and/or doubling the number (or percent) of firms that export by 2020.

### Creating an Economic Environment that Encourages Exports

The primary objective of economic policy should be the achievement of sustainable, long-term improvements in living standards. This goal requires simultaneous improvements in economic growth *and* productivity. Increased domestic saving and investment in productive activities is critical to achieving this dual goal.

Between 1946 and 1981, business investment in plant and equipment rose steadily from 8 percent of GDP to more than 13 percent of GDP. Over the last decade private investment in plant and equipment dropped to less than 10 percent of GDP. This poor investment performance tracks the lack of total job creation over this period.

The recent bursting of the real estate “bubble” provides an opportunity to re-orient investment in the US economy. It would be unfortunate if the drop in residential investment resulted in net decline in total investment. In other words, the decline in residential investment should be offset by an increase in non-residential investment, i.e. investment in plant, equipment and technology.

Economic policies should aim to increase the quantity and improve the “quality,” measured by its contribution to enhancing productivity, of investment.

The most important variable for promoting investment is the availability of affordable capital. There are three potential sources of capital – domestic private (household and corporate) saving, government saving and foreign saving. Large and growing federal and state government budget deficits in the United States increase the demand for private and foreign saving to finance domestic investment. The historically low household saving rate has exacerbated the US economy's dependent on foreign capital to finance domestic investment.

As mentioned above, eliminating the government budget deficit would be the single most powerful means of increasing the amount of capital available for investment in the United States. Any such improvement in public saving, i.e. a reduction or elimination of the budget deficit, must be accompanied by an increase in private saving on order to result in a net increase in national saving.

The bottom line is that we must eliminate the government budget deficit and individuals must save more, not just for retirement, in order to increase the amount of capital available to finance more investment in plant and equipment *in the United States*, and thereby create high-wage, sustainable jobs for American workers.

### Get Exchange Rates “Right”

The value of a country's exchange rates is the single most important factor influencing how much it exports (and imports). An overvalued currency makes a country's exports appear more expensive abroad and makes its imports appear

less expensive at home, thereby leading to a deterioration of that country's trade and current accounts.

Table 3 presents data on exchange rates and US exports of goods and services by country. The second column presents an estimate of the equilibrium exchange rate relative to the US dollar, called the Fundamental Equilibrium Exchange Rate (FEER), as calculated by William Cline and John Williamson.<sup>9</sup> The market exchange rates on December 1, 2009 are listed in the third column. The fourth column presents a comparison between the FEER and the current market exchange rate. A positive value suggests a currency overvaluation. Conversely, a negative value suggests a currency undervaluation.

Table 3  
Exchange Rates and Exports of Goods and Services

	FEER	Exchange rate relative to the US dollar on 12-01-2009	Extent of over/under valuation relative to the US dollar	Share of US exports of goods and services in 2008
China	5.45	6.831	0.253	0.047
Hong Kong	6.05	7.75	0.281	0.015
India	37.1	46.325	0.249	0.015
Korea	850	1149.35	0.352	0.027
Singapore	1	1.3807	0.381	0.020
Taiwan	25.1	32.15	0.281	0.018
Euro zone	1.47	1.504	0.023	0.173
Canada	1.02	1.0496	0.029	0.169
Mexico	10.6	12.776	0.205	0.096
Japan	90.1	87.175	-0.032	0.058

Based on these data, the value of the dollar is currently pretty close to equilibrium against the Euro and the Canadian dollar, which together account for one-third of total US exports of goods and services. The US dollar appears to be slightly undervalued against the Japanese Yen. This development has a limited effect on the overall US trade performance, since Japan accounts for only 5.8 percent of total US exports of goods and services.

By contrast, the dollar is overvalued against several Asian currencies, making our imports from these countries more attractive and our exports to these

---

<sup>9</sup> Cline, William and John Williamson, *2009 Estimates of Fundamental Equilibrium Exchange Rates*, Washington, DC: Peterson Institute for International Economics, 2009.



countries less attractive. It is therefore no surprise that, despite their strong economic performance, these six Asian countries, whose currencies appear to be overvalued against the US dollar, account for only 14 percent of total US exports of goods and services.

