

# Trade, Jobs and Politics

Great Decisions

March 2017

# iPhone: Made in China?

Location and number of Apple suppliers per country



349		China	11		Vietnam	2		Brazil
139		Japan	7		Mexico	2		Costa Rica
60		USA	6		Indonesia	2		Austria
42		Taiwan	6		Israel	2		Netherlands
32		South Korea	5		France	1		Canada
21		Malaysia	5		Czech Republic	1		Portugal
24		Philippines	3		Belgium	1		Spain
21		Thailand	3		Italy	1		Morocco
17		Singapore	3		Ireland	1		Puerto Rico
13		Germany	3		UK	1		Malta
						1		Hungary

**\$4**

Extra cost if iPhones are assembled in the U.S. Apple's manufacturing strategy is motivated by scalability and supply chain risk rather than cost

**\$600 Million**

Additional labor cost for reshoring iPhone production in the US

**35%**

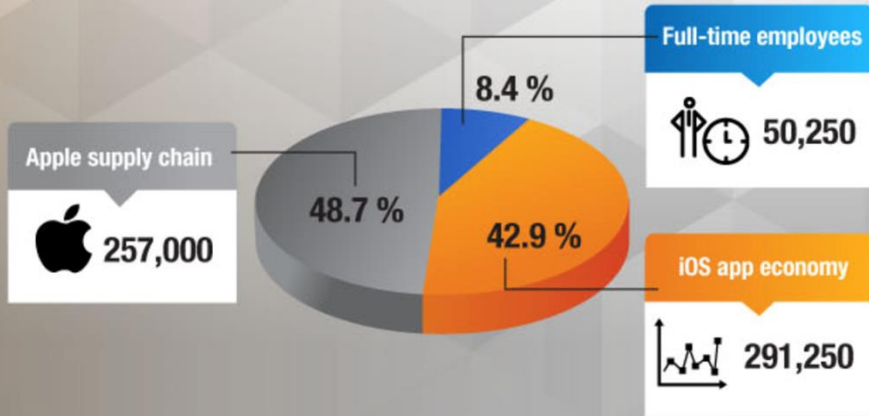
Tax on profits Apple would have to pay for US-made iPhones versus 2% on overseas profits

"If Apple brought iPhone manufacturing to the US it would cost them **\$4.2 Billion**"

- Tim Worstall, FORBES

# iPhone: Made in China?

## US Jobs Created or Supported by Apple (as of 2014)



## US lacks labor capacity to ramp up production

Period to hire  
**8,700 engineers**  
to manage  
**200,000**  
**factory workers**



