

Video transcript

Why International Trade and Investment are Good for the US Economy: A Story in 8 Charts

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Trade and investment across borders drive economic growth. American consumers enjoy greater access to cheaper and more varied goods as a result. Trade also encourages the most productive American firms and industries to innovate and raise standards of living in the US...and worldwide.

Does trade make every single person better off? Not necessarily. But on balance, trade and investment are overwhelmingly beneficial for Americans.

This is Cathleen Cimino with eight charts illustrating the benefits.

Chart 1. United States and global GDP and trade in goods and services, 1960-2013

Trade keeps the US economy growing. Since 1960, trade in the US on average has grown at double the rate of growth of the economy as a whole. Exports of goods and services—produced by businesses employing millions of Americans—are fourteen times what they were six decades ago. Trade is also a critical engine of world growth.

Chart 2. US trade and investment as a percent of GDP, 1960-2014

In 1960, two-way trade in goods and services accounted for only 9 percent of the US economy. Today it is about 30 percent.

Meanwhile, the amount of US investment has expanded in other countries, from 5 percent of US GDP to 28 percent today. But that's only half the story. Over the same period, foreign companies have invested increasingly in factories and services in the US.

Cross-border investment and trade reduce costs and improve the quality of consumer goods like cars, electronics, and appliances. Likewise, trade, investment and new technologies spread innovation and raise standards of living around the world.

Chart 3. US manufacturing industries: Average earnings and exports per worker, 2012

Trade pushes countries to produce and export what they are relatively more efficient at making. This is called comparative advantage. The US has abundant skilled-labor and has become one of the world's leading exporters of high-tech machinery, electrical equipment, vehicles and other

capital goods. The same can be said for US exports of business, professional and technical services.

The chart shows the trend of higher average earnings in manufacturing industries that export more per worker. More broadly, workers producing US exports are higher paid on average, by 16 to 18 percent more than other workers. And by all metrics, exporting industries are generally more productive than non-exporting industries.

Not many Americans realize how the nature of trade has changed. In general, the phrase “Made in America” is obsolete. Now 80 percent of global trade takes place across global supply chains and within multinational corporations that send services, components, and final goods to and from locations at home and abroad.

An iPhone makes huge profits for Apple. But just as the design, software, and certain components of the device are made in California, Arizona, Indiana, and Kentucky, other parts come from Japan, Taiwan, and Korea. The main assembly takes place in China. As a result, Apple’s software engineering, programming, and retail jobs are supported by manufacturing activity abroad.

Chart 4: Foreign value-added share of US gross exports in 1995 and 2009

So, US production processes rely on multiple countries forming parts of the supply chain.

Foreign value-added has increased across most sectors since the mid-1990s and is especially important in industries like chemicals & minerals, textiles & apparel, and transport equipment.

Put simply, imports are essential to US production and exports! You may hear critics say that “exports are good and imports are bad,” but that misses this key point. Export competitiveness relies on access to high-quality, low-cost imports.

Charts 5&6: Increases in employment and sales abroad by US multinationals are accompanied by increases in domestic activity

Growth in trade and growth in *investment* are closely related. A lot of people blame investment abroad by multinationals for the loss of US jobs. But the data shows a complementary relationship: When US multinationals employ more people in their foreign affiliates (the blue bars) or sell more goods overseas (the red bars), they also employ more workers at home. They also increase their domestic sales, capital expenditures, and spending on research and development.

The other side of the story is that foreign firms investing in the US often seek high-skilled workers and pay better wages than the average US firm.

The two-way expansion of trade and investment does mean that some firms shut down and some jobs are lost. But other firms expand and new and higher-paying jobs are also created.

Job losses are concentrated within certain industries and regions. But job losses from trade are only a small percentage of the millions of displaced workers who involuntarily lose their jobs

each year. Meanwhile the Department of Commerce estimates that, for every \$1 billion of US exports, more than 5,500 jobs are created.

Chart 7: US trade deficit and unemployment rate, 1992–2013

Some critics also say that trade deficits produce unemployment. But in fact, there is no positive correlation: In recent decades, when the US trade deficit (the red line) has increased, unemployment (the blue line) has generally gone down. When the economy is doing well and trade is expanding, consumers buy more, including more goods from overseas.

Chart 8: Average annual growth of employment, output, and labor productivity in US manufacturing since 1960

Import competition is a factor in the loss of jobs in low-skilled manufacturing. But a far more important cause of economy-wide job losses are labor-saving technologies like ATMs and robots that assemble cars. Yet these technologies also enable huge gains in productivity, measured by output per worker.

Data shows that manufacturing employment growth (the green bar) has declined, but manufacturing output (the red bar) is growing faster today than in previous decades.

The US needs to increase trade and investment and take advantage of the gains they produce. To do so, US policy must also continue to enable firms and workers to realize these benefits. This means upgrades in infrastructure, lower corporate tax rates, and expanded training to improve skill level in the workplace. Another crucial step is helping those who *do* lose jobs because of trade and technology by providing education, training, and other job opportunities.

Another way to take advantage of the benefits of trade and investment is to conclude pending agreements with Asia, the Western hemisphere, and Europe. But that is the subject of another video coming soon from the Peterson Institute.