

The us export trend and its future

Business



Abstract

All countries in the world are interdependent on each other through imports and exports. The United States is the most significant by virtue of it being the largest economy on the planet. This paper will try to discuss the trend that characterize the US imports, how the fluctuation of the dollar affects the country's exports and if president Obama's goal of doubling US exports in five years is tenable.

Introduction

Like the rest of the world, exports are an important component of the United States' economy. For decades, it has been the world's leading importer while at the same time maintaining a spot in the top three exporters in the world. The US's main exports include: machinery, motor vehicles, aircraft, services, foods and beverages (Trading economics, 2010, p 1). Companies have realized that overseas sales are necessary for their long-term survival. According to congressional record, in the last decade of the 20th century, exports accounted for over one quarter of economic growth while at the same time creating over twelve million jobs.

Despite being the world's largest economy in terms of nominal gross domestic product which is estimated to be slightly over \$14 trillion, the United States currently ran a trade deficit amounting to \$695.9 billion in 2008 according to the US census bureau. The Bureau further estimates the deficit to have declined substantially in 2009 to \$380.7 billion in 2009. The total exports by the United States amounted to \$ 1, 553. 1 trillion while imports amount to \$ 1, 933. 7 trillion in 2009 (US Census Bureau, 2010, p 1).

The US export market has continued to post worrying numbers and deficits with large economies as China are growing. The deficit stems mostly from petroleum products and deficit on trade in goods.

In the most part of the decade, the value of US exports has been less than that of imports leading to the US running a large trade deficit. An analysis of American exports in the last ten years shows an increment in exports as well as imports.

The strength of the dollar in the last ten years has contributed greatly to any fluctuation that American exports have undergone. Though it has been relatively strong, it has at the same time depreciated, helping US exports to be affordable in overseas markets. Because of the large trade deficit, the Obama administration has proposed a plan to double the US exports in five years. Increasing of exports is likely, but doubling them is a tall order given that the US government is unlikely to manipulate the dollar to devalue it. Analysis of the viability of the goal will be analyzed critically in this paper. The Obama plan's success will very much depend on political will as well as economic planning. Cooperation of the countries involved is critical in ensuring long-term economic relationships with the US, by genuinely liberalizing their markets.

US Exports Trends

Capital goods, industrial supplies, food, feeds and beverages, petroleum products and services make up the US's biggest export earners. The largest export goods category for the US is capital goods recording over \$469 billion in exports in the year 2008. They actually recorded a surplus in the year

2008. Services, food, feeds and beverages recorded a growth of 28.7% in 2008 and were ranked the second biggest export earner after capital goods (Internal Trade Administration, 2009, p 1). In the decades after World War II, the US experienced a trade surplus mainly because Europe imported exclusively from US. After thereconstructionof Europe was done and the economies began recovering, the trade surpluses with Europe reduced but still the US imports continued to third world countries that were still industrializing.

In the last decade, the value of both US exports and imports has grown substantially. However the value of imports to the United States has surpassed that of exports (Madura, 2009, p 26). Demand for foreign manufactured goods has drastically risen in the US mainly because of their affordability owing to low production costs in the countries they originate from. According to Madura (2009), much of the deficit is caused by the imbalance brought by mainly two countries: China and Japan. For instance, the American exports to china in the year 2006, was valued at \$55 billion while the value of imports to the US from China was valued at \$255 billion causing a deficit of \$200 billion (Madura, 2009, p 26).

According to the US department of commerce Bureau of Economic analysis, the US maintained a trade surplus in its current account from 1960 to 1970. Since 1970 with an exception of 1973, the country has run a trade deficit up to date. Overall exports have though risen substantially in the last decade declining only slightly in the 2002 as shown in the graph below.

