CLOSING CASE

Why Are US Exports So Competitive?

Since the launch of the first edition of *Global Business*, the rise of China as the leading exporter has been widely reported (see the Opening Case). Yet, what has been little reported by the media is that the United States also rocketed ahead of Germany and is now the world's second-largest exporter.* Never mind all that talk about the decline of US competitiveness. An important part of your university education is to foster a critical thinking mindset by relying on data and forming evidence-based judgments, as opposed to being excessively influenced by media fads. Shown in Table 5.7, the data suggest a story that is different from that typically portrayed by the media.

In 2013, the United States exported a record US$1.58 trillion, with an enviable 8.4% annual increase. Of China's US$2.21 trillion exports, only about two-thirds of the value-added was contributed by China. The United States contributed approximately 89% of the value-added of its exports. Do your math: the real value-added of US exports (US$1.41 trillion) was almost the same as the real value-added of Chinese exports (US$1.48 trillion).

In addition, the United States again outsold the long-time export champion, Germany, which exported US$1.45 trillion, and the previously (and still) formidable Japan, which exported US$715 billion. Don't forget: The United States accomplished such enviable export success during the very difficult aftermath of the Great Recession, in which every nation was eager to export its way out of recession. What were the top US export categories? Refined petroleum products, civilian aircraft, semiconductors, passenger cars, and telecom equipment. The top five export states were Texas (which exported one-sixth of the nation's total exports), California, Illinois, Louisiana, and New York. The US Department of Commerce proudly noted, "fueling our economic recovery, exports are a bright spot in the US economy."

Why are US exports so competitive? What is unique about US exports? What has been driving their recent rise in a bleak global economic environment? On top of the Great Recession, one can add more recent catastrophes such as the Japanese earthquake,

Table 5.7 Top Five Merchandise (Goods) Exporting Nations

	2006	2008	2011	2013
1	Germany	Germany	China	China
2	United States	China	United States	United States
3	China	United States	Germany	Germany
4	Japan	Japan	Japan	Japan
5	France	Netherlands	Netherlands	Netherlands

Sources: The first three columns are adapted from M. W. Peng, 2009, 2011, 2014, *Global Business*, 1st, 2nd, and 3rd ed., Cincinnati: Cengage Learning. 2013 data are from the World Trade Organization, 2014, *World Trade Report 2014*, Geneva: WTO.

* This case only deals with *merchandise* (goods) exports. In service exports, the United States is even more competitive—it is the world champion (see Table 5.1).

the Thai floods, the euro zone crisis, the Middle East turmoil, the Russian sanctions, and the Ebola crisis. To make a long story short, first, US exports have to deliver *value*. Consider civilian aircraft. One crucial reason that the new Boeing 787 Dreamliner became the hottest-selling airliner prior to its launch is its ability to reduce fuel consumption by 15%—music to the ears of airline executives who suffer from high oil prices. Second, US exports also have to be *rare* and *hard to imitate*. There is no shortage of global rivals tearing apart US products and trying to reverse-engineer them. European, Russian, and Chinese aerospace firms are doing this at this moment by trying to out-Boeing Boeing. While Airbus has been quite successful, neither Russian nor Chinese civilian aircraft makers have much presence in export markets. Finally, US exporters have to *organize* themselves in a more productive and efficient manner relative to their global rivals. It is hard enough to design and manufacture world-class aircraft, but it is no less challenging to operate service, training, and maintenance networks for airlines that cannot afford any equipment breakdown for a long period—on a worldwide basis and for 20 to 30 years after the initial sale.

While the products themselves have to be strong and competitive, Uncle Sam has also helped. At least ten federal agencies offer export assistance: the Departments of Commerce, State, Treasury, Energy, and Agriculture as well as the Office of US Trade Representative (USTR), Export-Import Bank (Ex-Im Bank), US Agency for International Development (USAID), Overseas Private Investment Corporation (OPIC), and Small Business Administration (SBA). Since only approximately 1% of all US firms export and 58% of them export to just one country, clearly more assistance will be helpful if more firms are interested in joining the export game.

Going beyond routine export assistance, new initiatives focus on negotiating free trade agreements (FTAs) with trading partners. As of this writing, the United States has 12 FTAs in force with 18 countries: Australia, Bahrain, Chile, DR-CAFTA (Dominican Republic–Central America FTA, which covers Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua), Israel, Jordan, Morocco, NAFTA (which covers Canada and Mexico), Oman, Peru, Singapore, and South Korea. In addition, two FTAs with Panama and Colombia were negotiated, but they are still pending Congressional approval. FTAs typically reduce trade barriers to US exports and create a more stable and transparent trading environment. In the first FTA with an East Asian country, the South Korea–US FTA (also known as KORUS), South Korea agreed to phase out a 40% tariff on US beef imports, and the United States agreed to waive a 2.5% tariff on Korean auto imports.

In addition to FTAs, the US government often negotiates with other foreign governments for better market access and terms of trade for US exporters. The push to get the Chinese to let the yuan appreciate, so that the dollar can be cheaper and US exports can be more competitive, is a case in point. Despite an allegedly "artificially" low yuan and a government eager to promote China's own exports, China rose from being the ninth-largest US export market in 2001 to the third-largest in 2011 (behind Canada and Mexico). During that period, US exports to China jumped more than 400%, while US exports to the rest of the world only grew 55%. Given the still huge US trade deficit (of which the US–China trade deficit is the largest component), clearly there is more room to push US exports.

In addition to formal institutions, informal norms and values—both at home and abroad—play a role behind US exports. At home, all the talk about the virtue and necessity of energy conservation and going green evidently has slowly become a part of the American cultural norm. One piece of evidence is that US oil consumption has declined since 2006. This helps explain why refined petroleum products (such as gasoline, diesel, and jet fuel) recently shot ahead of civilian aircraft to become the number-one export category. This is partly because much of the refining capacity the United States added in the past decade is now geared toward exports. While gurus write about the decline of US influence, the informal norms of consuming and appreciating US products seem to proliferate overseas. In Paris metro (underground) stations, almost every other poster seems to be about a Hollywood blockbuster. In Accra, the middle class flock into Ghana's first KFC and lick their fingers greased by grown-in-USA chicken. If you are studying *this* book outside the United States, then you are a US export customer too. Enjoy!