IMPROVING AMERICA'S COMPETITIVENESS

Address by
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America's trade balance has improved considerably in the last two years, but much work remains to be done. Today, I would like to talk with you about some of the macroeconomic causes and consequences of our trade imbalances, and explore what we can do to improve America's competitiveness in world markets.

The Dimensions of the Problem

The dimensions of the problem are enormous. Last year, we imported over $440 billion in merchandise, but exported only $320 billion, leaving a trade deficit of $120 billion. That is, our imports exceeded our exports by almost 40 percent.

Bringing these numbers down to a meaningful personal level, we exported a bit more than $1,300 of merchandise per person, while importing nearly $1,800 per person. This leaves an international trade deficit of $500 for every American.

A quick moment of introspection shows that most of us have personally contributed to the problem. Who did not buy a camera or a recorder made in Japan, eat Swiss cheese, or enjoyed a glass of French wine? I am sure we all enjoyed our purchases.

But we also have to ask ourselves what did we produce that was exported. Maybe Pogo was right when he said: "We has met the enemy, and it is us!"

Dollar Depreciation Is Not the Answer

Last year, the trade deficit was reduced by $32 billion, but now several observers worry that the improvement in our trade imbalance may have stalled. They argue that a further decline in the value of the dollar is needed to bring about improvement in the trade accounts.

According to most studies, the dollar is already very competitively priced in world markets. For instance, OECD data indicate that in 1987, it cost a Japanese person the equivalent of $148 to buy a bundle of representative goods that could be purchased with $100 in the United States. The same bundle of goods would have cost $123 in France, $138 in Germany, and $163 in Switzerland. That is, American goods were priced very competitively compared to the goods for sale in those countries.

Canadian and British goods were priced about on par with American goods as it would have taken $94 to buy the same bundle of goods in Canada and $95 in the United Kingdom.

One may therefore conclude that American goods are already priced very competitively in world markets.

While it is true that at the margin a lower dollar would make American producers even more competitive, one has to question the validity of the argument that this is the proper remedy in our current situation. If we already have a 48 percent price advantage versus Japan and a 38 percent advantage versus Germany, what makes us believe that a 50 or 60 percent advantage will turn the tide?

Moreover, in the process of further depreciating the dollar we would wind up paying even more for the huge volume of goods that we are already importing. By reducing the value of the dollar we would—at least for a while—be paying an even greater amount of dollars for a smaller volume of imports.

One may argue in favor of such a policy when a country's currency is clearly overvalued, but that argument is of doubtful validity in the case of the dollar, which is already priced competitively and arguably undervalued according to the best data available.

The rising import prices that would be associated with a weaker dollar would also aggravate our current inflation problems—and this is hardly a pleasant prospect for a central banker to contemplate.

Thus, I believe that, under the present circumstances, a dollar depreciation is unwarranted and uncalled for.

Instead, we should begin to look elsewhere for reasons for the persistence of the American trade imbalance.

I will argue that we, as a nation, need to redouble our effort to enhance our competitiveness and make a concerted effort to penetrate foreign markets.

Before offering some specifics as to how we might improve our trade performance, let us look at some relevant facts and figures that may help to put our current trade problems in perspective and point the way toward possible improvement.

The Importance of Trade to the American Economy

The United States is the largest trading nation in the world, but at the same time international trade plays a rather modest role in the American economy. These seemingly contradictory statements are easy to reconcile.

The key lies in the fact that the United States is, by far, the largest economy in the world and, as a result, its absolute volume of trade is also huge. For instance, the United States imports every year more than the entire Canadian economy produces. And the total value of U.S. trade, combining exports and imports, amounts to over three-quarters of a trillion dollars, which is slightly more than the GNP of the United Kingdom.

However, U.S. merchandise exports amount to only about 6 percent of our GDP. There are only two countries in the world whose export ratio is as low as that of the United States: India and Yemen.

That I find a surprising, if not a shocking, statistic.

Just for comparison's sake, let me cite a few export ratios for other countries: Canada: 28 percent; Japan 15 percent; and Germany 30 percent.

But the true international trade wizards are among the smaller countries of the world: Belgium 73 percent; Ireland 63 percent; and the Netherlands with 62 percent.

