Strategic Trade Policy

Trade, Manufacturing, Economic Growth & China

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Coalition for a Prosperous America

October 2019

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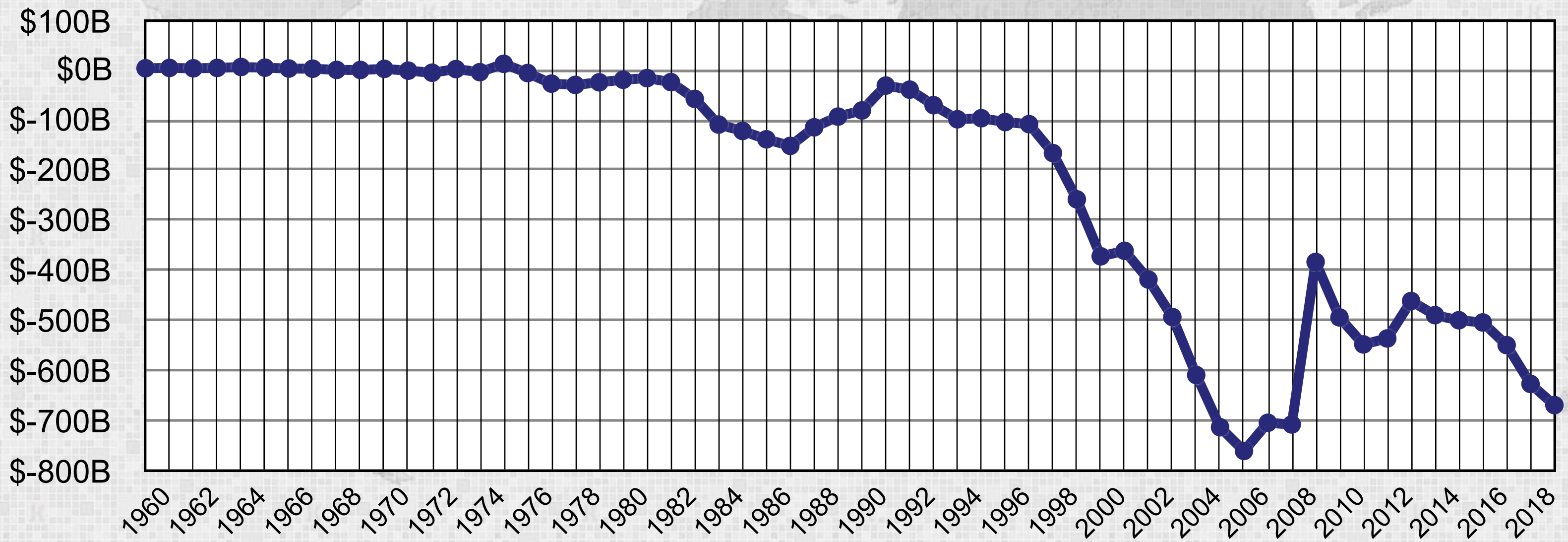
Economists on Trade Deficits & Free Trade

"A favorable balance, provided it is not too large, will prove extremely stimulating; whilst an unfavorable balance may soon produce a state of persistent depression."

—JM Keynes, General Theory (Bk VI, Ch. 23)

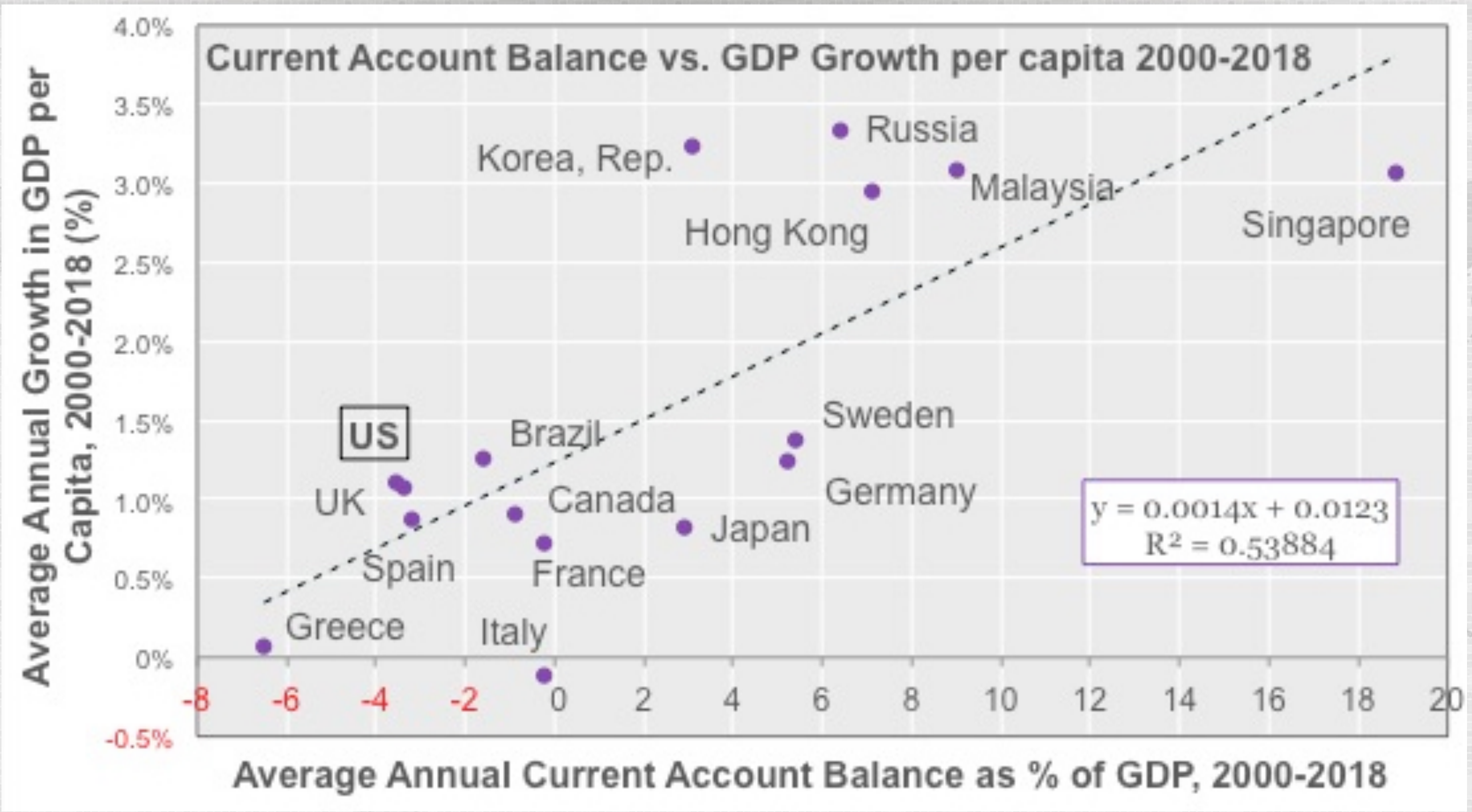
"…This invention abroad that gives to China some of the comparative advantage that had belonged to the United States can induce for the United States permanent lost per capita real income…And, mind well, this would not be a short run impact effect. Ceteris paribus it can be a permanent hurt."