Graph showing level of exports by the US since 2000- 2006(Values in 000, 000, 000's) (source: US Department of Commerce (as quoted in Globalpolicy.com))

Data in the last decade best illustrates the falling value of exports and rising value of imports despite growth in US exports. According to the US commerce department, exports in 2006 grew by 12.7% while imports grew in the same year by 10.5%. Exports represented 11.1% of the GDP of the US in 2006 compared to 9.6% in the year 2002(US department of commerce, 2007, p1). In year 2008, the largest market for US exports were Canada which imported \$261.4 billion worth of American exports. It represented a growth of 5.0% compared to the previous year. Mexico imported \$151.5 billion, representing a rise of 11.4% while China lay third with \$71.5 billion, up 9.5%. Japan imported \$66.6 billion worth of American exports representing growth of 6.2%), and finally Germany bought \$54.7 billion, up 10.2%). The above five countries makes up the top five importers of US goods and in this particular year, exports to all of them registered growth (Internal Trade Administration, 2009, p 1). US exports have risen steadily since the year 2000 as has been the trend since 1970. In the year 2000, total exports hit the one trillion mark. With the exception of 2002, exports have consistently maintained that trend rising to slightly over \$1.4 trillion in 2006 (USDCDEA, 2007, p1). In the year 2010, the trade deficit has been expanding as well. In the month of March for instance, it widened due to the rising costs of imported oil. Exports too have been rising this year, indicating a continued trend that has been in existence for the last decade.

The export promotion strategy that president Obama has proposed must be implemented to help boost American exports.

With the Chinese economy on course to surpass Japan as the world second largest and its exports gaining ground for being attractively cheap, the US faces stiff competition a premier export country. Already, the value of US exports to China equal to a third of Chinese exports to the US. The US is likely to expand trade agreements like the NAFTA that will ensure more market for American goods in south and North America. For instance the US exports to Free Trade Agreement area comprise more than 425 of the total US exports (USDC, 2007, p 1). Besides successful completion and conclusion of trade talks with other South American nations will open a bigger market for US exports besides what exists right now.

However the value of exports is likely to remain low as long as Chinese and Japanese exports to the US continue with the current trend. The Department of Commerce further says that free trade agreements are in force with countries that make up the CAFTA trading bloc. They include: Guatemala, El Salvador, Honduras and Nicaragua. US exports to these countries in 2006 totaled at \$22.3 billion. Panama is slated to join this bloc since negotiations are complete and so is Columbia. However, expansion of the trade blocs and any other agreements that the American government may make must be done with caution because a free trade area may increase the value of imports to the United States hence doing the exact opposite of its aim.

In a nutshell the future of US exports can be looked at from the Chinese and Japanese perspectives, free trade agreements, and efforts to double them. If the United States can manage to reduce the deficit it has with the two

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countries, sign agreements that can increase its exports to the free trade zones and succeed in raising domestic demand for American products, the tide may tilt to their favor. Besides, political pressure is needed in the US efforts to push Chinese to raise the value of the Yuan in order to reduce the huge competitive advantage its goods have. Diplomatic tensions over issues such as Tibet and Taiwan have led to the Chinese threatening sanctions against American companies. There is also a long running dispute between the Chinese authorities and internet company, Google. Such scenarios are likely to reduce any positive developments that may help American exports to china. Political will is also needed by the American in negotiations with countries especially in the Americas since they have to cede some ground to bring some of the countries to the fold.

Dollar Strength

Exchange rates determine the value of other currencies when measured against these currencies. The exchange rates are determined so that they can facilitate international transactions (Madura, 2006, p 44). Appreciation of a country's currency leads to a decrease of the current account balance of that particular country. Normally, strengthening of a nation's currency will lead to its exports being expensive hence reducing their demand abroad. When other countries currencies weaken against the dollar, exports fall hence the balance of trade of the United States declines substantially (Madura, 2006, p 44). Inflow of foreign savings into the US economy will lead to the appreciation of the dollar against the currencies of the particular countries making US goods exported to those countries expensive. It will lower the price of foreign goods effectively driving away demand from

American goods. Other factors like inflation exert a downward pressure on the dollar aiding in a rise in the value of exports.