At a minimum, we cannot allow other countries to manipulate the value of their currencies in order to provide an unfair advantage to their exports.

An appropriate and stable exchange rate is necessary to promote exports.

### Ensuring Market Access

US exporters need secure access to growing markets in order to sell their goods and services. This requires negotiations to open markets to US goods and services, the establishment of international rules by which to govern trade between countries and aggressive enforcement of those agreements and rules. The United States is currently falling behind on all fronts.

It appears that the world trading system is quickly turning into an unwieldy collection of bilateral and regional trade agreements. Efforts to negotiate a multilateral trade agreement under the auspices of the World Trade Organization (WTO) are stalled and at this point seem unlikely to succeed. In the meantime many countries have aggressively pursued bilateral and regional trade agreements to secure markets for their exports.

To date the United States has entered into 17 bilateral trade agreements, which together cover 40 percent of total US exports in 2008. The North American Free Trade Agreement (NAFTA) alone, which includes Canada and Mexico, covers one-third of US exports. The remaining 15 bilateral agreements, including the individual countries that are part of the Central American Free Trade Agreement (CAFTA), cover just 8.3 percent of US exports. If enacted, bilateral agreements with Columbia, Korea and Panama would cover an additional 3.9 percent of US exports. Except for NAFTA, US bilateral and regional trade agreements cover only a small portion of US exports.

Current efforts for further multilateral trade and financial liberalization appear to have hit a “speed bump.” The Obama administration has yet to articulate its overarching strategy for trade policy. In the meantime, other countries are aggressively moving ahead in negotiating and signing bilateral trade agreements with each other. The United States, the most important force behind the international trading system for most of the last 50 years, seems to have fallen victim to domestic opposition to further liberalization. The future of the multilateral trading system could be under jeopardy if the United States abdicated its critical role.

From the perspective of promoting US exports, this is precisely the wrong time for a “time out” from trade policy.

Clearly, seeking increased market access for US exports will most likely necessitate opening the US market to imports from other countries. Imports

benefit the US economy, through access to more, better and less expensive products. But these benefits come with a “price tag.” Increased competition from imports can put pressure on domestic firms and workers. Government programs should address these pressures with adequate and appropriate assistance that promotes labor market flexibility without causing harm to American workers and their families.

Entering into trade agreements is only the first part of gaining market access for exports. There must be appropriate “rules of the game” to govern trade flows and those rules must be aggressively enforced. The apparent shift from multilateral agreements to bilateral and regional agreements could undermine the development and enforcement of commonly agreed upon international rules.

Enforcing international trade rules raises additional challenges, since most violations occur beyond the exporting country’s borders. This challenge is exacerbated by the lack of an independent “international trade police.” As a result, countries must rely on each other to enforce both their own laws and internationally agreed upon rules.

The US government should expand its enforcement efforts in order to ensure that US exporters are afforded fair treatment in all international markets.

### Building a 21<sup>st</sup> Century Export-Oriented Infrastructure

Exporters rely on first class transportation systems and ports to ensure that their products arrive at their intended markets in a timely and cost-effective manner. As daily news reports reveal, our economy’s physical infrastructure, especially our roads and bridges, has been neglected, resulting in deaths, serious injuries and considerable delays, disrupting economic activity and costing US industry lost sales. US industry cannot compete internationally if it faces significant barriers in merely getting its goods and services to their intended markets.

The US transportation system was built to serve the domestic market. Future economic prosperity depends on access to the vast international market. Our transportation system must therefore be updated in order to meet this new reality. For example, we must ensure that there is a seamless link between our transportation system, including roads and rails, and our air, land and water ports. Airports outside major commercial centers need to be refitted in order to handle the shipment of cargo. Trucks and trains must be able to move goods from their source of production to ports capable of handling international trade, in a cost-effective and timely manner.

