

# Commerce Secretary Gary Locke can set stage for stronger economic recovery

By Michael R. Czinkota and Charles J. Skuba

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Former Washington Gov. Gary Locke has some depressing economic data to confront as he prepares for the job of America's Chief Export Officer. There is little good news anywhere in the world on the trade front and 2009 does not promise export growth. However, reinforcing President Obama's confidence in American business "as the engine of growth," trade data show that, once confirmed, Commerce Secretary Locke has good reason to lead the charge in encouraging U.S. businesses to invest in future success overseas thus creating jobs at home.

As has been typical for the past three decades, global activities reflect, in an outsized way, the shifts in the domestic economy. When domestic consumption is up, trade is up even more. Nowadays, when domestic activities are down, trade is down as well, only much more so. With expected economic decline in 2009 and contracting global demand, further international slides are probable. The release of annual trade data by the Commerce Department last month showed U.S. exports declined 6 percent in December following a depressing November. Yet, a look at the trade data offers encouraging longer-term implications for U.S. exporters and the workers they employ.

First, the decline in the U.S. trade deficit, which hit a six-year low in December, was good news. The trade data reveal underlying strength in U.S. exports. Barring a steep rise in the price of oil imports, the decline in the trade deficit, which stands at a daunting \$678 billion for the year 2008, promises to continue. Imports are down more sharply than exports, despite their larger base. Economic theory, recent trends, and experience from previous cycles promise a continuation of that import decline. Any import growth in 2008 was attributable to the high price of petroleum products.

On the export side, American goods and services have continued to build demand among overseas customers. 2008 was a record year for U.S. exports, which passed \$1.8 trillion. Exports grew at a rate of 12 percent over 2007 and now comprise 13.1 percent of U.S. GDP. This marks a continuing trend, since U.S. annual export growth has been in double digits from 2004 through 2008 and has outpaced import growth since 2006. Through mid-summer, U.S. export growth had been sizzling along at a rate of nearly 19 percent before slowing as the global economy began to contract and Boeing workers went on strike.

In seven of the top 10 export markets for the United States in 2008, American exports growth exceeded that of imports by nearly twice or more. U.S. exports to Mexico and China, our second- and third-largest export markets, grew at 11.4 percent and 9.5 percent, respectively, while imports only grew at 2.5 percent and 5.1 percent. Exports to Canada, our largest market, grew at 5 percent while imports grew slightly more at 5.8 percent, reflecting the interconnectedness of the two economies.

Trade liberalization has been a significant reason. The U.S. merchandise trade deficit with free-trade-agreement (FTA) partner countries narrowed by \$ 16 billion, while the deficit with the non-FTA countries increased by \$22 billion. In 2008, the United States actually had a trade surplus in manufactured goods of \$17 billion with the 14 countries with which it had an FTA in effect. Free trade agreements work!

Equally important is also the fundamental fact that American manufacturers and service providers are increasingly delivering what the world prefers and wants. American companies have a good competitive position globally because of a decades-in-the-making dedication to improved productivity, innovation, quality, customer-centrism, marketing research and branding. When global buyers regain confidence, American brands can be confident.

So, what can Commerce Secretary Locke do to support the growth track of exports?

For one thing, given the advantages free-trade agreements bring to American exporters, he should be a champion for Congressional passage of pending agreements with Colombia, Panama and Korea. These agreements would give a much-needed shot-in-the-arm during this difficult economic stretch as they would lessen the current uneven tariff burden for U.S. companies in these markets. There are no fundamental obstacles to the Panama FTA. With Colombia, there are paths forward to help resolve Congressional reservations over the issues of violence against labor leaders and related criminal impunity. The Korean FTA presents a bigger challenge in Congress but it would also bring a bigger economic reward.

But, more immediately, Locke needs to ensure funding and commitment for export-promotion efforts. The Commerce Department's International Trade Administration has a powerful export-promotion capability all around the world and the expertise needed to help more American companies sell overseas. The timing is right. Our research shows that it takes new exporters about two years to get their international legs before they begin to realize good sales results. Just as our university sees a great increase in the applications for our MBA program — since many students want to stock up on knowledge and capabilities during bad times, companies can do the same.

Now is the time to use slack resources to explore new market opportunities, new cultures and new customers. Then, when economic conditions get better, companies can pounce on the markets they have researched and prepared for. Export promotion is a vital economic stimulus. Let's not lose time in applying the government capabilities to support our firms.

*Michael Czinkota researches international marketing issues at Georgetown University and the University of Birmingham in the United Kingdom.*

*Charles Skuba teaches international business and marketing at Georgetown University.*