Perhaps even more astounding is the list of developing countries in this league: the Congo and Gabon each export 64 percent of their GDP; Malaysia 57 percent; and Jamaica exports 58 percent of its GDP.

But the true world champions are Hong Kong, Singapore, and the Netherlands Antilles, all of which manage to export more than their entire GDP. They are the world trade champions par excellence.

These data show that success in the international trade field depends on how hard you try. If small, third world countries manage to export a much higher percentage of their GDP than the United States, are we trying hard enough?

These data also debunk the myth that foreign markets are closed to us and that this is the key trade problem confronting the United States. True, access to some foreign markets is restricted, and some countries could do more to liberalize access to their markets. But how do Belgium, Malaysia, and Singapore penetrate foreign markets? What do they know that we do not?

Why Americans Don't Export

Let's examine a bit closer why Americans are not very good at exporting. Curiously, our size may be a handicap. The American market is the largest in the world. That is one of the reasons why American producers are not particularly interested in exporting, while foreigners give top priority to conquering our market.

For a manufacturer in Virginia, the market in Maryland, the Carolinas, or in Tennessee may offer just as great a potential as Denmark, Belgium, or Austria. In addition, he does not have to learn several new languages; can deal with familiar legal codes; knows the business customs and conventions; and can utilize the same currency and maybe even the same bank.

Furthermore, the technical specifications for the vast U.S. market tend to be the same, while they are often different from country to country abroad. For instance, take the frequently cited example of telecommunications. Not only does an American exporter often confront a governmental monopoly, but also the technical specifications tend to differ in never ending detail. In some countries the electrical system runs on 110 Volt and in others it is 220 Volt. In some countries the electricity runs on 50 cycles per second, and in others it runs on 60 Hertz. The internal telephone systems in some countries have 6 Volt, while in others it is 12 Volt. In some countries the zero is next to the one on the dial, in others it is next to the nine. In some countries ring-ring means the phone is busy, in others it means that the phone is actually ringing. Is it any wonder that an American manufacturer tends to get frustrated?

In that connection, the further integration of the European economies and the adoption of common standards will bring a welcome measure of relief to American exporters. They will be able to service the entire European market with increasingly uniform products as the European market is integrated and products are standardized.

In contrast, the large and fully integrated American market is extremely attractive to a foreign producer. After a local manufacturer in a foreign country has saturated his own market and looks for possible expansion opportunities, the American market is probably the most attractive and, therefore, his prime target. For a Philippine exporter, it is just as difficult to set up a new sales organization and to familiarize himself with the various rules and regulation in the United States as it is to penetrate Indonesia, Malaysia, or Korea—and the potential rewards are many times greater. Thus, the United States is everybody's prime target market.

Add to that that we are a land of immigrants eager to sell the wares produced by our former countrymen, and you have a readily available bridge to the U.S. economy.

Curious as it may seem, it is not easy to turn this advantage around and to use the immigrant population resident in this country in our export drive. If an American exporter were to offer a sales manager's job in Manila to a Philippino who has waited five years for his U.S. immigrant visa, it is likely the person would not accept the offer.

Finally, many of our most successful exporters have already set up local production facilities in foreign countries and produce the goods designed for foreign markets on location. Consequently, these sales by American companies do not enter the trade statistics.

The unexploited export potential of the United States therefore rests, to a considerable degree, in our small and medium-sized firms, who have not yet captured a significant share of the foreign markets. It is here that we should focus our efforts.

What can be done?

Improving Our Export Performance

First of all, a reduction in the federal budget deficit would also help to reduce the trade deficit. It would do so by reducing our domestic absorption of goods and services and thereby help to reduce the demand for imports.

Furthermore, lower government spending would also set free resources that could be exported or invested in additional productive capacity.

The second point to be made is that protectionism is not the answer to our trade problems. Restricting imports via trade barriers would not be to our benefit. It would deprive Americans of the goods they want to buy and drive up prices here in the United States. Moreover, we would be subject to retaliation, which would restrict our own ability to export.