### Providing Adequate Export Financing

One of the barriers exporters face is access to adequate financing at favorable conditions. The US Export-Import Bank was established to meet this need. Like other official efforts to promote exports, the Export-Import Bank appears to do a good job providing the necessary finance to companies, many of which are large,

which already export. Once again, the challenge is to use easier access to financing as an incentive to increase *the number of companies* that export as well as the total value of exports.

According to the US Export-Import Bank, Canada, France and Italy provide significantly more credits to their exporters than the United States does, despite the fact that on average, the value of their exports are less than half that of the United States.<sup>10</sup> (See Table 4) This imbalance is particularly pronounced in the comparison between China the United States. Although the value of total Chinese and US exports are almost equal, Chinese export credits are more than 4.6 times greater than US export credits.

Table 4  
Export Credits and Exports

	New Medium and Long-term Official Export Credit in billions of US dollars	Value of exports in billions of US dollars	Ratio of credit to exports
Canada	18.2	420.2	0.043
France	13	551.9	0.024
Germany	7.8	1,321.2	0.006
Italy	11	499.9	0.022
Japan	6	646.7	0.009
UK	3.6	439.1	0.008
US	8.2	1,148.2	0.007
Brazil	7	160.6	0.044
China	38	1,218.6	0.031
India	4.4	160.6	0.027

Source: US Export-Import Bank, "Report to the US Congress on Export Credit Competition and the Export-Import Bank of the United States" and the World Trade Organization. Data are for 2007, except for Japan, where data are for 2006.

In addition to direct financing, some countries provide development assistance under the condition that the recipient countries use that assistance to buy goods and services from their companies. This form of "tied-aid" can distort trade flows. It is unclear how extensive this practice is, since it is difficult to collect data on tied-aid.

---

<sup>10</sup> This comparison is based on new medium and long-term official export credits, as reported by the US Export-Import Bank. There may be other forms of financing available to exporters.

Programs to provide access to export financing need to be coordinated with other outreach and promotion efforts in order to increase the pool of exporting-companies.

The bottom line is that US export financing must be competitive in order for its exporters to compete in world markets.

### Establishing an Export Extension Service<sup>11</sup>

Helping existing exporters export more should not require a significant increase resources. By contrast, additional resources are required to identify and encourage companies that do not current export to begin doing so. The experience of the US Agriculture Extension Service and the Manufacturing Extension Program suggest that although useful, just making technical assistance available only helps those companies that realize they need that assistance. By contrast, these programs pro-actively reach out to farmers and companies and provide assistance that they may not realize will benefit them.

Some Manufacturing Extension Program centers provide technical assistance on exporting, but that is not currently their primary mission. This function should be strengthened. The objective is to indentify potential exporters and provide whatever assistance they require to begin exporting.

The US government has a small export promotion program in place, with activities conducted by the Department of Agriculture, the Department of Commerce, which includes the Foreign Commercial Service, and the Small Business Administration. The total budget for these activities was less than \$1 billion in FY 2008, with two-thirds of that devoted to promoting agricultural exports. Funding for export promotion efforts have decline by an average of 8 percent each year between FY 2004 and FY 2008. Export promotion efforts need to be expanded in order to attract more companies to export.

### **Conclusion**

For decades Americans have been consuming more than they produce. As a result, we have incurred enormous debt to ourselves and to the rest of the world. The recent financial crisis and deep recession provide clear evidence that the United States is not an economic island, and that continuing to increase our national and international debt places our living standards and the world economy at great risk. The current situation is not sustainable. We are already planting the seeds of the next financial crisis.

---

<sup>11</sup> The Agriculture Extension Service was established in 1914 (95 years ago). For example, there are 4 centers and 9 branch stations in Oregon alone.

The US economy needs to begin producing more than it consume. Increasing exports is the only way to reduce US dependence on foreign capital without jeopardizing the living standards of American workers and their families.

