

OSHER GREAT DECISIONS CHAPTER 2 – TRADE, JOBS AND POLITICS



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Abbreviations, etc.

BLS—Bureau of Labor Statistics

FTA—Free Trade Agreement

GDP—Gross domestic product a measure of monetary value of all goods & services produced within a country in a given time period

IMF—International Monetary Fund - A part of the United Nations and tasked with ensuring the stability of the international monetary system.

NAFTA—North American Free Trade Agreement - A free trade agreement between the U.S., Canada and Mexico. NAFTA was developed under President George H.W. Bush, signed into law by Clinton and came into effect in 1994.

PNTR—Permanent Normal Trade Relations

PPP—Purchasing power parity

TAA—Trade Adjustment Assistance Program

TPP—Trans-Pacific Partnership A proposed free trade agreement, signed in February 2016 by the U.S., Japan, Malaysia, Vietnam, Singapore, Brunei, Australia, New Zealand, Canada, Mexico, Chile and Peru. The TPP envisions the aforementioned countries united in an economic system with most trade tariffs dropped. TPP has yet to be ratified, and is strongly opposed by President Trump.

WTO—World Trade Organization

World Bank - An international financial institution belonging to the UN system. The World Bank aids developing countries by providing loans for capital programs.

Key Terms:

Balance of Trade – Difference between imports and export.

Currency Manipulation – The process where a government or central bank buy or sells its domestic currency in foreign exchange markets in order to influence the exchange rate.

Free trade zone – A geographic area where goods can be exchanged or manufactured without intervention by a customs authority.

Monetary policy – Control of the supply of money and interest rates by a country's central bank in order to influence inflation and growth.

Globalization – A process of increasing economic interaction and integration among the people, companies and nations of the world, driven by international trade.

President Trump's latest Executive Orders on Trade, signed March 31, 2017 (but not in the Oval Office because he walked out when a reporter asked him a question about Michael Flynn):

1. Presidential Executive Order Regarding the Omnibus Report on Significant Trade Deficits.

This order commissions a 90-day study of US trade deficits with some of its largest trading partners to identify potential trade abuses and cheating.

2. Presidential Executive Order on Establishing Enhanced Collection and Enforcement of Antidumping and Countervailing Duties and Violations of Trade and Customs Laws

The second directive orders stricter and more effective enforcement of US anti-dumping laws to prevent foreign manufacturers from undercutting US companies by selling goods at an unfair price.

NAFTA

During the election campaign, President Trump promised to renegotiate NAFTA (and, in fact, signed an Executive Order on January 23, 2017 to do just that) to get a better deal for U.S. workers. He wants Mexico to eliminate the VAT tax on U.S. exports to Mexico. He also wants Mexico to end its maquiladora program (maquiladora is a manufacturing operation, where factories import certain material and equipment on a duty-free and tariff-free basis for assembly, processing, or manufacturing and then export the assembled, processed and/or manufactured products, sometimes back to the raw materials' country of origin.[citation needed] They are an example of special economic zones as seen in many countries.[citation needed]. If Mexico and Canada don't agree, he would withdraw from NAFTA. He also threatened to impose a 35 percent tariff on Mexican imports. He called NAFTA the worst trade deal in U.S. history, but a draft outline of the U.S. objectives from the Trade Representative's office suggests a more temperate approach, including goals on investment and labor that have bipartisan support.

What Is Its History?

The impetus for NAFTA began with President Ronald Reagan, who proposed a North American common market in his campaign.

In 1984, Congress passed the Trade and Tariff Act. It removes Congressional authority to change negotiating points. Instead, it allows Congress only the ability to approve or disapprove the entire agreement. That makes negotiation much easier for the administration. Trade partners don't have to worry that Congress will nitpick specific elements.

