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How best to boost U.S. exports

By C. Fred Bergsten
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President Obama has smartly suggested that a new export strategy could support 2 million very good American jobs, more than created by his stimulus initiative. The United States already sells about \$1.5 trillion worth of goods and services annually to the rest of the world, which creates about 10 million high-paying jobs. Every \$1 billion of additional exports will produce about 7,000 very good jobs. Robust export expansion would also reduce our large trade deficits and resultant need to borrow abroad to finance them.

Last week the president suggested an ambitious but realistic goal of doubling exports over the next five years. An effective U.S. export strategy must focus on four variables: the exchange rate of the dollar, trade agreements, our own export controls and tax policy.

First, the exchange rate. This is the most important factor in determining U.S. export competitiveness. Every increase of 1 percent in the dollar, averaged against other major currencies, reduces our exports by about \$20 billion annually and destroys about 150,000 jobs. The recurrent overvaluations of the past 30 years, when the dollar became overpriced by 30 to 40 percent, contributed significantly to the decline in manufacturing jobs and was the major cause of the huge current account deficits of most of that period.

The policy goal should be a competitive exchange rate that produces a sustainable trade balance, rather than a "strong dollar." This would help both sides of the trade account, strengthening the ability of U.S. firms and workers to compete with imports as well as to export. Fortunately, the decline of the dollar since 2002 has virtually restored equilibrium in its value against most other industrial countries' currencies. We do not want an undervalued rate, but it will be essential to avoid any renewed general rise of the dollar.

The remaining large misalignment is the undervaluation of at least 25 percent of China's renminbi and the currencies of several important economies surrounding it (Hong Kong, Malaysia, Singapore, Taiwan). Correction of all the Asian undervaluations would cut the global U.S. deficit by about \$100 billion and generate at least 700,000 jobs. If China continues to block any rise of the renminbi, the administration should label it a currency manipulator and escalate pressure, including by taking China to the World Trade Organization.

Second, trade agreements. Such agreements increase U.S. imports, but virtually all of them substantially favor the United States in job terms because the partner countries maintain much higher trade barriers than we do. The most obvious cases are the pending free-trade agreements

with Colombia and Panama, whose sales to the United States are already virtually free of duties but whose own tariffs limit our sales to them. Implementation of the Colombia agreement and the pending pact with Korea would save about 300,000 U.S. jobs, one recent study concluded. The administration should propose that Congress promptly pass all three agreements as part of its new jobs program.

More broadly, major countries are busily signing trade agreements that exclude the United States. East Asia's large and rapidly growing countries are creating a regional bloc that will discriminate against our exports and will increasingly force U.S. companies to source their Asian sales from their Asian plants rather than from factories here. The European Union is working out preferential deals with Asian powerhouses, including India and South Korea.

Obama has entered into negotiations for a Trans-Pacific Partnership with seven Asia Pacific nations, a group that could shortly expand to include a critical mass of countries in that region and eventually evolve into the Free Trade Area of the Asia Pacific that President George W. Bush proposed in 2006. The administration should aim to conclude these talks when the United States hosts the annual summit of the Asia-Pacific Economic Cooperation forum in 2011.

Third, address the disincentives to U.S. exports embodied in our own regulations. Export controls maintained for alleged national security and foreign policy purposes were choking off \$25 billion to \$40 billion of annual U.S. sales in the early 1990s and might be more substantial today. These restrictions are under review and, consistent with legitimate security concerns, their substantial liberalization should be part of Obama's initiative.

Fourth, tax policy. At a minimum, the administration should abandon its plan to increase taxes on the overseas activities of U.S. firms because their foreign investments clearly increase U.S. exports. Several modest tax reforms could enhance our international competitiveness, including to attract direct investment here by foreign companies that would then access many of their global markets from the United States and create jobs here.

The administration and Congress must avoid hurting U.S. competitiveness when they inevitably move to raise tax revenue substantially over the next few years to help curb the budget deficit. Increases in corporate income tax rates would jeopardize exports by raising U.S. production costs. By contrast, a value-added tax or national retail sales tax, or better yet a gasoline or carbon tax, could be fully rebated at the border on exports (and imposed at the border on imports) and thus avoid such harm. Positive export and job expansion would be fostered by replacing some or all of our current income tax system with these alternative devices.

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