The United States has in the last decade imported more goods than it exports creating an imbalance on the balance of payments. Foreigners are therefore financing the trade deficit by availing credit to Americans and through investing in their economy. One reason the deficit kept climbing is the strength of the dollar that it maintains against all major currencies of the world. The strong position of the American economy in the last decade encouraged many investors to invest in the American economy hence financing the trade deficit.

However, Humpage & Shank (2007) of the Federal Reserve Bank of Cleveland, differ slightly by postulating that there isn't a direct relationship between the exchange rate of a country and its current account balance. According to them, savings and consumption choices of individuals across the globe influence affect the current account more than currency appreciation and depreciation.

When the deficits reach unprecedented levels like the American one, investors get nervous and seek to recover their money that they have invested in the economy for the fear that the deficit may be unsustainable. The economy therefore has to generate a surplus for it to be able to repay investor's money. The decline of the value of the dollar therefore has been linked to the efforts to prop up exports in trying to achieve a surplus to pay for the deficit.

The dollar' has been declining sharply since 2002. As a result, it has made U. S. goods cheaper in many markets world wide in return contributing to the improvements in net exports. Estimates by the Peterson Institute (as quoted by Shenk & Humpage, 2007), show that " a one percent decline in the dollar's real effective exchange rate translates into a \$20 billion increase in U. S. exports after two to three years". Therefore the decline of the dollar estimated to be between 10-30% has generated billions of dollars in real terms to the US economy. The institute further says that from years " 2002 through 2008, the dollar depreciated by 18 percent in real effective terms; over the same period, real exports of goods and services grew by about 50 percent, reaching \$1. 6 trillion. Since hitting a five year high in March 2009, the Dollar Index, a trade-weighted basket of currencies of the United States' biggest trading partners, has depreciated about 10 percent".

The US current account deficit stood at -5. 7% in 2004 and 6. 2% in 2005. The 2004 current account deficit stood at \$670 billion equivalent to approximately 12% of non gross savings (Blanchard, 2010, p 2). The dollar appreciated by 34% against major currencies in the period running from 1995 to 2002. It depreciated by 31% from February 2002 to April 2005. According to Humpage & Shank (2007), the dollar has depreciated by 17% since early 2002 while trade deficit has expanded from 4% to 6% of the US GDP, during the same period. In 2006, the commerce department reported that the dollar fell by more than 9% against major currencies with the trend continuing to 2007. In the year 2007, the US experienced a burst in exports, a first in one and half years owing to the declining dollar at the time. Exports

rose in the third quarter in the same year with many companies reporting a rise in international sales.

The dollar has shown little appreciation towards major currencies in the better part of the last decade. The US government will need to assure investors that the deficit is sustainable and measures towards reducing it will likely keep the dollar low valued in the foreseeable future. Any devaluation will consider investors like the Chinese government that hold large reserves of the dollar. That as a result will help the Chinese exports to the US doing little good to the American efforts to prop up exports.

Doubling Exports

To stem the growing deficit especially with China and Japan, the United States at least needs to increase its exports as a first step towards narrowing the deficit which economists believe is doing the US more harm than good.

President barrack Obama in his January state of the union address called for the doubling of the US exports in five years. The strategy which was unveiled on March aimed at creating an export promotion cabinet, pursuance of more trade agreements and pressuring US trading partners to open up markets for American goods (Cooper, 2010, p 1). President Obama signed an executive order directing the government to utilize all the resources available to create a National Export Initiative that forms part of the strategy. The NEI is mandated to improve the conditions that affect the private sector's ability to export (Morton, 2010, p1). The working of the NEI will be coordinated by the Export Promotion Cabinet. The concerns affecting America exporting sector that NEI will tackle include: " exports by Small and medium size enterprises,

federal export assistance, trade mission, commercial Advocacy, increasing export credit, reducing Barriers to Trade, export promotion of Services and macroeconomic Rebalancing (Morton, 2010, p 1)". The president's plan is ambitious and needs support. However it's highly unlikely that exports will double in the years he has set. That requires the exports to grow at an average of over 15% per year. At that pace the exports will be growing faster than the pace that they grew at before the recession set in (Ali & Dudush, 2010, p 4). Additionally, it's three times the growth of the projected global GDP in the next the next few years. Ali & Dudush (2010) further point out that it took the US over 10 years in the last 25 to double the value of exports. Therefore to double exports in five years the growth rate has to be above 15% and faster than any economic growth rates in the world.