**USA**  
**9 months**



**CHINA**  
**15 days**

# Unemployment vs GDP Growth

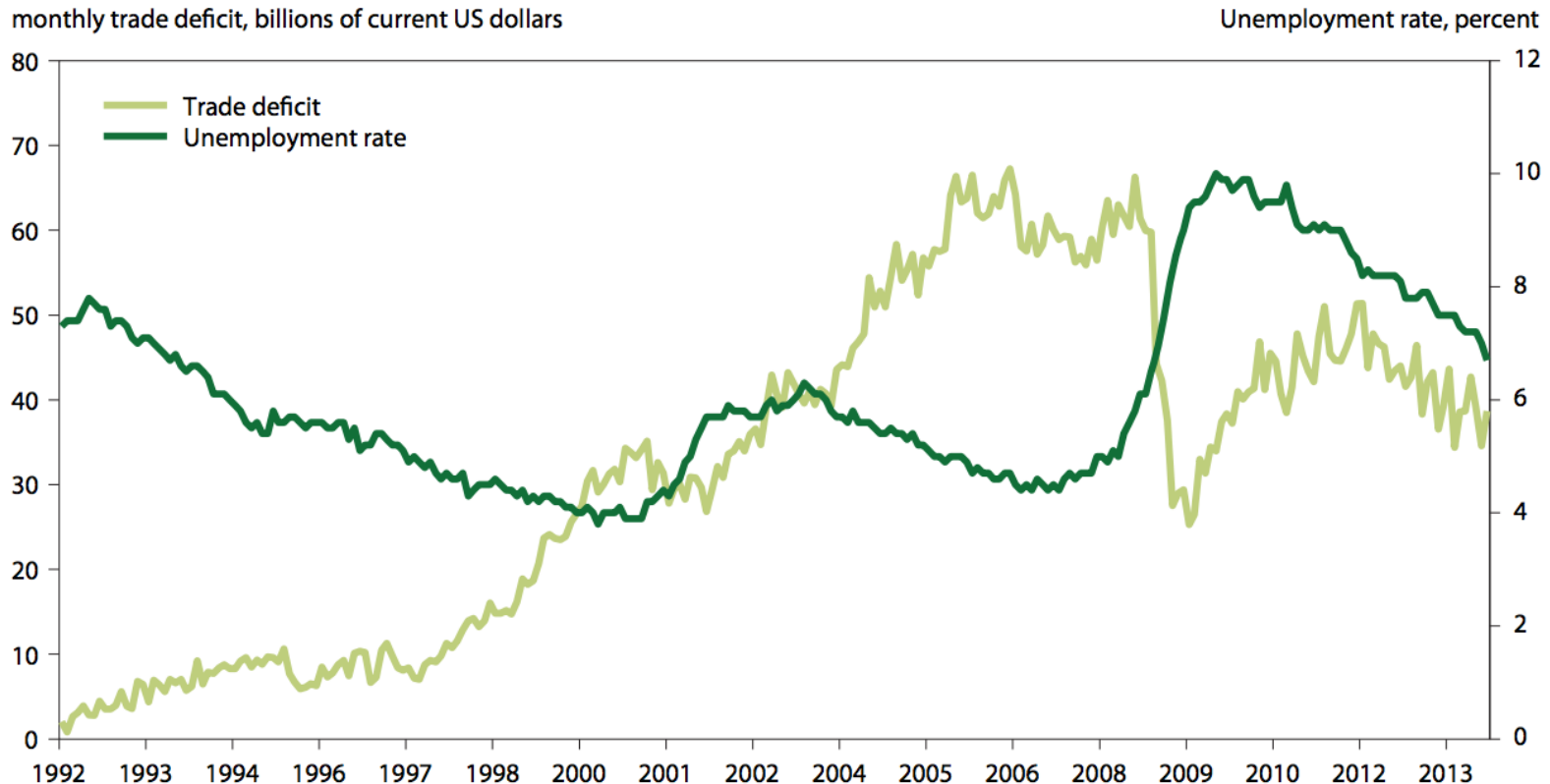


Okun's law correlates employment to GDP growth. Recovery from recession must faster than predicted by Okun

<https://www.forbes.com/sites/mikepatton/2012/08/27/the-key-to-economic-growth-reduce-the-unemployment-rate/#20c3440054ce>

# Balance of Trade

**Figure 2 US trade deficit and unemployment rate, 1992–2013**



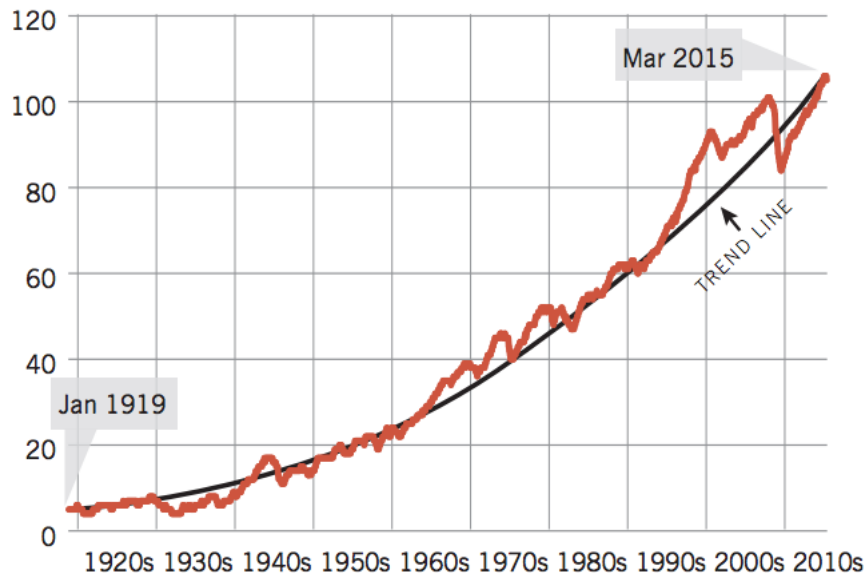
Source: Federal Reserve Bank of St. Louis, <http://research.stlouisfed.org/>.

