



THE STERN GROUP INC

INTERNATIONAL TRADE ADVISORS



Taking the Hyperbole Out of the U.S. Trade Debate

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Addressing U.S. Political Anxiety

- The issue of trade has reached peak attention in this year's race to the White House.
- Globalization, technology, and new business models are creating disruption and rising anxiety among displaced workers. This impacts manufacturing jobs moving into the digital age. Other workers, like coal miners, are also impacted by climate change mitigation, and new technology.

Polls Reflect American Trade Anxiety

- 49% of Americans say U.S. involvement in the global economy is a bad thing because it lowers wages and costs jobs.
- 52% of Americans say the U.S. trade deficit with China is a very serious problem.
- Global trade ranks low on the public's list of priority concerns:
 - Only 31% rate it as a top priority.

Short-Term Shrinkage and Long-term Shifts Feed Anxiety

- U.S. manufacturing production has never been higher, but manufacturing jobs are at post-WWII lows.
- Anxiety stems from economic shifts dating back to before the 1990s as manufacturing employment was shrinking.
- Decades of globalization plus years of slow recovery from the Great Recession have generated this state of labor.

Presidential Candidates Can Be Defeatist or Constructive

- Campaign strategists can pursue a “hope” or “fear” message.
- In 1988, Democratic Majority leader Dick Gephardt (D-MO) failed in his run for president by trying to capitalize on job loss anxiety driven by so-called Asian tigers.
 - Critics called him “protectionist.”
 - The defeatist approach proved unappealing to voters.

A Defeatist & Backward Looking Approach



- Ironically, Republican nominee Donald Trump, who boasts of being a winner, argues that America is a “loser” and that it must “become great again.”
- He proposes starting trade wars, imposing harsh tariffs on China, Japan, and Mexico.
 - This would lead to retaliations and shrinking trade, less growth, and higher prices.
- Trump’s defeatist view of America embraces the need to maintain low wages for U.S. workers to compete on the global playing field.

A Positive & Forward Looking Approach



- Democratic frontrunner Hillary Clinton, in contrast, says America is a great nation and advances a competitiveness agenda that addresses the causes and consequences of worker displacement.
- She has a long list of policies starting with early childhood education to community colleges curriculum, teaching relevant skills, to life long worker retraining.

Taking the Hyperbole Out of the Trade Debate

- Trade agreements are micro-economic policy instruments.
- Critics and proponents exaggerate the **risks** and **rewards** of trade agreements.
- Trade agreements are neither the **panacea** nor **apocalypse** that hyperbolic political rhetoric claims.

Many Barriers Have Already Been Reduced

- In the past, tariffs, import quotas, and protectionist legislation/regulations were barriers to trade, creating economic distortions and/or discriminatory treatment.
- By the 1990s most of these were removed in a series of multilateral and regional agreements.
 - There is little room for more economic growth benefits from reductions.
 - Tariff reductions can be instantaneously overwhelmed by exchange rate and volatility.

Americans Feeling the Effects of North American Co-production



- Since 1994, NAFTA has accelerated “co-production,” the integration of industrial production and manufacturing by Canada, Mexico, and the U.S.
- Luis de la Calle sees TPP accelerating “co-production,” which is central to the competitiveness of North America vis a vis Asia.



Addressing the Global Trade Slow Down

Trade Slow Down

- Since 2000, there has been a global slowdown in trade.
- Global trade fell 13% during the 2008-2009 crisis.
- World trade grew by 7.1% on average before the Great Recession, but has grown less than 3% per year since then.
- Trade has been 50% less responsive to increases in GDP.
 - Even if world GDP were to recover to pre-recession levels, trade will not recover with it.

Factors Contributing to Slower Trade

- Declining business investment and shift in composition of world demand from high import content to lower import content.
- Short-term trade finance instruments of exporters and importers were impacted by recent credit crises.
- High capital requirements of banks have decreased export finance.

Other Longer Term Structural Factors

- In decades prior to 2000, falling transportation times, costs, prices, and trade barriers caused trade to grow faster than output.
- These benefits leveled off by the mid 1990s.



Shortening of Global Value Chains

- The length of global supply chains has decreased and the chains have matured (driven by the U.S. and China).
- In the 1990s, lengthening of global value chains had contributed to a higher trade/GDP ratio.
- Today China's exports contain almost 50% less imported good content than in the mid-1990s, i.e. greater domestic value added than international value added.
- U.S. manufacturing imports from China stopped growing after 2000.

Government Trade Restrictions & Distortions

- Since 2009, G20 member nations put in place 228 new trade restrictive measures including export finance and subsidies.
- These were meant to be temporary but have remained in place past 2014.