The concerns above involve the availability of tradefinanceactivities mainly through the Export-Import bank of the US, availability of credit facilities to small businesses especially and macroeconomic issues like matter involving the dollar.

Export-Import Bank

Exporters and importers of the United States are served by the official government credit agency that is the export import bank. The bank is meant to provide insurance for foreign purchases of the US for customers who may not be willing to take the credit risk. Since its establishment in 1934 through an executive order, the bank has promoted the financial needs of American importers as well as those of policy makers (McClenahan & Becker, 2003, p 1). The import export bank is touted as the best starting point for achieving such an ambitious target. Trade finance activities will in the long run have a

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visible effect on the exports of the country. This will mainly be done through the import-export bank. One of the services the bank will offer is the insurance of small business against the losses they may incur due to non collection of goods by foreign buyers. Working capital guarantees is another service that will encourage many exporters to aggressively exploit the export market. Small businesses that have been the subject of talk by the president in many accessions will especially benefit from the services the Ex-Im bank will offer. They have the potential to curve new markets that may grow in the long run and greatly aid in the development of the US export market. The import-export bank has been providing insurance for American exporters since its establishment. Unless the bank is going to increase its insurance limits and working capital grantees to cover wider risks, exporters will likely remain jittery to avoid making loses. An assurance and clear guidelines on what the bank is going to undertake to help exporters is what needed to stabilize US exports.

Though exports have always formed a good portion of the US economy, the economy has largely been dependent on consumer spending and investment for its growth. Demand for foreign goods has outstripped demand for domestic goods weakening the US dollar and causing anxiety among investors. Growth in exports is crucial in stemming the spiraling deficit and weak domestic demand (Ali & Dadush, 2010, p 2). More recent data from the commerce department suggest that doubling exports may be likely though not in five years. For instance in the quarter four economic growth, exports contributed 2%. Besides, in the third and fourth quarter of 2009, the exports grew by 18%, clearly showcasing their potential to grow in future (Ali &

Dadush, 2010, p3). Due to the recent economic crisis, the purchasing power of many Americans was eroded and so was the demand for foreign goods. The situation therefore should be used as a launch pad for any expansion strategy that American economists have to capitalize on the weak demand on foreign goods and increase domestic consumption. There is also a strong foreign demand of American goods coupled with a depreciation of the American dollar for the bigger part of the decade. The momentum that is likely to be built by the above factors can easily be converted into an opportunity to launch the expansion of American exports to the rest of the world.

Dollar Appreciation

Given that the world economy is emerging from a crisis, it's likely to post modest growth. In the backdrop of moderate growth of the world economy, US exports can only double through a sharp depreciation of the dollar. According to Goldman and Sachs, the dollar will need to depreciate by over 30% in inflation adjusted terms for the US exports to double (Ali & Dudush, 2010, p 5). Dollar depreciation cannot be guaranteed especially with countries like china holding large reserves of the American currency. The US government is likely to pursue policies aimed at minimizing dollar depreciation to appease reserve holders like the Chinese while at the same time seeking to aid the growth of exports. A sustained monetary policy to keep the dollar low, revaluation of the Yuan, reducing the budget deficit, and increasing trade finance facilities like through the imports export bank will comprise the major policies that the Obama administration needs to take to try and activate a doubling of the exports.

Direct intervention to revalue the dollar will not be a wise move hence the need for the government to pursue a monetary expansion policy aimed at keeping the dollar low. The policy will mainly focus on the growth and inflation in the economy as interest rates depend on them (Ali & Dudush, 2010, p 5). On the other hand China rebalancing its currency and valuing it a bit will give a competitive edge to American goods both at home at abroad. The Yuan has many times come under attack to be undervalued. The administration should apply more pressure on china to revalue its currency. A sustained upward valuation will lead to a relative rise in the prices of Chinese goods so that they can compete on a level plating field with American exports and domestic goods.