Producing more than we consume does not mean that we must reduce consumption in absolute terms. Rather, we must implement policies that result in production *growing faster* than consumption, until at some point the level of US production is greater than the level of consumption.

Similarly, we need to implement policies that encourage exports to grow faster than imports. Once again, achieving this goal does not necessitate an absolute decline in imports, which would hurt US living standards.

Achieving the two goals of producing more than we consume and exporting more than we import requires a considerable increase in private investment in plant, equipment and technology. We must increase national saving, by raising private saving and eliminating the government budget deficit, in order to finance this necessary expansion in investment.

Expanding our export *capacity* is necessary, but not sufficient for increasing our export *sales*. We must put in place the appropriate policies to insure that the value of the US dollar relative to the currencies of our major trading partners does not undercut the price competitiveness of US goods and services in international markets. At a minimum, we cannot allow other countries to manipulate the value of their currencies in order to provide an unfair advantage to their exports.

The value of a country's exchange rates is the single most important factor influencing how much it exports (and imports).

Government policies and programs are also needed to modernize the nation's infrastructure and re-orient it toward enhancing exports. We also need to provide adequate financing at favorable conditions in order to expand the potential pool of US companies that export.

The United States cannot afford to abdicate its leadership role in maintaining an open trading system. Countries may opt for a "time out" from *trade policy*, but there are no "time outs" when it comes to international *trade flows*. Other countries are currently signing bilateral and regional agreements that exclude the United States. The United States needs to ensure access for its exports into existing and new markets. Trade negotiations are a two-way street – achieving market access for exports will be combined with opening markets to imports.

Trade agreements are only effective if they are enforced. In addition to increasing resources allocated to enforcing its existing agreements, the United States should seek an international understanding on ways to share the responsibility of enforcing trade rules.

Increasing US exports will result in companies expanding production and creating new high wage jobs *in the United States*. Exporting raises incomes, which will enable Americans to consume more. Expanding export opportunities can also ameliorate the dislocation costs associated with import competition.

Given all its benefits, it is surprising that so few US companies export. Increasing exports is the only option available to help the United States get out of the economic mess it currently finds itself in, without sacrificing US living standards. The US government, together with private sector representatives should move aggressively to set medium and long-term targets for increasing US exports and expanding the pool of exporting companies.

Appendix  
Top 50 Export Industries  
Ranked by the Weighted Revealed Comparative Advantage Index

HTS		Share of Total exports	Ratio of Exports to Imports	RCA	Weighted RCA
271210	PETROLEUM JELLY	0.019	4369.1	8092.6	154.43
710210	DIAMONDS, UNSORTED	0.010	5579.6	10334.5	103.42
880400	PARACHUTES (INCLUDING DIRIGIBLE PARACHUTES) AND ROTOCHUTES; PARTS AND ACCESSORIES THERETO	0.017	1082.3	2004.7	34.57
400251	LATEX OF ACRYLONITRILE-BUTADIENE RUBBER (NBR)	0.004	2838.1	5256.8	20.69
880310	PROPELLERS AND ROTORS AND PARTS THEREOF, FOR BALLOONS, GLIDERS, OTHER AIRCRAFT AND SPACECRAFT, ETC.	0.033	272.0	503.8	16.86
870911	WORKS TRUCKS (NOT LIFTING OR HANDLING) USED IN FACTORIES ETC. AND TRACTORS USED ON RAILWAY STATION PLATFORMS, ELECTRICAL	0.010	626.3	1160.0	11.73
520511	COTTON YARN NESOI, 85% OR MORE BY WEIGHT OF COTTON, NOT PUT UP FOR RETAIL SALE, SINGLE UNCOMBED YARN, NOT OVER 14 NM	0.004	805.5	1491.9	6.68
270720	TOLUENE	0.004	597.5	1106.7	4.51
100590	CORN (MAIZE), OTHER THAN SEED CORN	0.008	214.3	396.9	3.32
120100	SOYBEANS, WHETHER OR NOT BROKEN	0.009	107.8	199.6	1.84
470692	CHEMICAL PULPS OF FIBROUS CELLULOSIC MATERIAL (OTHER THAN WOOD), NESOI	0.002	373.2	691.2	1.69