—Paul Samuelson, Journal of Econ Perspectives, Summer 2004



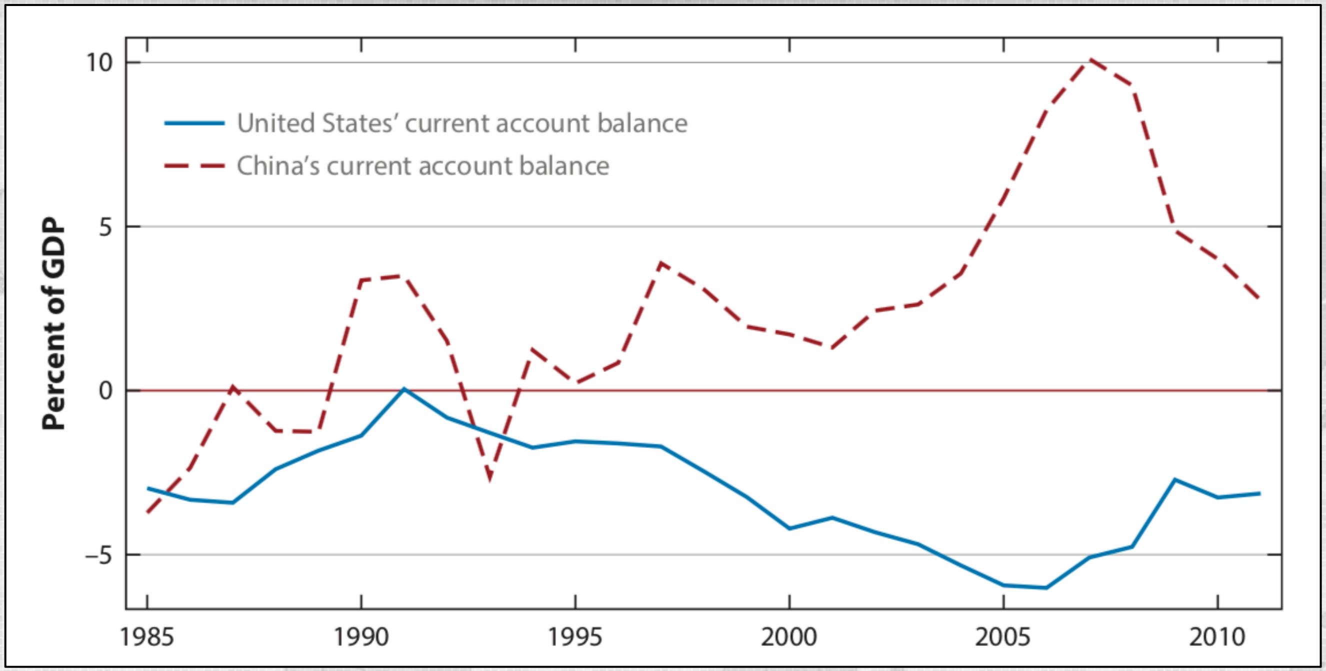
US trade in deficit, 43 years, 1976-2018, cum. total=$12.9 TRILLION

Global Experience: Surplus Boosts Growth



- Surplus countries show GDP growth of 3%-4%
- Deficit countries show GDP growth of 0%-1.5%

China Becomes a Manufacturing Powerhouse

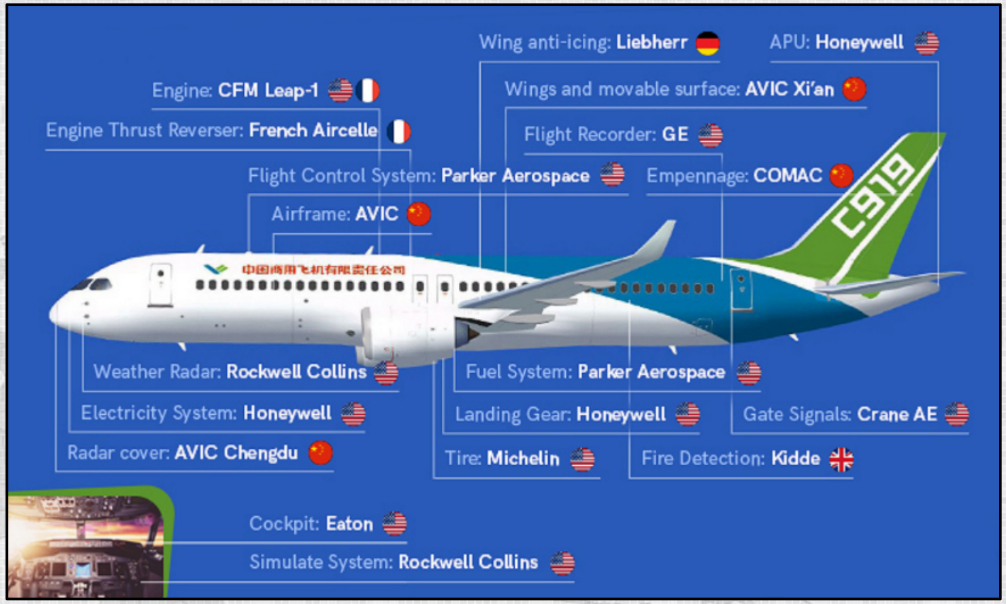


Source: World Bank

- 2001: China gets permanent MFN, joins WTO
- Economic strategy: low wages, forced saving, massive state subsidies to industry; currency manipulation, bank/regional govt support
- Today: world's no. 1 manufacturing nation
- China trade surplus peaked at 10% of GDP; US deficit hit -6% of GDP

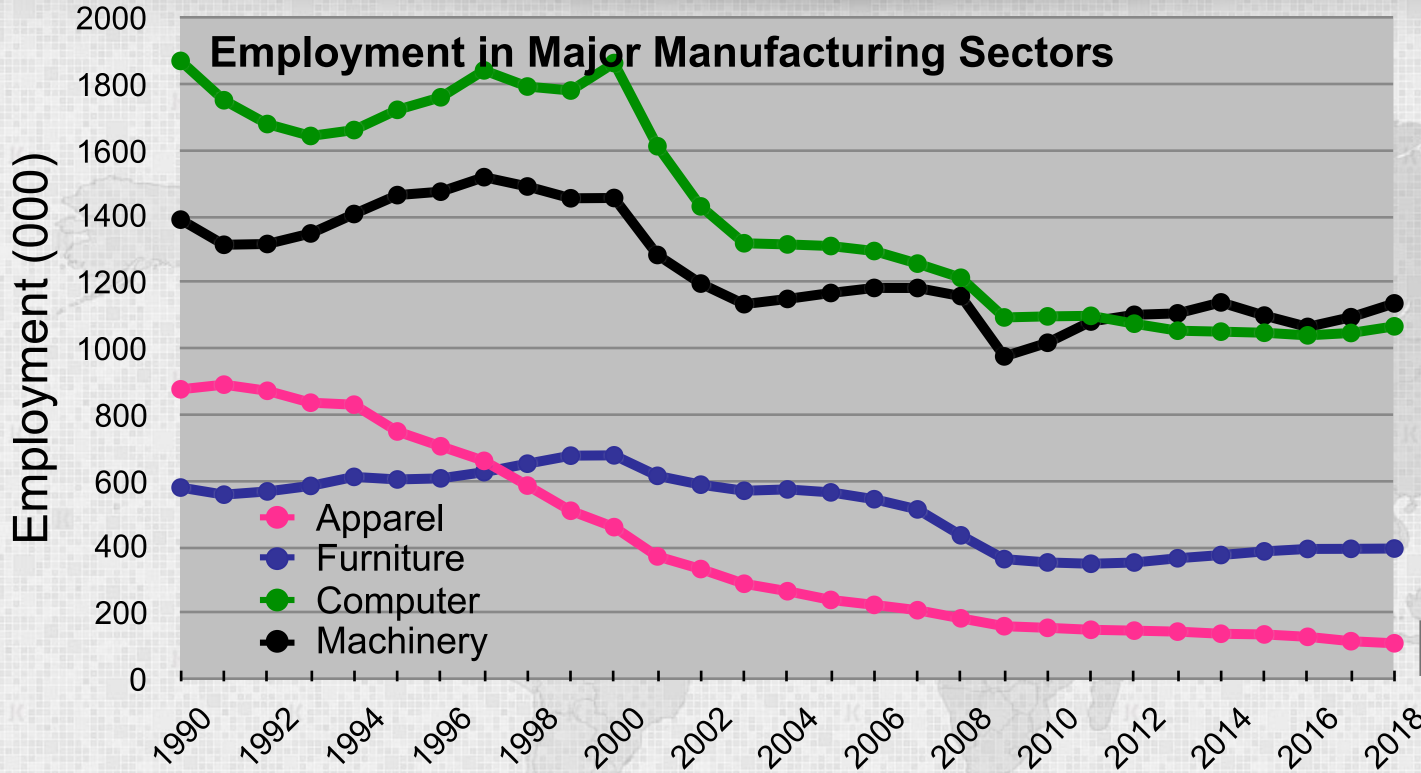
China Exploits Free Trade System For National Advantage