Still on domestic demand, imports will face a more bleak atmosphere in the US if the government reduced adopted policies that reduces the budget deficit so that the interest rates are keep low. The above will help keep the dollar low, lower the imports to the US and increase exports (Ali & Dudush, 2010, p 5). Some economists have suggested fiscal measure like hiking gasoline e tax. The consequences will be increased revenue, and an indirect reduction in import to the US. Additionally the government may consider a VAT exemption on exports to make them more competitive abroad.

Additionally, president Obama's strategy involves the increasing of speed of the process through which companies go through to get their product to the market. The plan will aims at speeding the process to 30 minutes instead of the current 30-60 days. Also, obstacles that exist for exporting companies with multiple country national employees will be eliminated and finally, the intellectual properties of Americans will be aggressively protected to prevent

competitors copying them and producing goods with them using cheap labor (Morton, 2010, p 2). The above steps will be complementary to what already exists. When they are all implemented, they can only be expected to improve exports marginally.

Recommendations

The export promotion cabinet can only oversee efforts to improve exports and the will need to incorporate the many initiatives to at least achieve half the target that the president has set.

There is a host of measures that the US can take to improve its export competitiveness. Pursuing fair trade practices with the nations that contribute to the largest portion of the trade imbalance, improvement in the strong areas where the US economy records surpluses, boosting sectors like agriculture which comprise of a big portion of imports to the US. Additionally, the value of the dollar must be made to decline slightly to boost exporting US companies.

There have been questions whether the US trade deficit is sustainable. China which accounts for most of the deficit represents a small percentage of the US export market compared to other trading partners of the US. Fair trade practices must be pursued with China and Japan to ensure increase of the US exports to these countries. Part of the reason why the US cannot export more is the production costs that domestic industries incur in producing commodities. It's one of the areas that American businesses need to work on. Depreciation of the dollar is critical to increasing US exports. Monetary policies should be employed to carry out this objective in the most

transparent and professional way to avoid speculation which may hurt the dollar and other currencies.

With the US economy recovering, exports will drive part of the growth. Data in the year 2010 indicates that exports are growing but not in the rate that is likely to double them. The important factor is not whether exports grow but if they grow fast enough to offset the effects of rising import value. Encouragement of Americans to buy more domestic goods will help lower consumption of imported goods. However, it's likely to be difficult given that the growing economy will raise the purchasing power of people hence increase spending on foreign made goods. The US has always posted surpluses in other sectors like services. According to the OECD, the US has a comparative advantage over other countries as far as production and reporting of "new economy" services. The OECD further says that the elasticities of such services are favorable in the US than elsewhere in the world (OECD, 2004, p 163). The technological edge that American producers have over any country in the world will be used in the above production of services which continue to record a surplus in the current account balance of the United States. Other sectors that can be expanded to boost American exports are industrial supplies, food, feeds and beverages and capital goods (Internal Trade administration, 2009, p 1).

Agriculture for instance contributes slightly over 1% of input to the US GDP. Agricultural products form a large part of the imports to the US. Implementing agricultural reforms will increase the country's agricultural production hence reducing the imports and effectively the trade deficit.

Continued production of a variety of goods by American manufacturers will give them an advantage over their competitors therefore boosting their domestic and export market share. The administration's plan to increase exports should make use of the thriving sectors that record surpluses to drive the growth of exports. Offshore drilling of oil will reduce importation of crude oil. Drilling coupled with increasing of gasoline tax will help reduce the deficit while exporting extra products to boost exports. Opening of new markets through trade agreements will enable the US boost its exports. That will help it deal with competition from china whose goods are popular because of affordability.

Conclusion

To avoid the trade deficit getting out of hand the US has to implement policies to that effect. Performing sectors have to be boosted while the dollar has to be closely watched. Doubling the amount of exports is possible but a longer timeframe is needed.

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