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The Truth about Exports

by William J. Holstein

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The Truth about Exports

The numbers may be rosy, but the U.S. export initiative is still hobbled.

by William J. Holstein

For many months now, U.S. exports have seemingly been on a roll, with rapid increases due in large part to the falling dollar. According to data from the U.S. Department of Commerce, sales of U.S. goods to other nations surged 16.6 percent in January 2008 from the comparable period a year ago, a trend that is likely to continue for the foreseeable future. And if you believe the headlines, that impressive uptick may soon reverse many years of huge trade deficits in manufactured goods and save the country from a deep recession or, even worse, a multiyear economic decline.

But these results conceal important factors that must be taken into account. Most important, the lion's share of export growth appears to be occurring in price-sensitive raw materials such as coal and agricultural goods and in big-ticket items made by major manufacturers such as United Technologies Corporation and Boeing Company. By contrast, most small and midsized manufacturers — the key to any export offensive with real, sustainable value — are participating only at the margins. In fact, it may actually be getting more difficult for these companies to export, says J. David Richardson, an economics professor at Syracuse University and author of *Sizing Up U.S. Export Disincentives* (Institute for International Economics, 1991).

The problem is that most small and midsized entrepreneurial firms lack sufficient knowledge about what foreign customers want — an intelligence gap that is widening as the number of non-Western countries all U.S. companies do business with increases. In addition, these smaller companies face an export financing challenge that has been heightened by the U.S. banking crisis. Consequently, the goal of capturing more of the gains from a globalized economy by encouraging a slew of non-exporters to reach out into the world for new sales may be proving elusive. "A lot of small companies have given up entirely," says William Primosch, senior director for international business policy at the National Association of Manufacturers (NAM).

All this is reminiscent of the debate about U.S. exports more than 15 years ago, when Richardson's book helped point out that the U.S. export infrastructure lagged behind that of competitors, most notably Germany and Japan. Germany's model was seen as particularly impressive, because its industry associations were adept at supporting exports from small and midsized companies, collectively called the Mittelstandt. In the United States, however, the export promotion activities of both the state and federal governments were criticized as fragmented and ineffective, partly because trade agencies were often the dumping ground for political appointees. At the same time, U.S. banks did little

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to help provide streamlined tools for financing the flow of exports, instead relying on time-consuming and paperwork-intensive letters of credit. Other barriers included the Foreign Corrupt Practices Act, which barred American companies from paying many types of commissions or fees to middlemen, and a balky federal process for controlling technology exports.

Partly as a result of this criticism, the U.S. made some strides in the 1990s to improve its export capabilities. The rise of the Internet helped smaller companies research sales opportunities and communicate with prospective customers. Under the Bill Clinton administration, the Department of Commerce emphasized its trade promotion role, attempting to serve as a bridge between smaller companies and U.S. embassies abroad. Barriers against exporting technology-based goods eased and financial-services firms introduced new forms of trade finance, such as export insurance.

Although some of those positive initiatives are still in place, the government's and private sector's enthusiasm for them has waned. In the post–September 11, 2001, landscape, the U.S. government has focused on security and antiterrorism efforts. As a result, sensitive technologies are under tighter scrutiny and commercial trade support is less of a priority. Moreover, the bursting of the subprime mortgage bubble has made banks and other financial institutions wary of extending finance or insurance to small companies whose creditworthiness is not fully established. The U.S. export effort, Richardson says, "is way below where it should be."

A report card on how the U.S. export infrastructure has changed over the course of two decades (for better or for worse) might look something like the following:

Information flow is better. The Internet has given smaller U.S. companies greater access to information about foreign customers' specific needs and has fostered improved real-time communication with them. But industry associations and chambers of commerce are still poorly organized compared with their European and Japanese counterparts.

Foreign anticorruption measures are better. American companies are still at a disadvantage against competitors whose home governments turn blind eyes to bribery. In general, however, most major exporting countries have become more vigilant about these activities.

Export promotion is worse. Although the Commerce Department has created a portal called www.export.gov and has renamed its local offices "export assistance centers," the overall export challenge has outpaced these initiatives. The department's effort, says NAM's Primosch, "is not commensurate with the size of the market."

The crux of the problem is the mishmash of agencies — some of them quasi-private, such as World Trade Centers — that impose red tape and offer conflicting advice. The Overseas Private Insurance Corporation (OPIC), the Export–Import Bank, the International Trade Administration, and other federal agencies, which could be helpful in fostering small-business exports, are focused on industry giants like Boeing and General Electric that don't require governmental assistance. These chaotic efforts reflect an overarching political view that government should not be involved in private-sector activity, says Richardson. "We really have a passive view of what it takes to keep our firms as active exporters," he notes. "We feel they should take care of themselves."

Export finance is worse. Determining how an exporter gets paid for goods that are shipped is at the heart of the financing challenge. Long delays — or worse, nonpayment — can have a significant financial impact on smaller companies. But U.S. banks have never placed a premium on expanding their export financing capabilities and now appear to be in retreat from these sometimes risky instruments. "Trade finance is not for the faint of heart," says Mark Cooper, director of the U.S. Export Assistance Center in Indianapolis.

Technology controls are worse. The George W. Bush administration has placed a much stronger emphasis, compared with Clinton, on nuclear nonproliferation and antiterrorism. Consequently, exports of sensitive goods related to materials processing, high-speed supercomputers, information security, sensors, and avionics are being delayed or prohibited by Washington, even if the goods are intended for civilian use. Some of the federal bureaucracy's hesitation is understandable, but experts fear that security concerns have overpowered the economic priority of spurring more technology-based exports. Embassies have also cooled to the idea of promoting all exports, but particularly these dual-use goods. "There's very little commercial activism in our embassies in the world," says Richardson. "It's been swamped by security and intelligence concerns."

Paving the Road for Exports

On balance, there is clearly much to be done to improve the U.S. export machine. A big-impact first step would be streamlining government and quasi-government agencies involved in export advisory and financing activities. For example, the Small Business Administration, OPIC, the Export–Import Bank, and other organizations should be consolidated into a single institution, perhaps lodged within the Commerce Department, that can funnel working capital and export subsidies to small and midsized companies.

In addition, technology export controls should be reevaluated in view of new American concerns about the future of the U.S. economy, of which exports form part of the bedrock. There may be a handful of technologies — such as devices capable of triggering nuclear explosions — that should be monitored, but the Commerce Department, working with the Pentagon, blocks far too many dual-use technologies that have possible applications in both civilian and military sectors.

As the economy weakens, perhaps there will be a fresh look at the U.S. export infrastructure. Conventional wisdom asserts that exports spur economic growth and support the creation of higher-value-added jobs such as engineering and design. If the United States truly faces its worst economic downdraft since the Great Depression, it's imperative to launch a sustained initiative that brings potentially thousands of new manufacturing-based companies into the export arena. To be lulled into complacency by rosy but misleading headlines about rising exports would result only in the U.S. missing out on an opportunity to exploit the weak dollar and generate sustainable wealth that may enhance the economy for years to come. +

Resources

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Export.gov Web site: The U.S. government's export portal provides consolidated information to exporters. www.export.gov/

National Association of Manufacturers Web site: Learn about the complexities of exporting from the U.S. www.nam.org/s_nam/sec.asp?CID=201746&DID=230317

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