- Billions of dollars of subsidies to SOEs
- Closed domestic market
- Forced tech transfer
- IP theft
- RESULTS:
    - Undermining US industry
    - Threatening national security
    - Making mockery of "free trade”



“Turbine Panda:” *From 2010 to 2015, China ran a spying op to steal key component tech from US, French & German manufacturers. Techniques included hacking, custom malware (“Sakula”), & recruiting insiders.*

Major Manufacturing Sector Jobs Fall Up to 87%

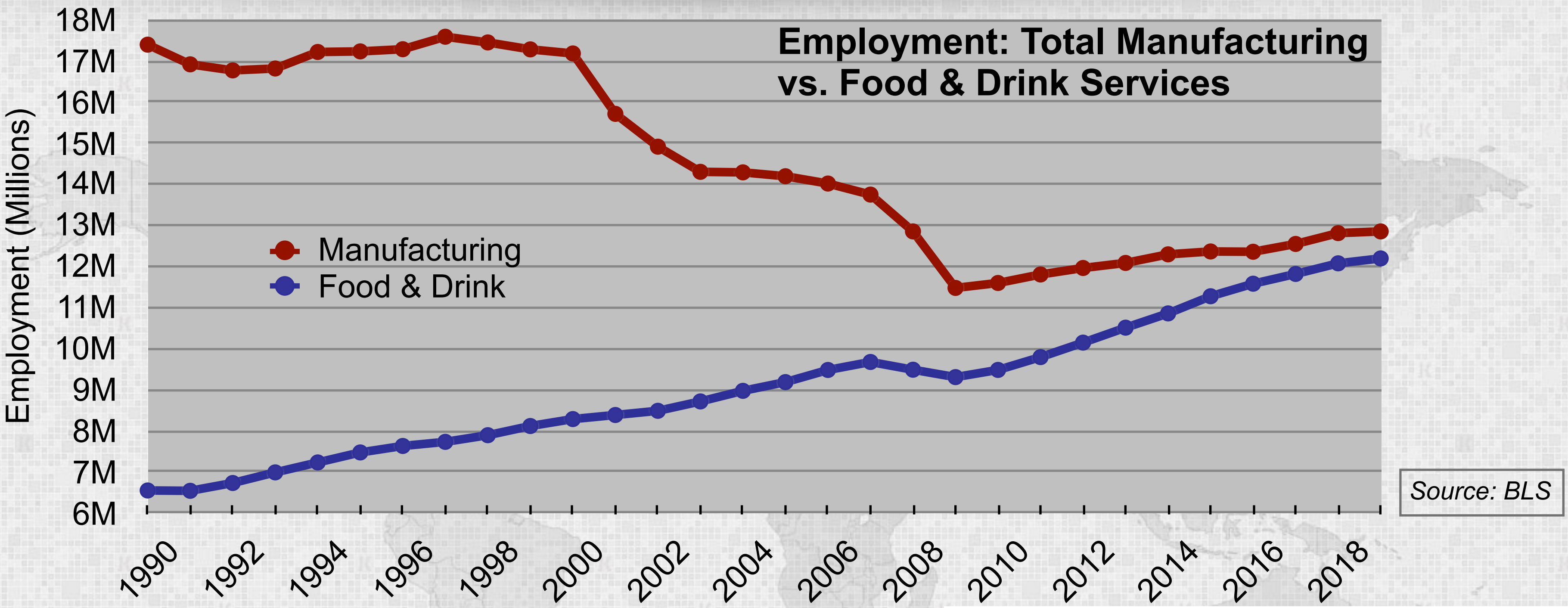


Employment Chang	
Apparel	-87.6%
Furniture	-31.8%
Computer	-42.9%
Machinery	-18.2%

Source: BLS

- Since 1990, double-digit declines in most mfg sectors
- Declines accelerate after 2000—start of “hyperglobalization”
- Imports NOT automation: US-produced market share falls in each sector

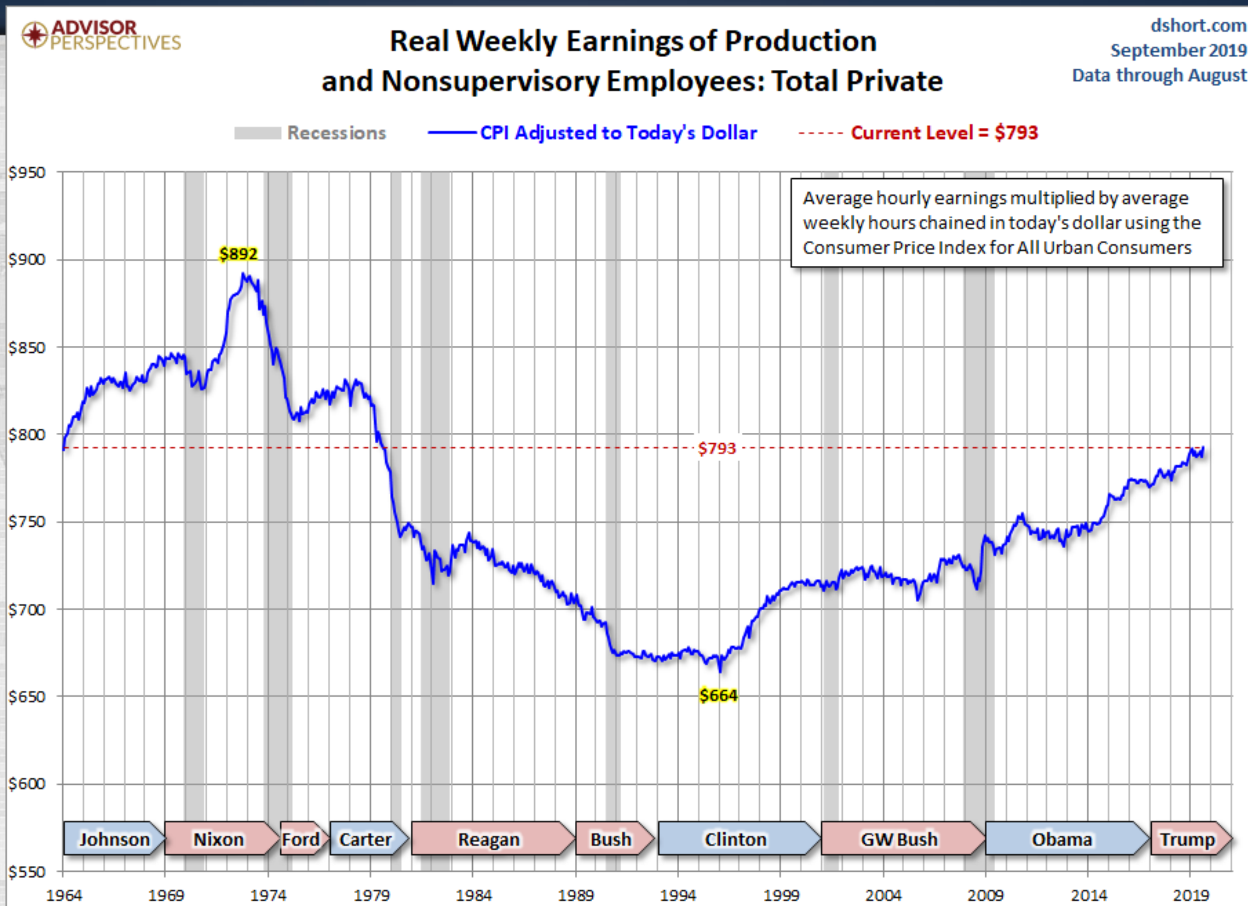
Jobs in Low-Paid Service Sectors on the Rise



