Trade And The U.S. Economy: The Big Picture

Jan. 22, 2018
The Case For Trade

• Traditional economic theory supports that trade benefits the economy as a whole in the long run.

• Through trade, economies produce more of what they are most efficient at and less of what they aren’t as efficient at – increasing overall access to affordable goods and services.

• Largely, economists support that trade benefits overall well-being, but gains are not necessarily equally distributed.

Contribution To U.S. Economy

• Increased trade and market access since WWII (1950) has generated an additional $2.1 trillion in U.S. GDP...

• ...or, an additional $7,000 (adjusted for inflation) in income per capita.

• More than 95% of the world population and roughly 80% of consumer spending dollars are outside U.S. borders.

• Trade means growth – in demand, in jobs and in production.

• Trade also facilitates more choice and cheaper goods for consumers.

Top Export Markets (2016 Values)

The **Top 5 Export Markets** for the U.S. are

1. Canada, $266.8 billion
   - Primarily automotive-related exports
2. Mexico $229.7 billion
   - Machinery, electronic equipment, automotive-goods
3. China, $115.6 billion
   - Aircraft and computer accessories (both inputs and end-products)
4. Japan, $63.2 billion
   - Aircraft, medical and technical equipment, machinery and electronic equipment
5. United Kingdom, $55.3 billion
   - Aircraft, chemicals, metal for manufacturing, electronic equipment, pharmaceuticals


Leading State Exports, By Value

The **Top 5 Import Markets** for the U.S. are

1. China, $462.6 billion (Balance: -$347 billion)
2. Mexico, $294 billion (Balance: -$64 billion)
3. Canada, $277.8 billion (Balance: -$11 billion)
4. Japan, $132 billion (Balance: -$68.8 billion)
5. Germany, $114 billion (Balance: -$64.7 billion)

**Leading U.S. Imports and Exports**

**Leading Import Goods**

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude oil</td>
<td>$248.5b</td>
</tr>
<tr>
<td>Cell phones and other household goods</td>
<td>98.0</td>
</tr>
<tr>
<td>Pharmaceutical preparations</td>
<td>92.0</td>
</tr>
<tr>
<td>Computers</td>
<td>63.7</td>
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<td>Telecommunications equipment</td>
<td>58.7</td>
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**Leading Export Goods**

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</tr>
<tr>
<td>Fuel oil</td>
<td>80.7</td>
</tr>
<tr>
<td>Civilian aircraft</td>
<td>57.9</td>
</tr>
<tr>
<td>Industrial machines, other</td>
<td>54.2</td>
</tr>
<tr>
<td>Pharmaceutical preparations</td>
<td>50.9</td>
</tr>
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</table>

Leading State Imports, By Value

Globalization

• Trade is part of a bigger phenomenon known as globalization.

• Globalization refers to the increasing integration of economies, values, culture and people around the world.

• It also can refer to the movement of people (labor) and knowledge (technology) across international borders.

• Since 1960 to 2015, trade’s share of world GDP has grown from 24.2% to 58.3%.

• Foreign direct investment has also risen from 0.5% of world GDP to 2.9%.


Trade Expansion

• As world economies become increasingly globalized, **rising numbers of trade deals are helping facilitate integration.**

• Though the U.S. withdrew from the Trans-Pacific Partnership in early 2017, the 11 other nations involved are now looking for ways to provide similar opportunity and economic gain.

• The 11 other countries that were involved in TPP are now involved in 27 separate negotiations with each other and other major economies.

A Trade World Without the United States

President Donald Trump’s decision to pull out of the Trans-Pacific Partnership has sparked a frenzy of dealmaking across the Asia-Pacific region. The 11 other countries that participated in the TPP are involved in 27 separate trade negotiations with each other and with other major trading powers in the region like China and massive blocs like the EU. The efforts range from exploratory conversations to deals already signed and awaiting ratification. Seven of the deals have been concluded or launched in the five months since the United States withdrew from the TPP.

Economic Partnership (16)

Regional Negotiations

Source: Asian Development Bank; POLITICO Research | Graphic by Christine Anziskaun
Trade’s Impact On U.S. Jobs

• Trade = economic activity = jobs and income.

• Trade speeds the spread of innovation and new ideas, allowing countries and industries to adapt new efficiencies faster.

• With access to a bigger market, trade expands consumer choice and drives demand and, therefore, labor to meet the demand.

• Trade causes the composition of employment to change, influencing what industries are employing more, and fewer, people

• Overall, trade creates jobs in industries with growing efficiency, and may reduce jobs in inefficient industries.

Job Creation Outside Of Agriculture

• As of 2014, U.S. exports and imports supported 41 million jobs.

• More than one in every five jobs in the U.S. are connected to trade.

• According to the U.S. Commerce Department, every $1 billion in exports supports 5,500 jobs.

