

1 of 1 DOCUMENT



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Trade Saves the Day

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From the way the presidential candidates have been talking, you might think that American factories and workers are unable to compete in the global economy. John McCain has promised to open new markets for American goods and provide help for workers who lose their jobs. Barack Obama has expressed doubts about past trade agreements and has proposed changes in tax laws that he says now encourage companies to ship jobs overseas.

The candidates deserve credit for recognizing the challenges posed by trade and foreign investment. But their tone obscures a major success story: the dramatic improvement in our balance of international trade. This export boom has saved us from recession over the past year and, despite the recent financial turmoil, is likely to continue doing so. It is generating at least 2 million new and high-paying jobs, about half of them from increased foreign sales by the beleaguered manufacturing sector.

Fresh evidence of the trend came last month, when the second-quarter growth rate for the U.S. economy was revised upward, to 3.3 percent. A record surge in net exports accounted for almost all of that expansion. Since the housing and financial crises erupted in mid-2007, there has been a decline in final domestic demand. We would have been in recession throughout this period had we relied wholly on internal economic forces.

International trade has saved the day. Our external balance has improved by more than \$200 billion as calculated for gross domestic product (GDP) purposes, cutting the previous deficit by more than one-third. This dramatic progress has kept the overall economy growing by modest amounts. The prophets of recession ignored the international engagement of the U.S. economy.

The Organization for Economic Cooperation and Development foresees continued modest expansion of the U.S. economy during 2008-09, with 80 percent of the impetus coming from trade improvement. (The trade balance in nominal dollars has not gained as much, but this was due to the higher price of oil imports earlier in the year and does not affect the GDP growth picture.) Gains of an additional \$100 billion or so are likely, which would cut the pre-2006 real deficit in half, despite slowing foreign growth and the recent rebound of the dollar.

This favorable swing of at least \$300 billion in the "real" trade balance translates into more than 2 million new jobs in the U.S. economy. These export jobs pay 15 to 20 percent more than the national average.

All major sectors, from agriculture to consumer goods to services, as well as our bellwether capital equipment, have shared in the export boom. About half the gains have come in manufactured products; the trade swing is likely to boost employment in manufacturing substantially, offsetting at least part of the downturn from sluggish domestic growth and ongoing productivity improvement. Foreign sales of our manufactured products, including cranes from Wisconsin and diesel engines made in Indiana, are soaring.

Two major factors are driving this stellar performance. One is continued growth in the rest of the world, driven largely by emerging markets. Those countries, led by China and India, make up half the global economy. While down from record highs, their annual growth rates remain around 6 percent. Hence the world economy as a whole is likely to expand at a 3.5 to 4 percent rate in 2008 and 2009 despite the sharp slowdown in the United States and softer performances in Europe and Japan.

The second factor is the weaker exchange rate for the dollar, which has restored U.S. international competitiveness to a substantial degree. Before its recent climb, the dollar had gradually declined over the past six years, by an average of about 25 percent against the currencies of our main trading partners. This reversed the huge dollar increase from 1995 to 2002, which had sapped our price competitiveness and was the main cause of the recent record trade deficits. The U.S. trade deficit is still too large and the dollar remains overvalued against a few key Asian currencies, notably those of China and Japan, but it has essentially returned to levels at which we can compete on a reasonably even field against most countries.

Globalization is paying off for the United States just when we need it. Our traditional strategy of helping other countries, especially in the developing world, strengthen their economies is redounding to our major benefit. Our continuing effort to correct the huge trade and currency imbalances is paying large dividends. The trade liberalization of the past 50 years remains incomplete but has opened markets that our firms and workers can exploit. Efforts to derail the integration of the world economy in the face of current developments would be contrary to U.S. national interests. We should be making new compacts to reduce barriers as rapidly as possible rather than fearing to implement those already negotiated, such as the free-trade agreements with Colombia and Korea that are languishing in Congress.

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