Opening Case *WHY ARE US EXPORTS SO COMPETITIVE?*

→ ETHICAL DILEMMA

The rise of China as the leading exporter has been widely reported (see Closing Case). Yet, what has been little reported by the media is that the United States has also rocketed ahead of Germany and become the world's second largest merchandise (goods) 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, fake news, and alternative facts. Shown in Exhibit 5.1, the data suggest a story that is different from that typically portrayed by certain media and politicians.

EXHIBIT 5.1 TOP FIVE MERCHANDISE (GOODS) EXPORTING NATIONS

Rank based on value	2008	2011	2013	2015
1	Germany	China	China	China
2	China	United States	United States	United States
3	United States	Germany	Germany	Germany
4	Japan	Japan	Japan	Japan
5	Netherlands	Netherlands	Netherlands	Netherlands

Sources The first three columns are adapted from M. W. Peng, *Global Business*, 1st, 2nd, and 3rd eds. (Cincinnati: Cengage, 2009, 2011, 2014) and M. W. Peng, *Global*, 3rd ed. (Cincinnati: Cengage, 2016). 2015 data are from the World Trade Organization, *World Trade Statistical Review 2016* (Geneva: WTO, 2016).

In 2015, the United States exported $1.51 trillion in goods. Of China's $2.28 trillion exports in goods, only about two-thirds of the value added was contributed by China (the rest were imported components assembled in China). The United States contributed approximately 90% of the value added of its exports. Do your math: The value added of US exports ($1.36 trillion) was very close to the value added of Chinese exports ($1.52 trillion). In addition, the United States again outsold the long-time export champion Germany (which exported $1.33 trillion) and the formidable export powerhouse Japan (which exported $625 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, Washington, New York, and Illinois. The US Department of Commerce proudly noted that "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 troubles such as the Japanese earthquake, the euro zone crisis, the Middle East turmoil, the Russian sanctions, the Ebola crisis, the Chinese slowdown, and Brexit. 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. 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

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

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 competitive, Uncle Sam also helps. At least ten federal agencies offer export assistance: 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 to facilitate more firms to join the export game.

Going beyond routine export assistance, new initiatives focus on negotiating free trade agreements (FTAs). 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 this regard, the Trump administration's actions to withdraw from the Trans-Pacific Partnership (TPP), a massive FTA negotiated among 12 member countries over seven years, and to renegotiate NAFTA are likely to be counterproductive.

In addition to formal institutions, informal norms and values also play a role behind US exports. While some gurus write about the decline of US influence, the informal norms of consuming and appreciating US products seem to proliferate overseas. Around the world, it is *cool* to consume made-in-USA products. 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. In Beijing, the Chinese president takes off and lands in a "Chinese Air Force One," which is a Boeing 747. If you are studying *this* book outside the United States, then you are a US export customer too. Enjoy!

Sources This case draws on a long line of my own research on US export strategy, starting with my PhD dissertation and more recently with contributions to *Dallas Morning News* and *Texas CEO Magazine*—cited below. "Yum's big game of chicken," *Bloomberg Businessweek*, 29 March 2012: 64–69; "The real way a trade deal gets done," *Bloomberg Businessweek*, 24 October 2011: 30–32; "Texas exports spike higher on energy goods," *Dallas Morning News*, 23 February 2012; "Picking the world champion of trade," *Economist*, 18 January 2014: 72–73; M. W. Peng, *Behind the Success and Failure of US Export Intermediaries* (Westport, CT: Quorum, 1998); M. W. Peng, "What happens if NAFTA goes away," *Texas CEO Magazine*, January 2017: 26–27; US Commercial Service, 2015, export.gov.