- In 28 years, Mfg jobs down 26%, Food & Drink jobs up 86%
- Average income decline (Aug 2019) from manufacturing to food & drink= -65%
- AND food & drink jobs rarely offer benefits

	Average Hourly Earnings	Average Weekly Hours	Average Weekly Earnings
Manufacturing	$27.86	40.5	$1128.33
Food & Drink	$15.14	25.7	$389.10
Difference	-45.7%	-36.5%	-65.5%

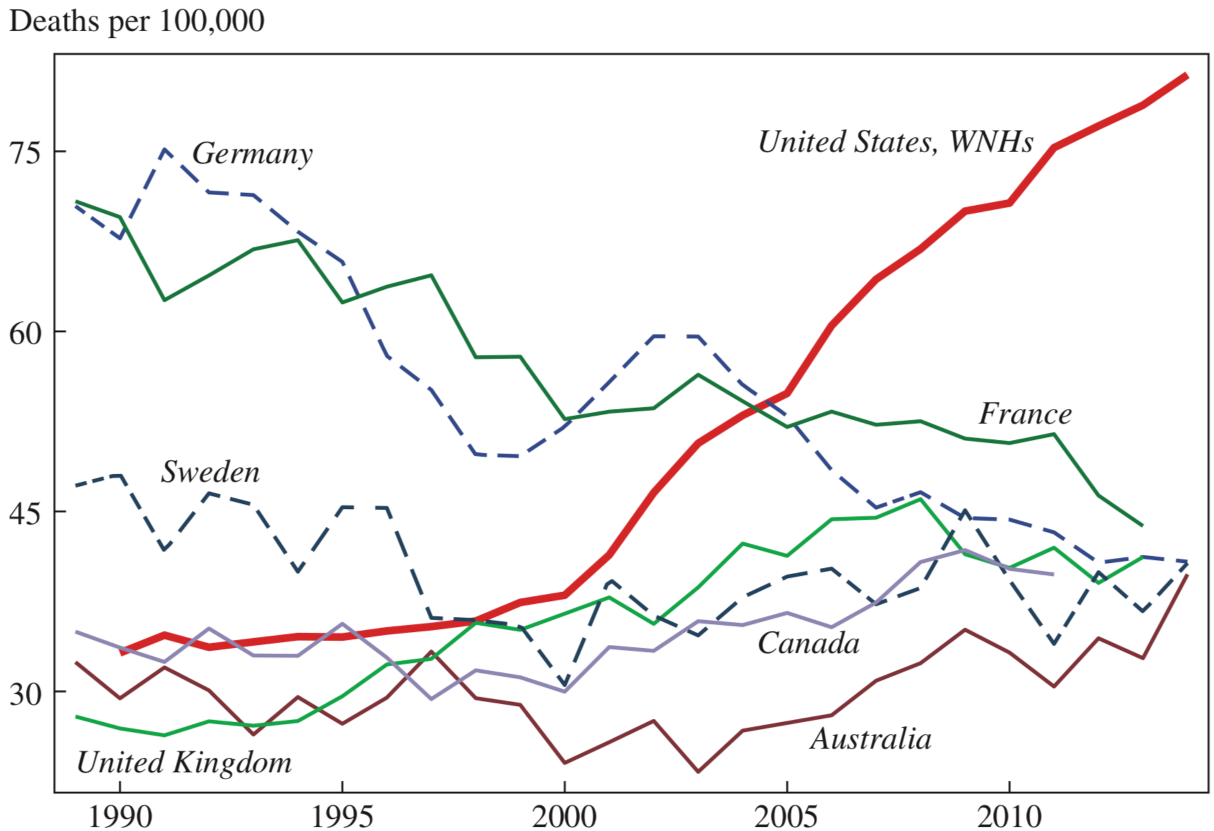
Non-Management Worker Incomes Have Fallen 11% in 46 Years



- Real worker income down 11% at $793/wk from 1973 team of $892/wk (2018 dollars)
- US workers compete w/workers in China, Mexico, etc.
- Unprecedented in US history except for Great Depression years

Anne Case & Angus Deaton: *Deaths of Despair*

Figure 5. Deaths of Despair by Country for Age 50–54, 1989–2014[a]



Source: Case/Deaton, Mortality & Morbidity in the 21st Century

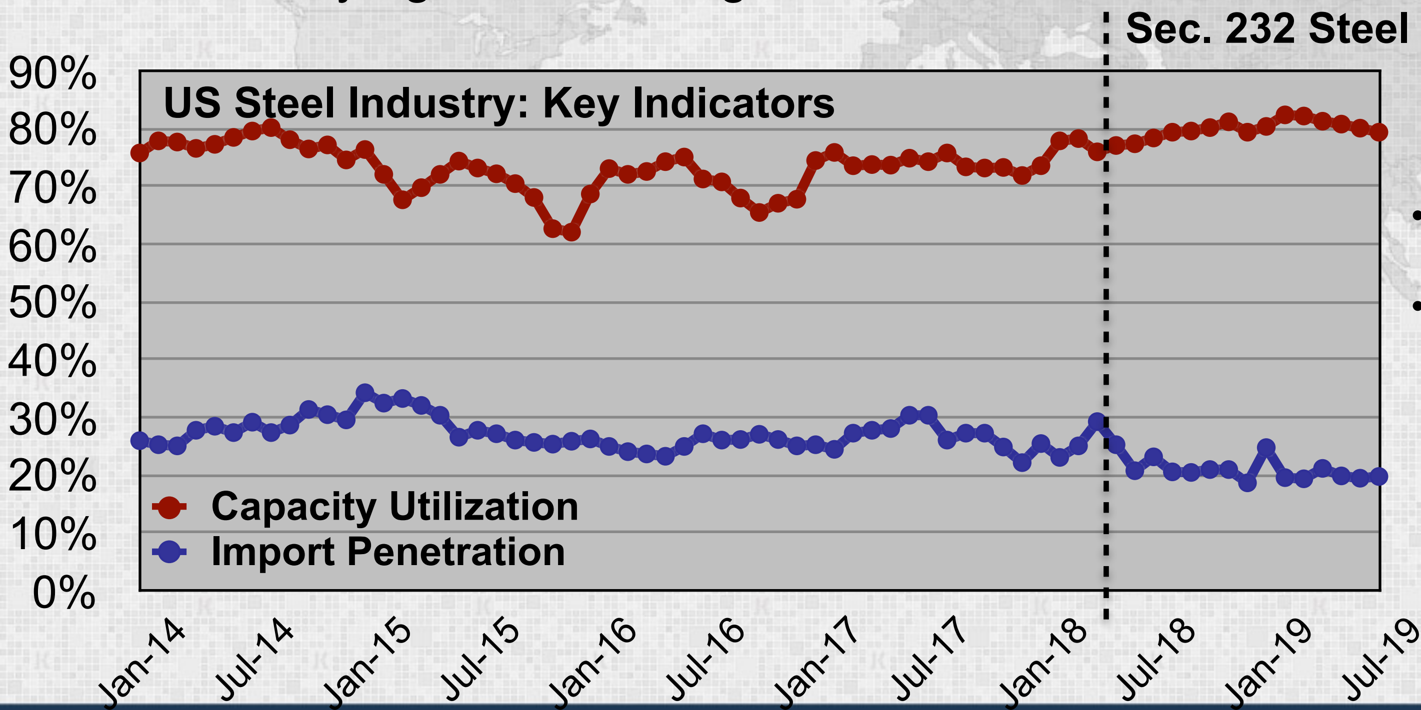
- Deaths from:
  - alcohol/drug poisoning
  - liver disease
  - suicide
- 2000-14 US midlife white non-Hispanic rates double
- US is unique
- Mortality fell for black & Hispanics
- Causes: Case/Deaton cite labor mkt, marriages, child-rearing, religion, & opioids