Canadian Prime Minister Mulroney agreed with Reagan to begin negotiations for the Canada-U.S. Free Trade Agreement. It was signed 1988 and went into effect 1989. NAFTA has now replaced it. Regan's successor, President H.W. Bush, began negotiations with Mexican President Salinas for a liberalized trade agreement between the two countries. Before NAFTA, **Mexican tariffs on U.S. imports were 250 percent higher than U.S. tariffs on Mexican imports.**

Article 102 of the NAFTA agreement outlines its purpose. There are seven specific goals.

1. Grant the signatories Most-Favored-Nation status.
2. Eliminate barriers to trade and facilitate the cross-border movement of goods and services.
3. Promote conditions of fair competition.
4. Increase investment opportunities.
5. Provide protection and enforcement of intellectual property rights.
6. Create procedures for the resolution of trade disputes.
7. Establish a framework for further trilateral, regional, and multilateral cooperation to expand the trade agreement's benefits. (Source: "FAQ," NAFTA Secretariat.)

Has It Fulfilled Its Purpose?

NAFTA fulfilled all seven of its goals. That's made it the world's largest free trade area in terms of gross domestic product. Most important, it increased the competitiveness of the three countries in the global marketplace. This has become critical since the launch of the European Union, the economic growth of China and the rise of other emerging market countries. In 2007, the EU replaced the United States as the world's largest economy. In 2015, China replaced both and took the top spot.

Could Trump End NAFTA?

Trump could submit a notice under Article 2205 of the NAFTA agreement that America intends to withdraw. He does not need Congressional approval.

Downside of ending NAFTA?

Every trade agreement helps some while hurting others. NAFTA hurt workers in industries that moved jobs to Mexico. On the other hand, it helped those manufacturers compete in the global marketplace. It also helped consumers who saw the price of groceries and oil drop. Even if Trump renegotiates NAFTA, it doesn't guarantee those jobs will return to those workers. Instead, those companies could go out of business. Trump must work with industry lobbyists who want NAFTA to remain.

Trump may convince Mexico to curb its VAT tax. He might also tweak the Maquiladora program. But it's unlikely that either outcome will create new jobs for Trump's supporters.

NAFTA 20 YEARS LATER

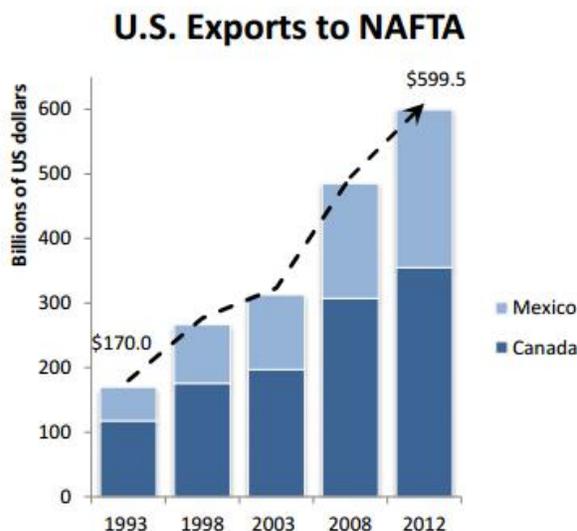
OVERVIEW

For the first time since NAFTA was implemented, the U.S. Department of Commerce has 20-year statistics on trade and other economic indicators. This provides the opportunity to consider how trade, investment, and employment have changed during the past two decades in light of the NAFTA provisions on trade and investment.

The Department of Commerce is finding overwhelming evidence across the United States that NAFTA-related trade and investment liberalization has allowed U.S. firms to maximize efficiencies, remain globally competitive, and increase sales and exports as a result. This is further evidence that increased market access through free trade agreements has direct and indirect benefits for U.S. firms and workers.

