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Feature Story

INVESTING IN EXPORTS: NATIONAL ASSOCIATION OF MANUFACTURERS CALLS FOR INCREASED FUNDING OF U.S. EXPORT PROGRAMS

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Trade promotion provides a big bang for the buck

Trade is low on the horizon as the Obama administration and Congress look to jolt the economy back into good health. But a strong dose of spending on export promotion programs, especially for manufactured goods, should be one of the prescriptions in the economic stimulus package, according to the National Association of Manufacturers. Robust exports through most of 2008 kept the economy from crashing until the fourth quarter, and export growth could help it get out of the sick bed sooner rather than later.

But getting more money for export promotion won't be easy when there are so many other priorities competing for scarce resources, NAM officials acknowledge.

Frank Vargo, the NAM's vice president for international economic affairs, puts it this way: "Congress has written a check for $700 billion (for the financial bailout). Here comes Frank Vargo saying, "Could I have a billion for export promotion?' But here's the difference. Because what I'm asking is investment that will yield many times over in tax revenue what its initial costs would be. Exports create sales, jobs, profits, and those profits generate federal tax revenue."

Strong export growth over the past 18 months has caught the attention of Congress, according to Patricia Mears, the NAM's director of international commercial affairs.
"That's always the first step. We're working with members of Congress who want to see a new initiative on export promotion. It's also a great bipartisan issue — up there with Mom and apple pie. What can be bad about growing U.S. jobs and reducing our deficit?" said Mears, who described increased funding for export promotion as one of the association's top initiatives for its small and midsize members.

Exports historically have accounted for 20 percent of manufacturing jobs, so of the current total of 13.2 million, exports would be responsible for 2.64 million jobs, Mears said. That ratio is probably slightly higher now, given the increase in exports and the slowing of the domestic economy, she said.

Shaun Donnelly, the NAM's senior director for international business policy, said exports are "more important than ever" because of the bleak outlook for the domestic market. Other economies are suffering, too, but U.S. exporters have an advantage because the dollar remains relatively low compared to other leading currencies, particularly the euro.

Although the dollar strengthened last summer, it has fallen back since then. The weak dollar makes U.S. goods and services more competitive not only in Europe, but also in other markets where U.S. exporters are competing against European companies.

But U.S. companies are at a decided disadvantage when it comes to government spending on export promotion activities, such as researching foreign markets and prospective customers and distributors, matchmaking, trade finance, subsidies for U.S. companies participating in trade missions and trade exhibition, and assistance for foreign buyers attending trade shows in the U.S.

The gap between U.S. and foreign spending on export promotion is likely to increase this year unless Congress and the Obama administration agree to substantial increases. "We absolutely know that we're going to be at the bottom compared to our competitors.

It wouldn't surprise me if other countries are putting more money into export promotion," Mears said.

Rather than increasing, U.S. spending on export promotion has fallen in recent years. In fiscal 2007, the budget allotted $242 million for the U.S. Commercial Service, the export arm of the Commerce Department. But last year it fell to $237 million. For the 2009 fiscal year, which ends on Sept. 30, the appropriation was $238 million.

"The U.S. export promotion strategy seems to be one of doing the best we can with the available resources, rather than seeking the resources that would be commensurate with moving us toward a more rapid export growth path," Vargo said in congressional testimony last year.

"I believe that the future standard of living of the United States depends on a huge increase in exports, one that will substantially eliminate our trade deficit in the next half decade or so," he told the House Foreign Affairs Committee's subcommittee on terrorism, nonproliferation and trade.

Vargo cited a World Bank study that found that every dollar spent on export promotion produced a $300 increase in exports. NAM officials don't know the figure for U.S. spending but point to one small program that has been particularly successful. The Market Development Cooperator Program has generated $130 in exports for each dollar spent by the government

Assuming a profit margin of 10 percent, that would create $13 in profit. In turn, that would produce about $5 in tax revenue, assuming a corporate tax rate of 40 percent. Moreover, that does not include personal income taxes paid by workers whose jobs are tied to exports, or the state and local sales taxes they pay on purchases generated by their income from exports.

Vargo said the Commerce Department should try to become more efficient with current resources and to take advantage of opportunities as they arise. But, he added, "such an approach misses the greater momentum and rewards to be derived from a broad goal and a strategy to reach it."

Increased funding for export promotion would be especially helpful for small and midsize companies, which account for the vast majority of U.S. exporters, but which lack the resources of larger companies.

Most small and medium-sized exporters do business in just one or two countries. “If we can get even 20 percent of those companies to add just one or two foreign markets, it would make a real dent in the trade deficit,” Mears said.

In percentage terms, the U.S. exports about half as much of its manufactured products as other countries, Vargo said. “We don’t have the export orientation that you have in other countries. If we generated as much (in exports) as other countries, our exports would be twice what they are, and we wouldn’t have a trade deficit,” said Vargo, who will be the keynote speaker at the Inaugural U.S. Exports Conference to be held Feb. 4-5 at the Grand Hyatt Hotel in New York.

(Shipping Digest and The Journal of Commerce Conferences are producing the conference. More information is available at www.joc.com/conferences/USEC.)

Exports of manufactured goods grew at a faster pace than manufactured imports during the second half of 2007 and through most of 2008. In the first 10 months of last year, manufactured exports were up 9.4 percent over the same period in 2007, while imports rose just 3.2 percent. Export growth tailed off near the end of the year, partly because of a decline in aircraft exports following a two-month strike last fall at Boeing, one of the nation’s largest exporters.

Vargo pointed out that realignment at the U.S. Commercial Service has resulted in the closure of some offices in recent years. “I hope that funding is not so low that the result will be closing some offices but being unable to open others. While increasing resources to emerging markets like China and India is a good idea to help U.S. companies enter these difficult and complex markets, there are important opportunities in the Middle East and other regions that could be missed because there is limited or no U.S. government commercial presence,” he said.

The NAM official noted that U.S. export promotion resources are skewed in favor of farm exports. The Department of Agriculture’s budget for export promotion in 2007 was $693 million, nearly triple the total allotted to the Commerce Department for promoting exports of manufactured goods and services. “What makes this skewed is that manufactured goods exports are 10 times as large as farm exports, yet the promotion of farm exports receives more than twice the resources as manufactured goods,” he said.

Vargo, who spent most of his career at the Commerce Department, emphasized that he was not recommending that USDA support for farm exports should be shifted to Commerce. But, he said, “if the Commerce Department export promotion budget were to be funded proportional to agricultural export promotion, it would have been 10 times the agricultural budget, or $6.9 billion — an amount 20 times the size of the actual export promotion budget for manufactured goods.”