POLICIES

Tariffs Are Rebuilding Industries Targeted by Foreign Competitors

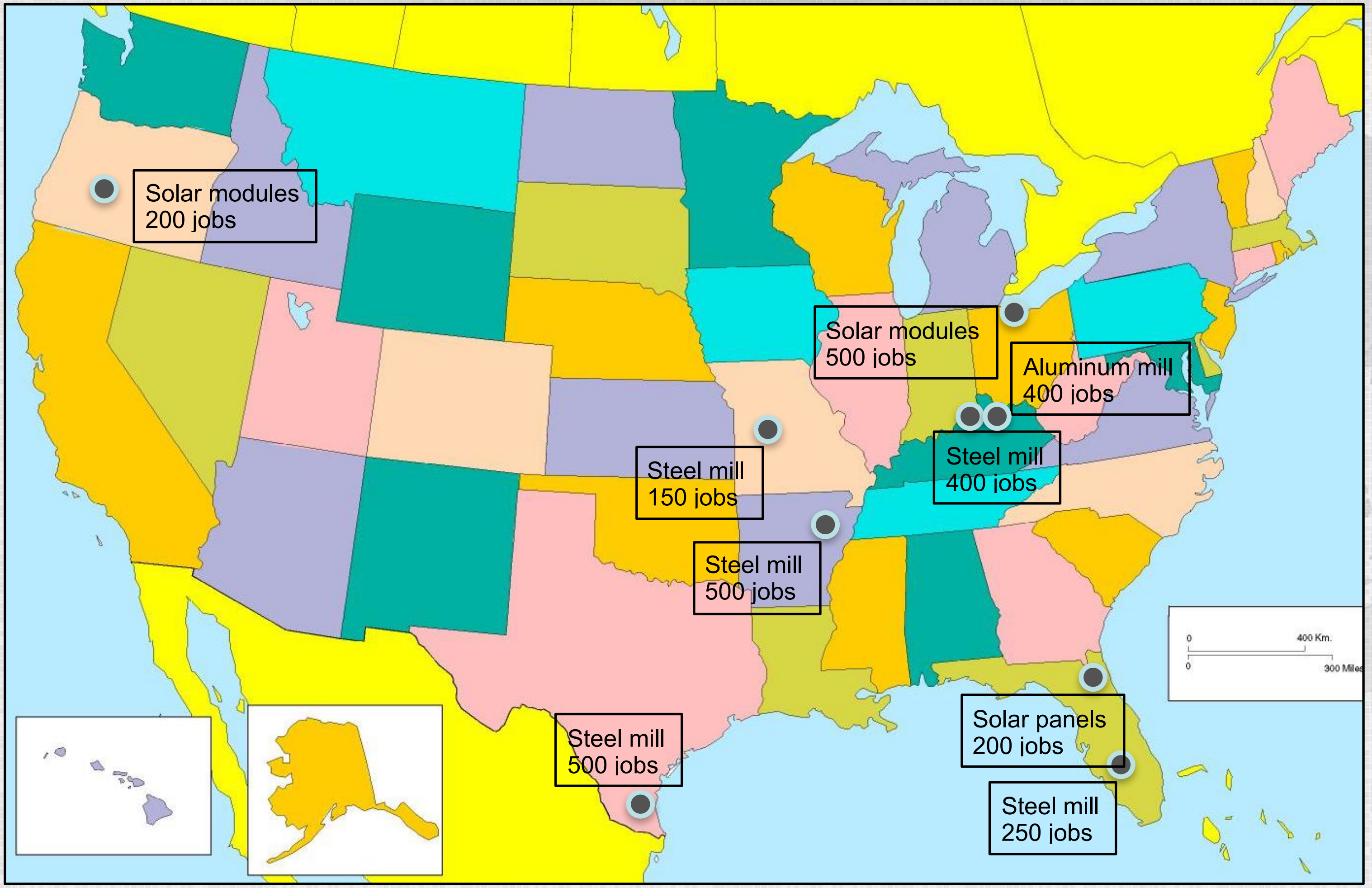
Aims of Tariffs

1. Support national security and economic security
2. Boost domestic production & jobs in targeted industries
3. Provide negotiating leverage against countries violating trade rules
4. Remedy against cheating