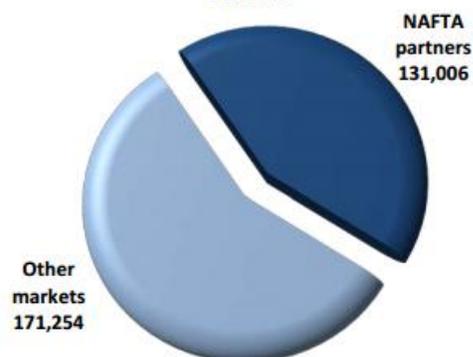
Export Highlights

Between 1993 and 2012, U.S. export growth to NAFTA partners outpaced exports to the rest of the world. U.S. firms exported a total of \$2,211 billion in goods and services to the world in 2012, including \$244.1 billion to Mexico and \$355.4 billion to Canada. Combined, Mexico and Canada account for 27% of total U.S. goods and services exports to the world.



Source: Bureau of Economic Analysis, Table 12. U.S. International Transactions by Area

43% of U.S. exporters sold goods to NAFTA markets in 2011, of which 96% were SMEs



Source: U.S. Department of Commerce, Exporter Database

U.S. SME Definition. In manufacturing, for example, an SME is defined as having 500 employees or less, whereas in wholesale trades it is typically 100 employees or less.

European Union (EU) SME Definition. In the EU, a similar system is used to define Small to Medium Enterprises. A business with a headcount of fewer than 250 is classified as medium-sized; a business with a headcount of fewer than 50 is classified as small, and a business with a headcount of fewer than 10 is considered a micro-business.

Presidential Memorandum Regarding Withdrawal of the United States from the Trans-Pacific Partnership Negotiations and Agreement. Signed January 23, 2017.

What was the TPP, and why did some people hate it so much — on both the right and the left?

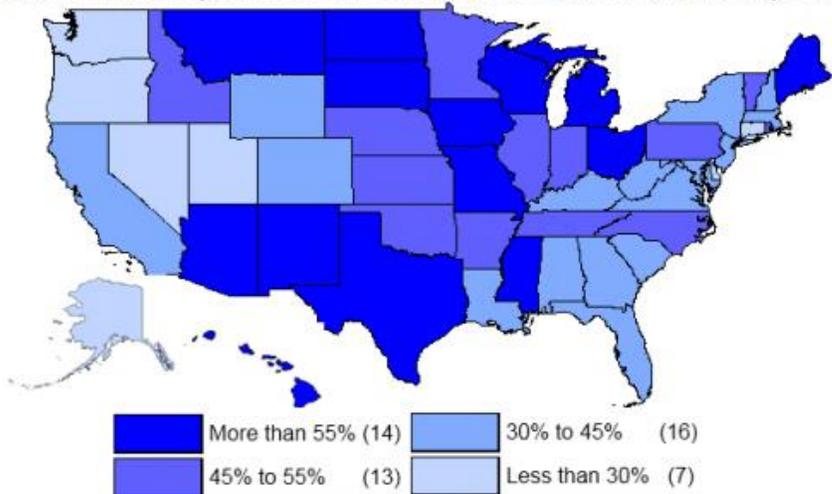
The Trans-Pacific Partnership, pushed hard by the Obama administration, was essentially an attempt to create a single market for the U.S. and 11 countries that border the Pacific Ocean, including Canada, Mexico, and Chile. The idea was to make goods flow more freely and cheaply between all partners — who together represented one third of global trading.

Specifically, the TPP's largest goal was to maintain U.S. trade dominance in Asia, bringing the various trading partners under America's wing as a way to ward off China's growing economic influence. The idea was that if everyone brought down taxes on exported goods, U.S. companies would pay less for imports — while benefiting from cheaper labor overseas.