Inverse correspondence between the US unemployment rate and the US global trade deficit. When the trade deficit rises, the unemployment rate falls. Periods of high import growth have been associated with tight labor markets and fast economic growth, rather than weak labor markets and a slack economy.

<https://piie.com/sites/default/files/publications/pb/pb14-13.pdf>

# US Manufacturing

Figure 1. U.S. Manufacturing Production Index, 1919-2014



Source: Board of Governors of the Federal Reserve System (U.S.)

<http://conexus.cberdata.org/files/MfgReality.pdf>

<http://foreignpolicyblogs.com/2017/02/20/beyond-nafta-north-american-free-trade/>

Had we kept 2000-levels of productivity and applied them to 2010-levels of production, we would have required 20.9 million manufacturing workers. Instead, we employed only 12.1 million.



# Jobs losses: trade or automation?

We estimate that import competition from China, which surged after 2000, was a major force behind both recent reductions in US manufacturing employment and weak overall US job growth. Our central estimates suggest job losses from rising Chinese import competition over 1999–2011 in the range of **2.0–2.4 million**. <http://economics.mit.edu/files/9811>

Table 4. Impact of Productivity, Trade, and Domestic Demand for Manufactured Goods, 2000-2010

Sector	Production Change Per Worker	Actual Job Losses	Job Loss Share		Job Gain Share
			Trade	Productivity	Domestic Demand
<i>All manufacturing</i>	67.5%	5,647,700	13.4%	87.8%	1.2%
<i>Durable goods manufacturing</i>	82.9%	3,737,200	12.3%	88.2%	0.5%
Wood products	47.0%	274,900	14.4%	81.9%	-3.6%
Nonmetallic mineral products	6.5%	177,000	12.8%	90.4%	3.2%
Primary metals	39.1%	248,500	-3.3%	76.7%	-26.7%
Fabricated metal products	8.9%	478,200	6.9%	97.7%	4.5%
Machinery	39.9%	447,400	0.8%	99.6%	0.4%
Computer and electronic products	350.3%	693,700	18.8%	117.7%	36.5%
Electrical equipment, appliances, and components	57.3%	233,700	19.0%	88.1%	7.1%
Transportation and motor vehicles	64.1%	716,500	5.5%	85.5%	-9.0%
Furniture and related products	5.6%	327,700	40.2%	81.1%	21.3%
Miscellaneous manufacturing	62.2%	139,600	21.7%	76.7%	-1.6%
<i>Nondurable goods manufacturing</i>	48.5%	1,910,500	12.3%	90.0%	2.3%
Food and beverage and tobacco products	23.1%	119,200	4.3%	96.8%	1.1%
Textile and textile product mills	22.4%	345,200	9.5%	97.6%	7.0%
Apparel, leather, and allied products	45.9%	370,500	44.6%	58.5%	3.1%
Paper products	13.0%	210,300	1.7%	93.2%	-5.0%
Printing and related activities	54.1%	318,600	-2.1%	101.8%	-0.3%
Petroleum and coal products	41.0%	9,100	13.3%	77.1%	-9.6%
Chemical products	52.8%	186,500	1.4%	101.1%	2.5%
Plastics and rubber products	30.4%	351,100	7.4%	100.5%	7.9%

Source: Author calculations using data from the U.S. Census Bureau

<http://conexus.cberdata.org/files/MfgReality.pdf>

# Services Outsourcing



# Tariffs



**PAUL RYAN**

In the United States, "we tax our exports and don't tax our imports."

— PolitiFact Wisconsin on Thursday, February 9th, 2017



More right on exports than imports

The largest trade partners by **total import value** and **total duties paid** in 2015:

	Trade partner	Import value (\$ billions)	Total duties (\$ billions)	Average rate
#1	China	479.1	14.4	3.0%
#2	Canada	296.0	0.2	0.1%
#3	Mexico	294.6	0.3	0.1%
#4	Japan	130.5	2.3	1.7%
#5	Germany	121.5	1.8	1.5%
#6	Korea	69.5	0.6	0.9%

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#3	Japan	130.5	2.3	1.7%
#4	Germany	121.5	1.8	1.5%
#5	Indonesia	19.6	1.3	6.4%
#6	India	44.9	1.1	2.5%

Notes: Categories are HTS-2 codes, Average rate is calculated duties as a percentage of total customs value for each category in 2015.

Source: U.S. International Trade Commission database



The top import categories account for the bulk of duties collected on goods entering the United States.