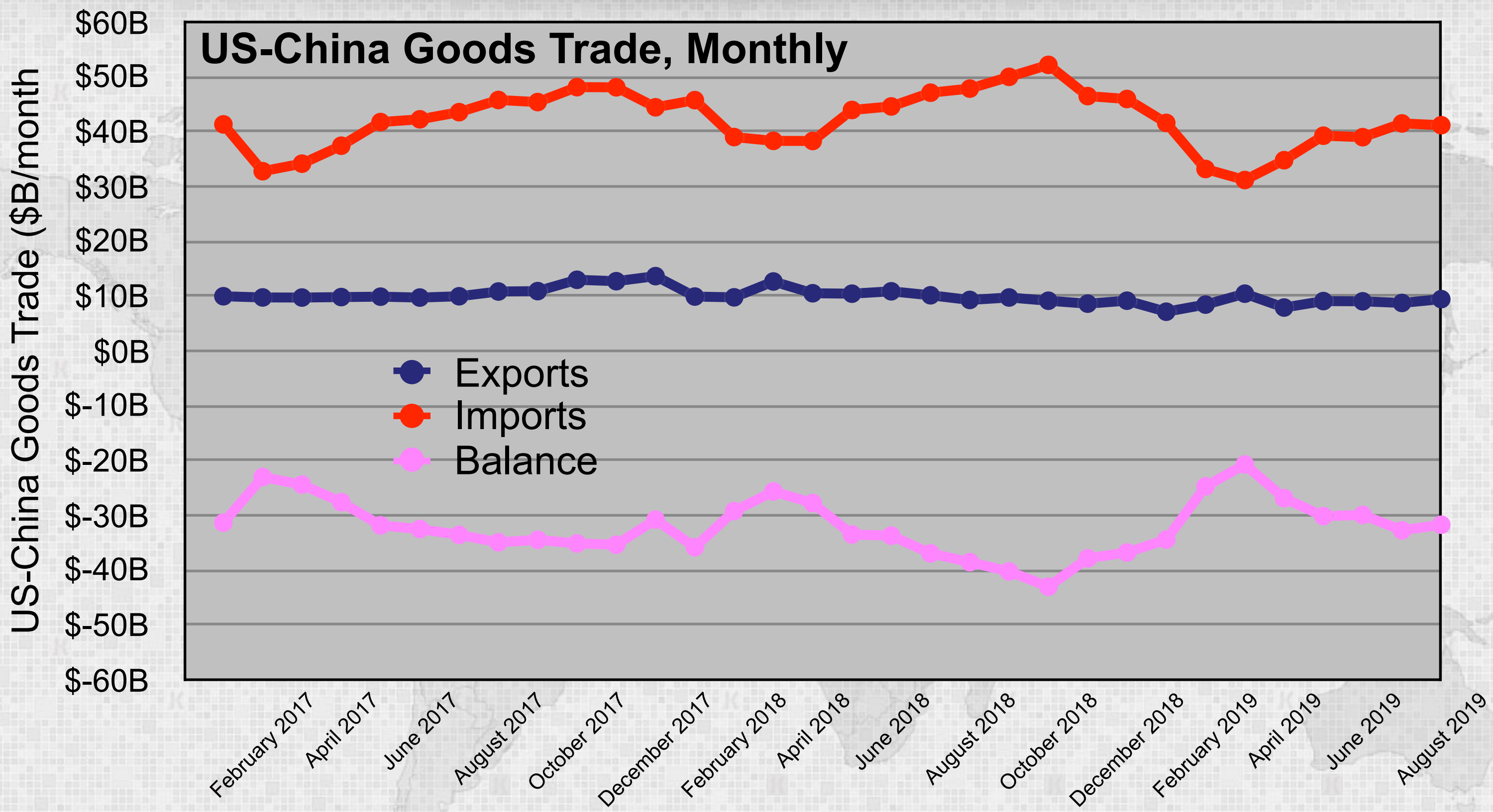
- *Steel tariffs reducing import penetration*
- *Raising capacity utilization above 80% to enable reinvestment*

Cities Benefiting From Tariffs



- More than 12,000 jobs directly due to tariffs
- Key is these are high-paying industries…
- …and they bring other employers.
- "The entry-level salary is $65,000. That's almost double the average wages here." (Official, Sedalia, MO)
- "It's like we won the economic development lottery…we don't have a housing surplus any more." (Mayor, Osceola, AR)

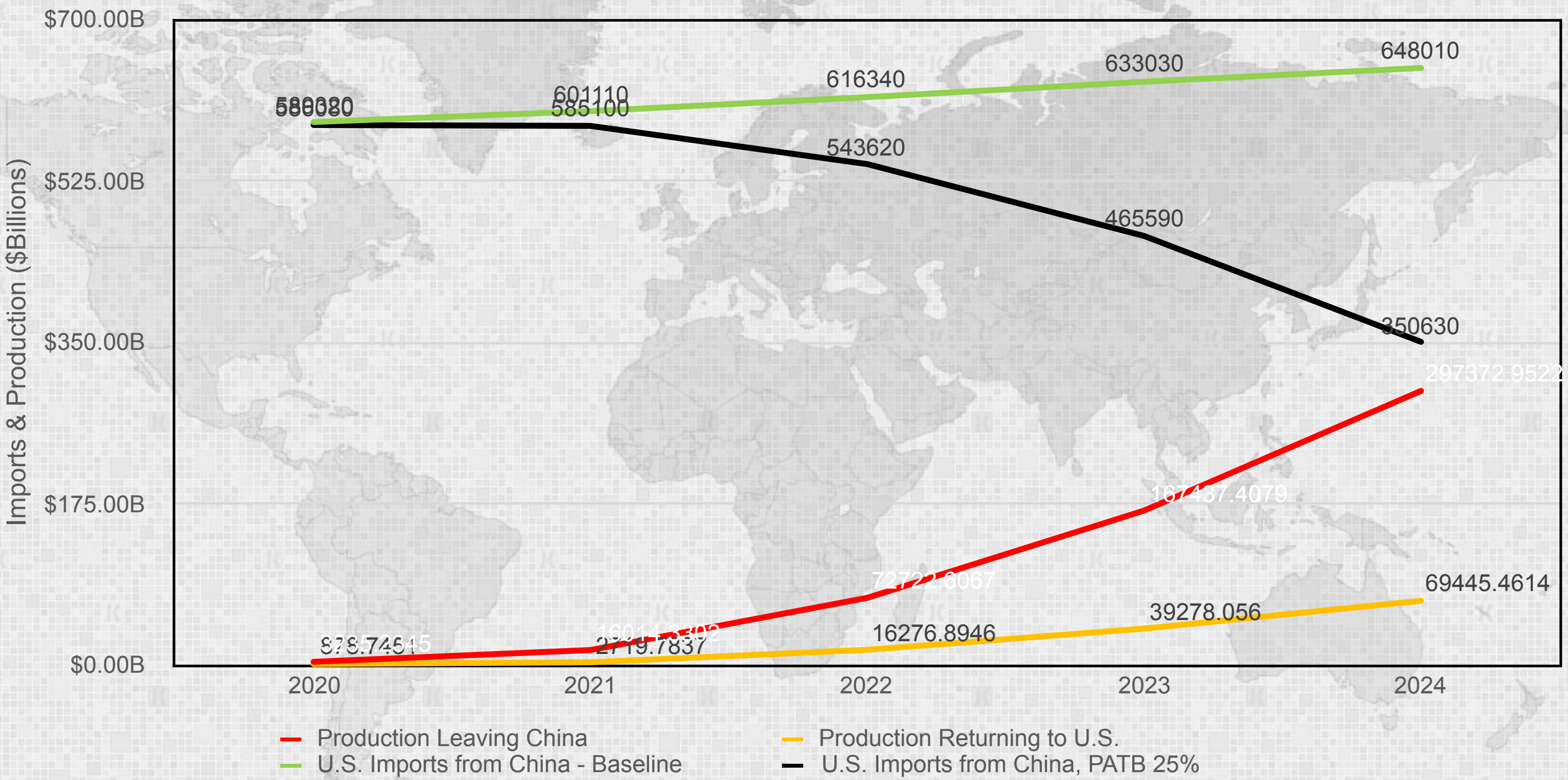
US-China Trade is Declining



- China imports down 21% from peak; China deficit down 26%
- Exports down $4B from peak; imports & balance down $11B
- US becoming less dependent on China
- US contributing less to China economic growth

Decoupling: CPA Award-Winning Study Shows Permanent Tariff Boosts Growth

Total U.S. Imports, Production Migration and U.S. Imports from China (Baseline and PATB 25%)



Delta to Baseline

Comparison Simulation to Baseline: PATB 25% Tariff on China.