847329	PARTS AND ACCESSORIES FOR CASH REGISTERS AND MACHINES FOR ACCOUNTING, POSTAGE-FRANKING, TICKET-ISSUING AND SIMILAR MACHINES WITH A CALCULATING DEVICE	0.017	50.2	92.9	1.60
841182	GAS TURBINES, EXCEPT TURBOJETS AND TURBOPROPELLERS, OF A POWER EXCEEDING 5,000 KW	0.011	64.6	119.7	1.26
843142	BULLDOZER OR ANGLEDOZER BLADES	0.007	89.3	165.4	1.23
271129	PETROLEUM GASES AND OTHER GASEOUS HYDROCARBONS IN A GASEOUS STATE, NESOI (OTHER THAN NATURAL GAS)	0.006	78.9	146.1	0.92
961800	TAILORS' DUMMIES AND OTHER MANNEQUINS; AUTOMATONS AND OTHER ANIMATED DISPLAYS FOR SHOP WINDOW DRESSING	0.004	80.9	149.8	0.66
854190	PARTS FOR DIODES, TRANSISTORS AND SIMILAR SEMICONDUCTOR DEVICES; PARTS FOR PHOTSENSITIVE SEMICONDUCTOR DEVICES AND MOUNTED PIEZOELECTRIC CRYSTALS	0.007	33.5	62.1	0.43
100190	WHEAT (OTHER THAN DURUM WHEAT), AND MESLIN	0.006	28.4	52.6	0.34
271490	BITUMEN AND ASPHALT, NATURAL; ASPHALTITES AND ASPHALTIC ROCKS	0.003	55.7	103.2	0.29
847090	POSTAGE-FRANKING MACHINES, TICKET-ISSUING MACHINES AND SIMILAR MACHINES, INCORPORATING A CALCULATING DEVICE, NESOI	0.003	33.2	61.5	0.19



847982	MACHINES AND MECHANICAL APPLIANCES FOR MIXING, KNEADING, CRUSHING, GRINDING, SCREENING, SIFTING, HOMOGENIZING, EMULSIFYING OR STIRRING, NESOI	0.005	21.3	39.5	0.18
853810	BOARDS, PANELS, CONSOLES, DESKS, CABINETS, AND OTHER BASES FOR ELECTRIC CONTROL ETC. EQUIPMENT, NOT EQUIPPED WITH ELECTRICAL APPARATUS	0.003	37.4	69.3	0.18
840810	MARINE COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES (DIESEL OR SEMI-DIESEL ENGINES)	0.003	17.7	32.7	0.11
720421	STAINLESS STEEL WASTE AND SCRAP	0.003	17.3	32.1	0.11
901920	OZONE THERAPY, OXYGEN THERAPY, AEROSOL THERAPY, ARTIFICIAL RESPIRATION OR OTHER THERAPEUTIC RESPIRATION APPARATUS; PARTS AND ACCESSORIES THEREOF	0.007	8.4	15.6	0.11
840733	SPARK-IGNITION RECIPROCATING PISTON ENGINES FOR PROPULSION OF VEHICLES EXCEPT RAIL OR TRAMWAY STOCK, OVER 250 BUT NOT OVER 1,000 CC CYLINDER CAPACITY	0.005	10.8	20.0	0.09
841181	GAS TURBINES, EXCEPT TURBOJETS AND TURBOPROPELLERS, OF A POWER NOT EXCEEDING 5,000 KW	0.003	17.8	33.0	0.09
841111	TURBOJETS OF A THRUST NOT EXCEEDING 25 KN	0.004	11.0	20.5	0.09
711291	GOLD WASTE AND SCRAP, INCLUDING METAL CLAD WITH GOLD BUT EXCLUDING SWEEPINGS CONTAINING OTHER PRECIOUS METALS	0.004	11.9	22.0	0.08