Instead, we should opt for export growth by enhancing our own competitiveness and export awareness. More research and development and greater investment in plant, equipment, and human resources is needed. We need everything—from more multilingual secretaries to experts in Japanese marketing techniques and European trade law. All that represents a trade infrastructure that takes a long time to assemble and perfect.

Perhaps most important of all—success abroad requires patience. If we are just there for the quick profit and are ready to abandon our markets when temporary difficulties are encountered, foreign producers will seize the opportunity and grab our market share. And you can be sure that they plan to keep it.

This is one key reason why the 1984-85 episode of dollar overvaluation has had such lasting effects on our export markets. As the temporary dollar surge made our products uncompetitive, Americans were quick to abandon their foreign markets instead of redoubling their efforts to enhance productivity and to offer better service. Afterwards, it was difficult to again sign up the customers that we had abandoned.

But I am not here to criticize American industry over past mistakes. Instead, I would like to offer some constructive suggestions as to how we can enhance our competitiveness.

Let me offer two specific suggestions: go metric and permit nationwide branching for banks. These may seem to be unorthodox suggestions to improve our export performance, but I believe that they will work.

Here is why: Going metric will make it possible to sell our products directly abroad without further modifications. During a recent trip to Europe I heard the story of an American producer of nails and screws who attended one of the large European trade fairs. He was able to beat everybody's prices by 20 percent—in line with the data on price competitiveness that I cited earlier. But, unfortunately, he did not make a single sale. The reason? All his nails and screws were calibrated in inches, and they would not fit the metric specifications of his European customers.

Earlier I cited the fact that only Yemen and India have as low an export to GDP ratio as the United States. Would it come as a surprise to you to know that the United States and Yemen share something else in common? They are the only two countries in the world that have not yet gone metric!

If an American manufacturer has to retool first in order to sell his wares abroad, his incentive to do so is considerably reduced, and it makes his first step into export markets all that much more expensive.

Critics of the metric system scoff that it would make little sense to redraw the dimensions of our football fields and change other cherished traditions. Not so—even here are new opportunities. My daughter competes in the Northern Virginia Swim League. Half the pools are 25 yards in length and half the pools measure 25 meters. Does this represent a problem for the kids? No! They set new pool records for both the yard and the meter distances, and they love it. But they also know that if they want to compete in the international leagues and the Olympics, it is going to be in meters.

Finally, let me turn to banking. Our American banking system is more fragmented and compartmentalized than that of any other country. State borders represent real barriers, and as a consequence, a small or medium-sized manufacturer in Iowa or Colorado will not get the support from his local bank that he needs in his first push abroad.

It may be argued that correspondent banking will enable the small town banker to offer international services also to his local customer. But does the small town banker really wish to turn his best customer over to the large multinational banks so that they can provide the foreign exchange and international trade finance that the exporter needs? Or will he be afraid that he will lose his best customer to the large bank when it comes to financing new plant expansions that will be needed for the export markets?

Contrast this situation with that prevailing in Canada, England, or Germany. There the hometown banker will also have branches and representative offices in key cities around the globe, and offer global financial services in support of the international trading efforts of his customer. When a factory owner or sales manager from a firm located in a small Swiss village or Dutch town steps off the plane in New York, he will be met by a representative from his own bank, ready to offer his services and advice as to how to conquer the American market. That is an advantage that the typical American small-town manufacturer will not have abroad.

I recently learned that 85 percent of all small American manufacturers finance their own foreign trade. That uses up valuable capital, is cumbersome and generally inefficient. Just think how much better American exporters could do if they had the support of their hometown banker available to them on a global basis!

Conclusion

But let us not get too pessimistic. American exporters are on the come-back trail. They have already made considerable progress. In 1987, exports increased by 12 percent and in 1988 they increased by 27 percent. These are impressive figures and they show that international trade is the most vibrant sector of the American economy.

But we have a long way to go. The trade deficit still looms large, and it will take years of determined effort to close that gap.

I am confident that we can do it. We have already done so in the case of Europe, where last month's data showed a small U.S. trade surplus. In other markets, we still have a lot of work ahead of us.

But we should stop handicapping our own exporters. Let us give them a better chance to compete by converting to the accepted global standards and by giving them the opportunity to rely upon their hometown financial institutions in their export drive.