Category	Units	2020	2021	2022	2023	2024
Total Employment	Thousands (Jobs)	121.23	166.47	485.03	734.45	947.66
Gross Domestic Product	Billions of 2019 Dollars	19.84	26.98	77.49	118.36	155.86
PCE-Price Index	2009=100 (Nation)	0.02	0.04	0.05	0.11	0.17
Gross Private Domestic Fixed Investment Less Residential	Billions of 2019 Dollars	1.39	2.44	6.95	11.57	16.15
Net Trade of Goods and Services	Billions of 2019 Dollars	-1.20	-4.16	-15.57	-26.25	-36.32
Exports of Goods and Services	Billions of 2019 Dollars	-0.25	-0.26	-0.26	-0.27	-0.56
Imports of Goods and Services	Billions of 2019 Dollars	0.95	3.90	15.31	25.98	35.76

- GDP slightly up over baseline each year by 0.03% to 0.15%
- Employment gains rise to reach 948,000 in Year 5
- Insignificant changes to most other major variables

Manufacturing Gets Biggest Boost

Industrial Sector Output Relative to Baseline ($Billions)						
Industries	Units	2020	2021	2022	2023	2024
Natural Resources	Billions of 2019 Dollars	$2.6	$1.5	$1.3	$1.5	$2.1
Construction	Billions of 2019 Dollars	$24.6	$23.8	$22.2	$19.8	$17.5
Manufacturing	Billions of 2019 Dollars	$19.7	$11.8	$25.2	$52.7	$92.3
Retail and Wholesale	Billions of 2019 Dollars	$26.0	$20.0	$20.9	$22.5	$24.6
Transportation and Public Utilities	Billions of 2019 Dollars	$10.1	$8.1	$8.7	$9.7	$11.2
Finance, Insurance & Real Estate	Billions of 2019 Dollars	$44.3	$32.5	$32.8	$32.5	$32.6
Services	Billions of 2019 Dollars	$85.1	$69.2	$69.1	$69.0	$69.2
Government	Billions of 2019 Dollars	$87.9	$87.8	$80.1	$66.5	$47.4

- Return of Chinese production boosts US manufacturing sector by $92B
- Gains concentrated in sectors where production returns to US
- All sectors stimulated by growth in GDP

Issues, Questions We Hear From Critics

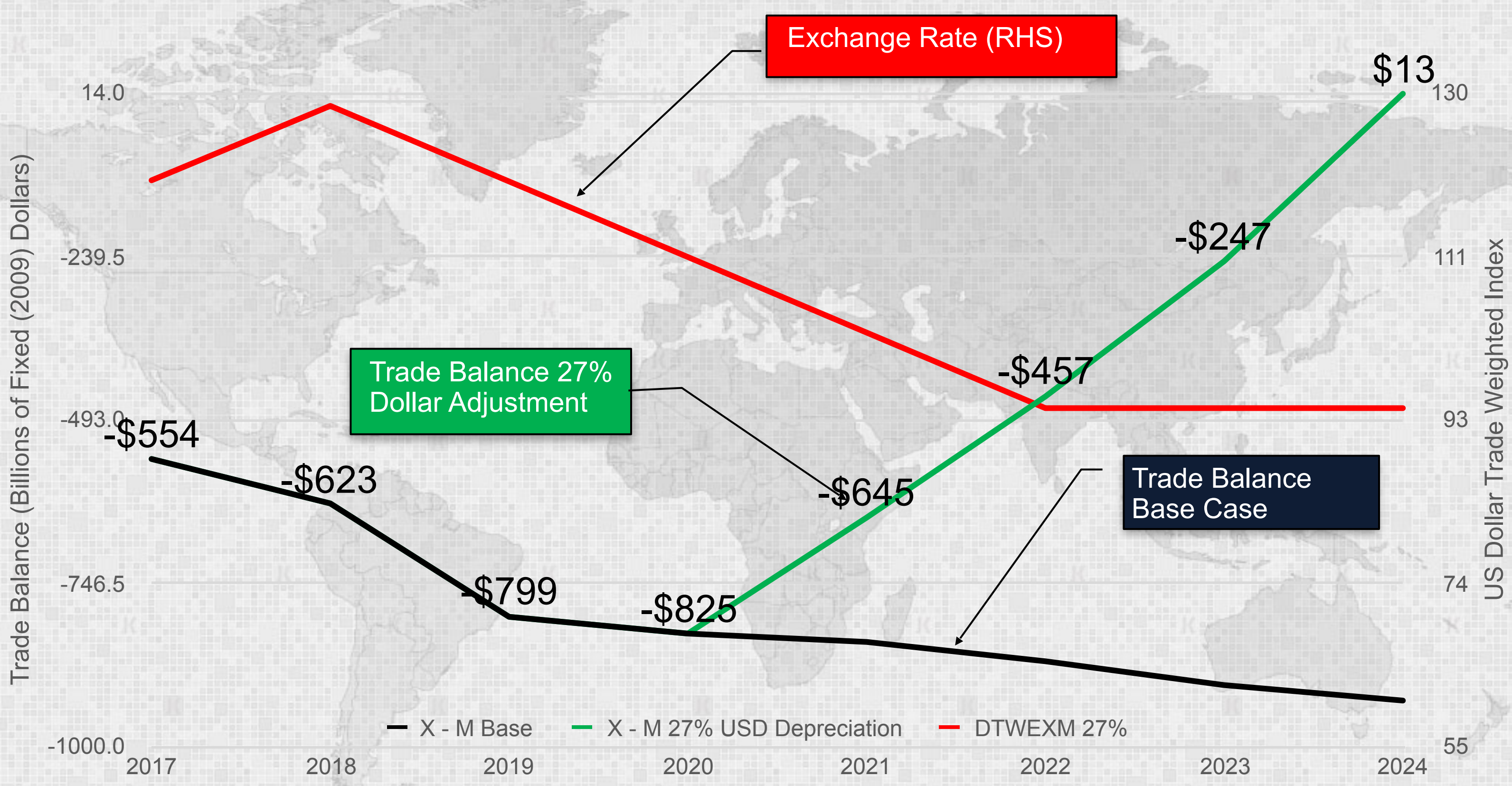
1. Why does your model show gain from tariffs when others show losses?
   – Other models don't allow production to migrate to countries with lower manufacturing costs.
2. Other models say import prices rise with tariffs?
   – Other models make a mechanical assumption, adding tariff to import prices. We look at actual import patterns.
   – Note that <u>investment flows</u> have been the huge factor that all trade models have failed to forecast.
3. Isn't China the only source for many imports?
   – Importers are moving production out of China in every major category even as we speak. The Chinese economy is a lot less skilled than many Americans believe.
4. Can we really rebuild US manufacturing?
   – See next slide.

Companies Bringing Production Back to US: Machinery, Furniture, Toys, Tools & More