<table>
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<tr>
<th>Industry</th>
<th>Industry Jobs Supported</th>
<th>Share of Industry Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace and other transportation</td>
<td>298,967</td>
<td>44%</td>
</tr>
<tr>
<td>Computer and electronics</td>
<td>425,465</td>
<td>41%</td>
</tr>
<tr>
<td>Primary metals</td>
<td>144,536</td>
<td>37%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>271,149</td>
<td>34%</td>
</tr>
<tr>
<td>Professional and business services</td>
<td>2,297,445</td>
<td>12%</td>
</tr>
</tbody>
</table>


So...why do people hate trade and/or NAFTA?

• Chief critics (labor, consumer and environmental groups) claim:
  • Job loss and displaced U.S. workers
  • Trade deals lack transparency, favor corporations
  • Favors other countries
  • Increases trade deficits

• What do they want? Managed trade to bring jobs back to U.S.
  • Higher labor (wages) and environmental standards for other nations
  • Rules of origin requirements
  • More enforcement
  • Eliminate Investor-State Dispute Settlement (ISDS)
    • streamlined process for companies/investors to resolve disputes with other countries in agreement outside of that country’s legal system.
Industry Spotlight: Manufacturing

• Job loss in manufacturing is one of the most common arguments against trade.
• These arguments can have strong influence on public perception and policy, and negative implications for agriculture, which has generally benefited from trade.
• Despite the loss of more than 5 million manufacturing jobs in the U.S. between January 2000 and December 2014, manufacturing itself is not in decline in terms of output.
Manufacturing Production

• Year over year, manufacturing output has generally grown.

• A report by Ball State University examines the effects of productivity change, trade, and domestic demand on manufacturing’s employment levels.

Manufacturing In America: Ball State Study

• From 1998 to 2012, production declines in manufacturing were seen in minerals, fabricated metals, furniture, apparel, textiles, paper and plastics.

• **Double digit growth** was seen in computer and electronics, automobiles, transportation equipment, miscellaneous products, primary metals, machinery, electrical equipment and food.

• Total manufacturing production has been steady and trending upward over time.

• Yet, despite this growth, from 2000 to 2010, manufacturing suffered its largest decline in employment in history.

• At 2000-level worker productivity, the industry would have needed to employ 20.9 million workers, yet they only employed 12.1 million.

Manufacturing in America: More From Ball State

• Ball State’s report evaluated the impact of trade, changes in domestic demand for goods, and changes to productivity on manufacturing employment.

• Findings suggest that from 2000-2010, roughly **13.4 percent of job loss were due to trade**.

• Domestic demand had little influence, supporting only **1.2 percent of job increase**.

• Productivity gains, stirred by the adoption of **automation** and **information technology**, were found to be the largest contributor to the displacement of workers, accounting for **almost 88 percent of job losses**.

• Trade affected some industries more than others, accounting for 44.6% of job losses in apparel and 40.2% of losses in furniture.

• However, productivity had the greatest impact, ranging from a low of **58.5% of job loss share** in some sectors to accounting for almost all job losses in others.

## Trade Vs. Productivity In Manufacturing Job Losses

### Impact of Productivity, Trade, and Domestic Demand for Manufactured Goods, 2000-2010

<table>
<thead>
<tr>
<th>Sector</th>
<th>Production Change Per Worker</th>
<th>Actual Job Losses</th>
<th>Job Loss Share Trade</th>
<th>Job Gain Share: Productivity</th>
<th>Job Gain Share: Domestic Demand</th>
</tr>
</thead>
<tbody>
<tr>
<td>All manufacturing</td>
<td>67.5%</td>
<td>5,647,700</td>
<td>13.4%</td>
<td>87.8%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Primary metals</td>
<td>39.1%</td>
<td>248,500</td>
<td>-3.3%</td>
<td>76.7%</td>
<td>-26.7%</td>
</tr>
<tr>
<td>Machinery</td>
<td>39.9%</td>
<td>447,400</td>
<td>0.8%</td>
<td>99.6%</td>
<td>0.4%</td>
</tr>
<tr>
<td>Transportation and motor vehicles</td>
<td>64.1%</td>
<td>716,500</td>
<td>5.5%</td>
<td>85.5%</td>
<td>-9.0%</td>
</tr>
<tr>
<td>Food, beverage, tobacco</td>
<td>23.1%</td>
<td>119,200</td>
<td>4.3%</td>
<td>96.8%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Textiles</td>
<td>22.4%</td>
<td>345,200</td>
<td>9.5%</td>
<td>97.6%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Petroleum</td>
<td>41.0%</td>
<td>9,100</td>
<td>13.3%</td>
<td>77.1%</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Plastics and rubber</td>
<td>30.4%</td>
<td>351,100</td>
<td>7.4%</td>
<td>100.5%</td>
<td>7.9%</td>
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The U.S. food and agricultural industry supports more than 21 million jobs from coast-to-coast, provides more manufacturing jobs than any other U.S. manufacturing sector, and accounts for 20 percent of the U.S. economy.
Trade Deficits: An Incomplete Picture

• Trump Administration’s top priority for NAFTA: reduce U.S. trade deficits.