760521	ALUMINUM ALLOY WIRE, WITH A MAXIMUM CROSS SECTIONAL DIMENSION OF OVER 7 MM	0.003	18.1	33.5	0.08
710691	SILVER, UNWROUGHT NESOI (OTHER THAN POWDER)	0.009	4.8	8.8	0.08
848140	SAFETY OR RELIEF VALVES	0.003	14.2	26.3	0.07
901831	SYRINGES, WITH OR WITHOUT NEEDLES; PARTS AND ACCESSORIES THEREOF	0.003	13.5	25.0	0.07
300420	MEDICAMENTS, IN MEASURED DOSES, ETC., CONTAINING ANTIBIOTICS, NESOI	0.005	7.0	12.9	0.07
840910	PARTS FOR SPARK-IGNITION OR ROTARY INTERNAL COMBUSTION PISTON ENGINES OR COMPRESSION-IGNITION INTERNAL COMBUSTION PISTON ENGINES, FOR AIRCRAFT	0.003	11.3	20.9	0.06
390210	POLYPROPYLENE, IN PRIMARY FORMS	0.003	11.3	20.9	0.06
999995	ESTIMATED IMPORTS OF LOW VALUED TRANSACTIONS	0.024	1.2	2.2	0.05
901849	INSTRUMENTS AND APPLIANCES USED IN DENTAL SCIENCES, NESOI, AND PARTS AND ACCESSORIES THEREOF	0.003	6.7	12.4	0.04
220110	MINERAL WATERS AND AERATED WATERS, NATURAL OR ARTIFICIAL, NOT SWEETENED OR FLAVORED	0.003	8.4	15.5	0.04
852910	ANTENNAS AND ANTENNA REFLECTORS AND PARTS THEREOF	0.004	4.5	8.3	0.03
870850	DRIVE AXLES WITH DIFFERENTIAL AND NON-DRIVE AXLES AND PARTS THEREOF, FOR MOTOR VEHICLES	0.004	3.9	7.1	0.03
847141	ADP MACHINES COMPRISING IN SAME HOUSING AT LEAST A CENTRAL PROCESSING UNIT AND AN INPUT AND OUTPUT UNIT, WHETHER OR NOT COMBINED, N.E.S.O.I.	0.003	4.6	8.6	0.02

970600	ANTIQUES OF AN AGE EXCEEDING ONE HUNDRED YEARS	0.004	2.5	4.6	0.02
847149	AUTOMATIC DATA PROCESSING MACHINES AND UNITS THEREOF PRESENTED IN THE FORM OF SYSTEMS, N.E.S.O.I.	0.005	2.1	3.8	0.02
843143	PARTS FOR BORING OR SINKING MACHINERY, NESOI	0.003	2.9	5.4	0.02
870324	PASSENGER MOTOR VEHICLES WITH SPARK-IGNITION INTERNAL COMBUSTION RECIPROCATING PISTON ENGINE, CYCLINDER CAPACITY OVER 3,000 CC	0.019	0.3	0.5	0.01
847160	AUTOMATIC DATA PROCESSING INPUT OR OUTPUT UNITS, WHETHER OR NOT CONTAINING STORAGE UNITS IN THE SAME HOUSING, N.E.S.O.I.	0.004	0.8	1.4	0.01
841191	PARTS OF TURBOJETS OR TURBOPROPELLERS	0.005	0.6	1.2	0.01
847170	AUTOMATIC DATA PROCESSING STORAGE UNITS, N.E.S.O.I.	0.005	0.4	0.8	0.00
847150	PROCESSING UNITS OTHER THAN THOSE OF 8471.41 AND 8471.49, N.E.S.O.I.	0.003	0.4	0.8	0.00

Source: Author's calculations based on US International Trade Commission Interactive International Tariff and Trade Database