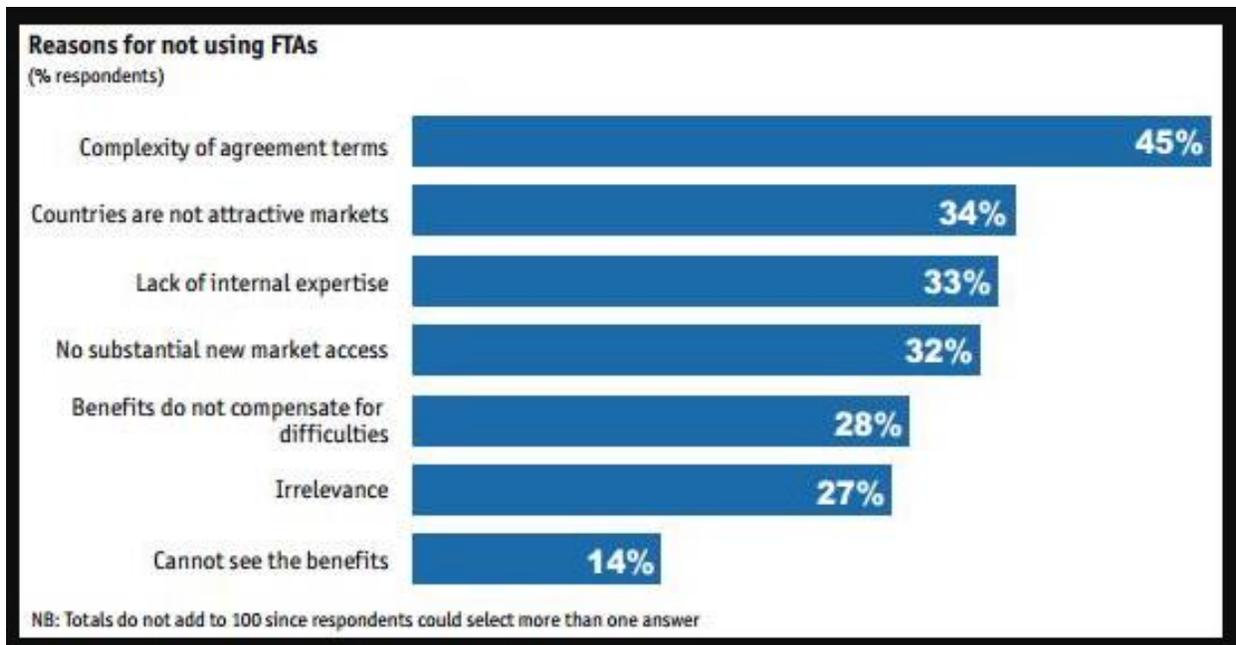
The TPP's 5,000+ pages actually had very little to do with trade. Instead, corporations tried to turn it into a wish list for policies that they knew would never pass through Congress. These included labor rights rules unions said were toothless, rules that could have delayed generics and lead to higher drug prices, and expanded international copyright protection. Now that the TPP is effectively dead, Trump's administration will have to make separate trade deals with each country. That can take time. Negotiations for TPP itself began in 2008.

Benefits of Trade Agreements

Share of State Exports to FTA Partners: 2015 Merchandise Exports



Tennessee is in the 45-55% Merchandise Export to FTA Partner range.



QUESTIONS;

- Do you really believe that changing trade agreements will bring back jobs from overseas?
- What is the real reason for job loss: is it trade deals or technology, or a combination, or simply the aging of the Baby Boomers?
- If you are a business person (and a lot of you are or were), wouldn't you opt to pay 50% less to manufacture the same product as your competition and sell it for the same price as they do?
- Are tariffs a good thing or are they job killers? How much is too much?
- How much effort and taxpayer dollars should be invested in retraining workers to become proficient in newer technology? Is that swimming against the tide? Do old dogs really want to learn new tricks?
- Do you care where the goods you use are made as long as they perform well, last a decent amount of time and are priced reasonably?
- Are the election of Donald Trump and Brexit (and maybe Frexit?) related at all? What is the likely outcome of the trading relationships between the U.S. and Europe?
- Mark Twain said (and attributed it to British Prime Minister Benjamin Disraeli) that "There are three kinds of lies: lies, damn lies and statistics." What does the author of the article think about all of these global statistics? What should we think of them?