Blame Technology, Not Trade, for Job Losses

Shrinking Manufacturing Jobs and Middle Class

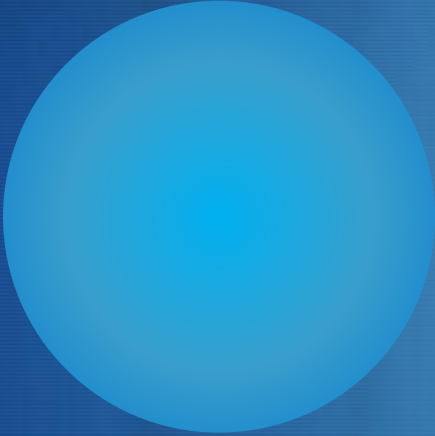
- In the 1990s President Bill Clinton said workers faced changing jobs 7 times in their life time. Now, in the gig economy, many individuals need to hold 3 jobs at once to cope with stagnant wages.
- The U.S. is experiencing a middle class decline.
- Median wages and average income have decreased. The middle class has dropped from 61% of the population in the 1970s to 50% as of 2015.

Job Disruption/Churn

- Technologies affecting value chains will disrupt as many as 50% of U.S. jobs in manufacturing, high tech service, energy, health care, and education.
- The U.S. is manufacturing more than ever with fewer jobs, as are countries around the world.
- The world is experiencing a transformation from making things to making value.
 - Manufacturing is no longer separate from “*the value chain*, the system of R &D, product design, software development and integration, and lifecycle service activities.”

Trade is Changing with Technology

- Labor costs are no longer the decisive factor in industrial and manufacturing plant location.
- “Trade” is no longer simply about moving products across borders.
- “Trade policy” is no longer about tariffs or even non-tariff barriers.



A Positive Approach to Workforce Dislocation

Embrace Change & Innovation

- Early child education—80% of the brain is formed by age 3.
- A K-12 computing curriculum that equips everyone for the digital age
- Life long learning



Advance Worker Skills

- Reduce financial barriers to advance post-secondary education needed for jobs across the value chain.
- Community colleges should coordinate with employers to train and certify for needed skills.



Increase Workforce Diversity

- Diversity enhances creative outcomes
- Especially in tech and computer science
- Close the wage gap and improve women's economic security by increasing access to skilled jobs.

Smart Investment & Value Chains

- Integrate systems of products, software, and data across value chains.
- Invest in:
 - Advanced computing and connectivity capabilities
 - A strong talent pipeline for software development, data analytics, and systems integration

Infrastructure

- Increase long-term capital investment.
- Interest rates are low.
- Fiscal policy should create incentives for long-term capital investments in replacing infrastructure, electricity generation, and connectivity.



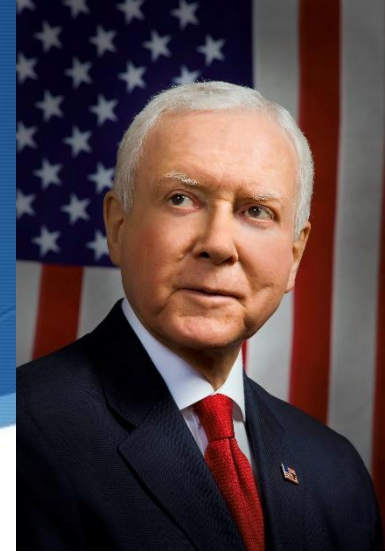


Trans-Pacific Partnership and US Politics

Congressional Approval Process

- If Congress passes authorizing legislation to implement the TPP, it will do so during the “lame-duck” session after the November 2016 elections.
 - Precedents include the Trade Act of 1974, the Uruguay Round Agreements Act of 1994, and 2006 measures to normalize trade with Vietnam.
- Elections will have passed, and members will not be facing voters for another 2 years at the earliest.

Republican Legislators Have Commercial Concerns



- Influential Republicans including Senate Finance Committee Chairman Orrin Hatch (R-UT) have specific concerns that may require further concessions from the 11 other trading partners:
 - IP protection for biologics
 - Localized storage of financial services data
 - Carve out for tobacco control measures (investor-state dispute protections)
 - Labor provisions

Geostrategic/Defense/Security Arguments for TPP

- Geo-strategic arguments for trade legislation have proven more compelling than commercial arguments.
- President Obama has argued that if the U.S. does not set trade rules, China will.



Presidential Candidates are Opposed



- None of the frontrunner candidates want to implement the TPP trade deal as is.
- Trump called TPP “a horrible deal,” and Bernie Sanders wants to kill it.

Hillary Clinton's Position



- On May 6, 2016, Hillary Clinton said she was “not interested in tinkering around on the margins of our trade policy.”
- She calls for a “fundamental rethink of how we approach trade deals going forward.”
- Her measures of a successful agreement are:
 - Creating more jobs for Americans
 - Raising wages
 - Increasing national security



Thank You

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