• However...this is an incomplete picture of FTA impact!
  • Manufacturing experienced a $280 billion trade surplus with trade agreement partners from 2008 to 2015.
  • Agriculture and the services sector also experience strong trade surpluses.
  • NAFTA trade surplus last year = $12 billion COUNTING SERVICES

• For manufacturing, the deficit largely comes from the trade of manufactured goods between countries with which we DO NOT have trade agreements.

• 60%+ of U.S. goods imported are raw materials and inputs – which lower costs for manufacturers and consumers.

Agricultural Trade

• Agriculture is a bright spot in U.S. trade, generating a trade surplus (exporting more than importing) since 1960!

• U.S. agricultural exports had a surplus of $22 billion for FY2017.

• In 2016, Canada was the top value destination for U.S. agricultural products

• Mexico was the largest exporter to the U.S. – i.e. berries in the winter.

NAFTA: What Happens If...

Jan. 22, 2018
Mexico and Canada account for 28% percent of U.S. agricultural exports.
What NAFTA Gets You: Mexico

• #1 export market for U.S. corn in 2106/2017
  • 13.9 million metric tons (547.2 million bushels) worth $2.5 billion
  • Mexican corn imports have grown 847% since the implementation of NAFTA.

• #1 export market for U.S. DDGS in 2016/2017
  • 2.06 million tons, an 8 percent increase year-over-year and a new all-time high
  • Mexican DDGS imports have grown 945% since NAFTA implementation.

• #1 export market for U.S. malt (includes roasted and non-roasted)
  • 341,000 tons worth $185 million

• #2 export market for U.S. sorghum in 2016/2017
  • 568,254 tons (22.4 million bushels)
What NAFTA Gets You: Canada

- #2 export market for U.S. ethanol in 2016/2017
  - 331.7 million gallons (39 million bushels corn equivalent)
- #1 export market for U.S. barley in 2016/2017
  - 76,900 metric tons (3.53 million bushels)
- Imported more than 670,000 metric tons (26.4 million bushels) of U.S. corn in 2016/2017
Withdrawing means...

• Higher tariffs – how high is TBD
• Reduced market share – we are seeing this already
• Interruption of supply chains – grains, manufacturing, autos and more
• Market uncertainty – just what markets need!
• Slowed economy – based on increased costs, increased tariffs
• Permanent loss of our position as supplier-of-choice
• Permanent reputational damage globally
The Impact: Locally

**ON FARM**

Weakened basis as demand from Mexico falls and export demand readjusts

**ELEVATORS**

Less grain handling = lower profitability

**RETAILERS**

Higher prices from supply chain disruptions – trucks, equipment, seeds, chemicals
The Impact: Systemically

EXPORTERS
Uncertainty in demand; challenges with non-tariff barriers without agreement in place

POLICY
Farm program payments, infrastructure and market development spend go up

LABOR
256,000 jobs lost, including 50,000 in food and ag (ImpactECON)
Analysis

• **ImpactECON**: a return to “most favored nation” (MFN) tariff rates would mean loss of 256,000 U.S. jobs; net loss of at least 50,000 jobs in U.S. food and ag; drop in GDP of $13 billion from the farm sector alone.

• **Peterson Institute**: losses would include 187,000 jobs over a one to three year period, primarily in autos, agriculture and manufacturing.
Analysis

• *Business Roundtable:* without NAFTA, Canada and Mexico could assess *new tariffs or taxes averaging 3 percent* — or up to $15.5 billion — on U.S. goods *exports*, causing exports overall to decline.

• *Trade Leadership Coalition:* 72 percent of investors believe NAFTA withdrawal would harm U.S. economic growth over the next year or two.
### NAFTA Trade Shock Analysis

Analysis by World Perspectives, Inc., on behalf of the U.S. Grains Council

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138,000
Jobs at risk if U.S. withdraws from NAFTA
47%
Share of exports bound for Canada and Mexico
$5.6 Billion
Value of exports to Canada and Mexico

OHIO
463,000
Jobs at risk if U.S. withdraws from NAFTA
52%
Share of exports bound for Canada and Mexico
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## Mexico Corn Imports – Non-U.S.

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<tr>
<th></th>
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Connecting Trade Back: Messaging

• **The big question: how do you respond to the job loss argument?**

• With an individual - empathy, conversation and facts
  • “I’m sorry about that. Can you share your experience?”

• To a policymaker – data, uncommon common sense, the stakes for YOU
  • U.S. industries like aircraft, computer and electronics, and some other manufacturing industries rely on trade to support 30-50% of their employees
  • With more than 9 out of 10 people outside of the U.S., we can’t grow our demand OR grow incomes OR improve quality of life if we don’t reach beyond our borders
  • Smartphones, the internet, online banking and modern transportation mean globalization is happening → trade is only one piece of that puzzle.
  • The U.S. needs trade to win in the global economy and for consumers to continue to enjoy benefits we take for granted like
    • fruits/vegetables in the winter, cheaper electronics, pick-up trucks you can afford.
Questions??