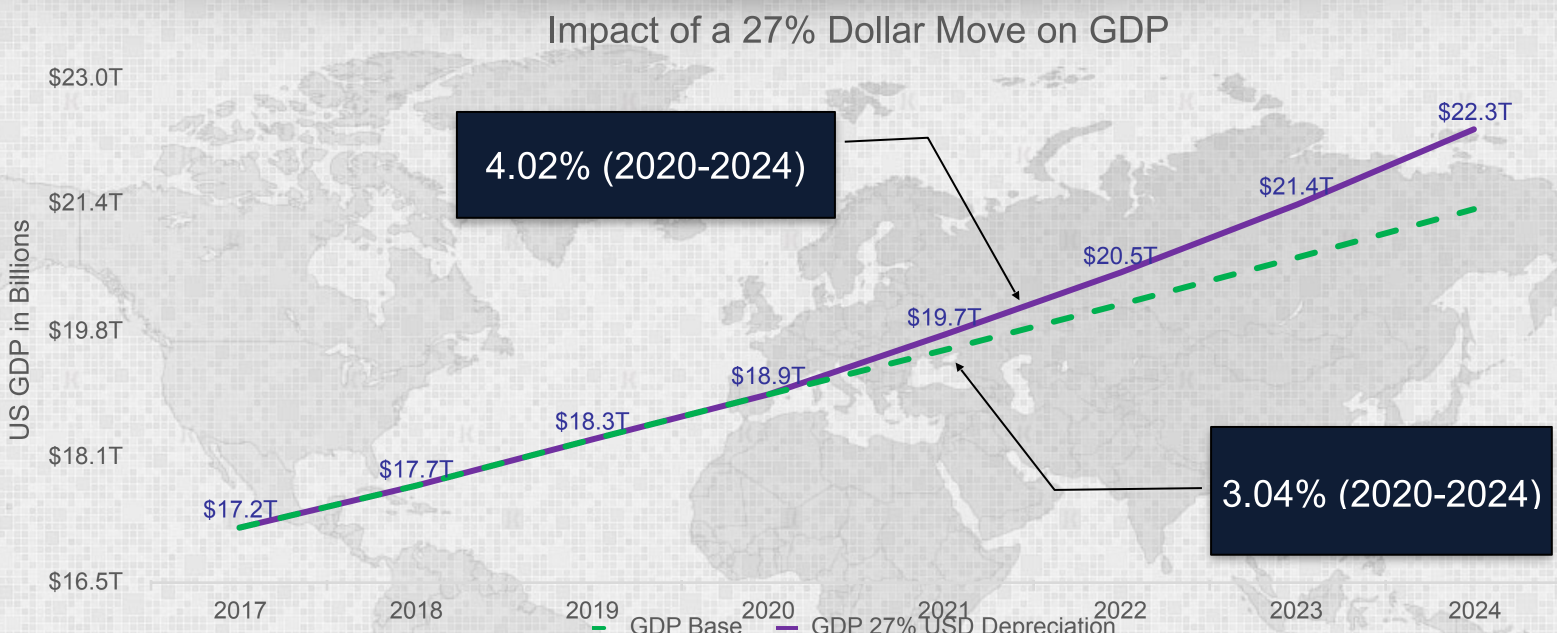
CAT
west elm
STANLEY BLACK & DECKER
RH
Whirlpool CORPORATION
Hasbro
Danfoss
Optec LED LIGHTING

"We're pushing very hard to manufacture where we sell it."
--Jim Loree, Stanley Black & Decker CEO, May 2019

US Dollar is Overvalued
CPA Model Shows 27% Realignment Gets to Balance



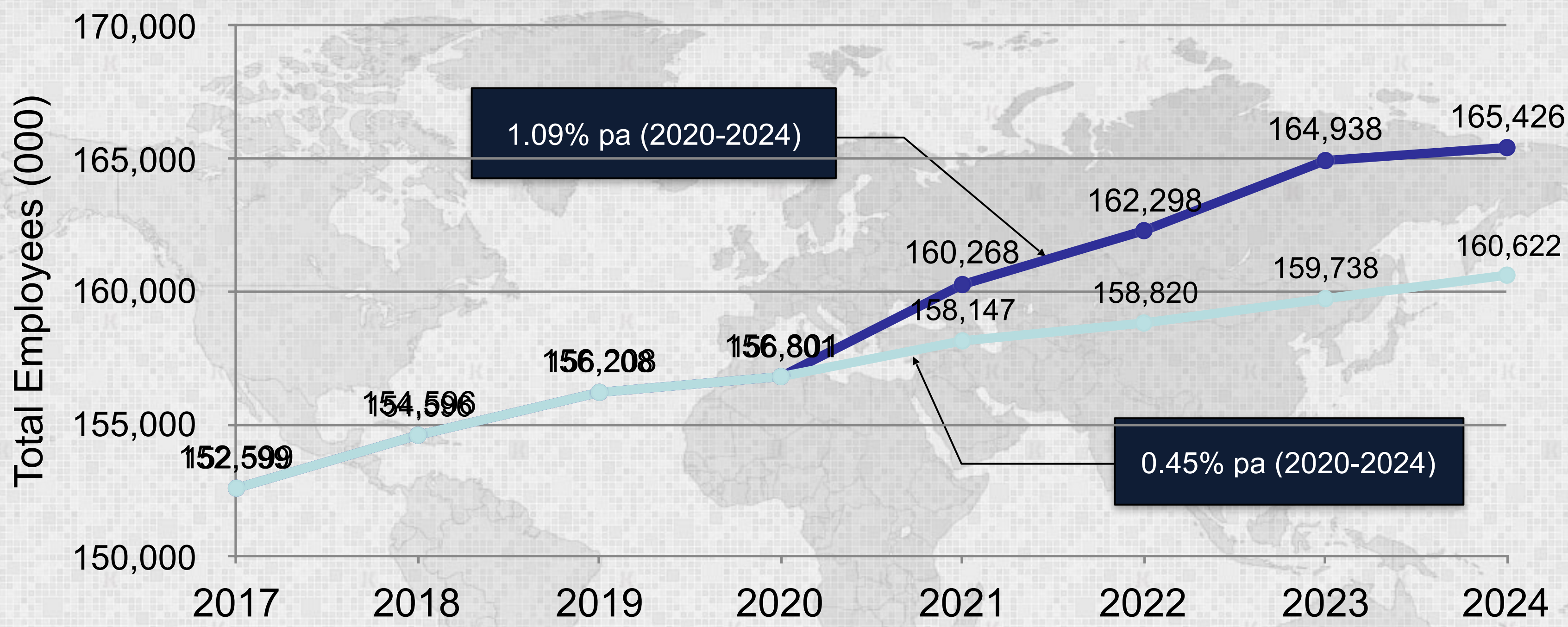
Model Results
GDP $1 Trillion Larger In 2024



- Adds 1 percentage point to GDP each year
- In 2024, US economy is $1 trillion (4.8%) larger than in baseline (in 2009 dollars)

	2020	2021	2022	2023	2024
GDP Base Case	18923	19496	20084	20687	21308
Annual %ch.	3.2%	3.0%	3.0%	3.0%	3.0%
GDP 27%, 2, 4	18923	19694	20495	21370	22336
Annual %ch.	3.2%	4.1%	4.1%	4.3%	4.5%
Delta ($ billions)	0	198	411	682	1028.1

Job Creation: 5.2 Million Additional Jobs



- Average annual employment growth rate more than doubles from 0.45% to 1.09%
- After 6 years (end of 2024) US economy has generated 5.2 million more jobs over the baseline scenario

Industrial Strategy Needed to Recapture Key Industries

- China produces 51% of world steel output
- ….80% of world's chips manufactured outside US
- To rebuild industrial leadership & national security, we must target selected industries
- Preferential tax, tariff, investment policies for US mfg in targeted sectors
- Invest in R&D
- Decouple from nations that don't play by the rules

Apple's New Mac Pro to Be Assembled in Texas After Tariff Waiver

By Mark Gurman

September 23, 2019, 12:00 PM EDT

- Company received waiver on Chinese tariffs for key components
- New version to include more U.S-made parts than previous model

Conclusions

1. Trade deficits lead to economic decline
2. Decline of manufacturing leads to greater inequality
3. Decline of manufacturing endangers US civilian and military security
4. Solution is to support manufacturing, eliminate trade cheating, make the US dollar competitive again
5. CPA economic model shows permanent tariffs on China can add $125 billion to US GDP and create almost 1M additional jobs
6. CPA economic model shows 27% realignment of US dollar can add almost $1T to US GDP, create 5 million additional jobs
7. Production (not consumption) is the key to economic growth, greater equality, and national security

Thank You

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