Import category	Import value (\$ billions)	Total duties (\$ billions)	Average rate
Articles of apparel and clothing accessories, knitted	46.6	6.7	14.1%
Articles of apparel and clothing accessories, not knitted	38.9	5.0	12.9%
Vehicles (other than railway) and parts and accessories	278.3	3.7	1.3%
Footwear, gaiters and the like and parts of such articles	27.2	2.9	10.6%
Electrical machinery and equipment (sound, TV, etc)	322.8	2.2	0.7%
Nuclear reactors, boilers, machinery and appliances	318.3	1.7	0.5%
Articles of leather, saddlery, handbags, etc	13.7	1.5	11.1%
<b>TOTAL</b>	<b>2,226.6</b>	<b>33.9</b>	<b>1.5%</b>



## DONALD TRUMP

"Currently, when we ship products out of America, many other countries make us pay very high tariffs and taxes — but when foreign companies ship their products into America, we charge them nothing or almost nothing."

— *PolitiFact National* on Thursday, March 2nd, 2017



An exaggeration at best



## HILLARY CLINTON

"I opposed the only multilateral trade deal that came before the Senate while I was there."

— *PolitiFact National* on Friday, August 12th, 2016



Ignores a lot of votes for bilateral trade deals



## BERNIE SANDERS

Says Hillary Clinton voted "for virtually every trade agreement that has cost the workers of this country millions of jobs."

— *PolitiFact National* on Sunday, April 10th, 2016



Clinton supports trade deals but job loss question not settled



### DONALD TRUMP

"New York State has been horribly, horribly hurt by NAFTA"

— PolitiFact New York on Sunday, October 16th, 2016



Experts disagree with Trump



### BERNIE SANDERS

"NAFTA, supported by the Secretary (Clinton), cost us 800,000 jobs nationwide."

— PolitiFact National on Monday, March 7th, 2016



Most studies found little impact

# NAFTA

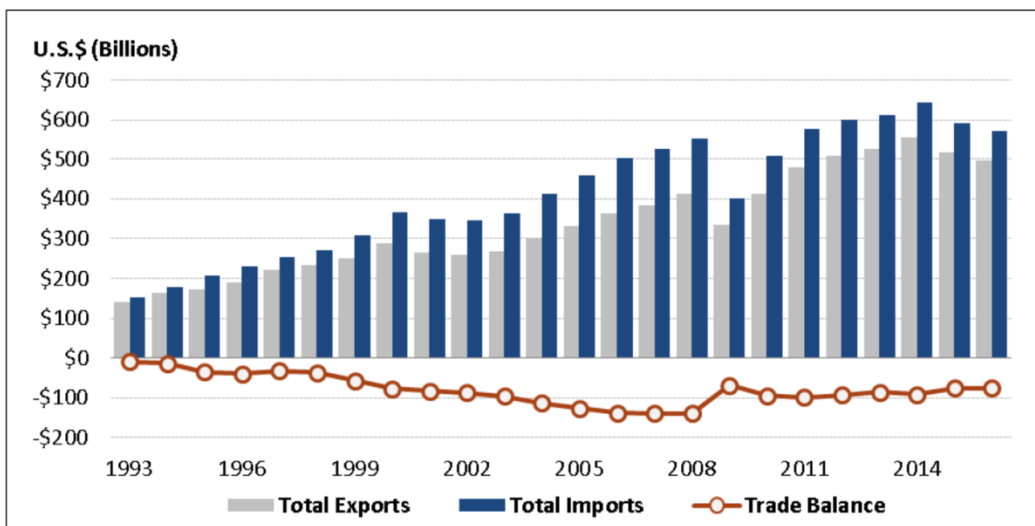
NAFTA was controversial when first proposed, mostly because it was the first FTA involving two wealthy, developed countries and a developing country.

**In reality, NAFTA did not cause the huge job losses feared by the critics or the large economic gains predicted by supporters.**

The net overall effect of NAFTA on the U.S. economy appears to have been relatively modest, primarily because trade with Canada and Mexico accounts for a small percentage of U.S. GDP.

**Figure 2. U.S. Merchandise Trade with NAFTA Partners: 1993-2016**

(billions of nominal dollars)



**Source:** Compiled by CRS using trade data from the U.S. International Trade Commission's Interactive Tariff and Trade Data Web, at <http://dataweb.usitc.gov>.

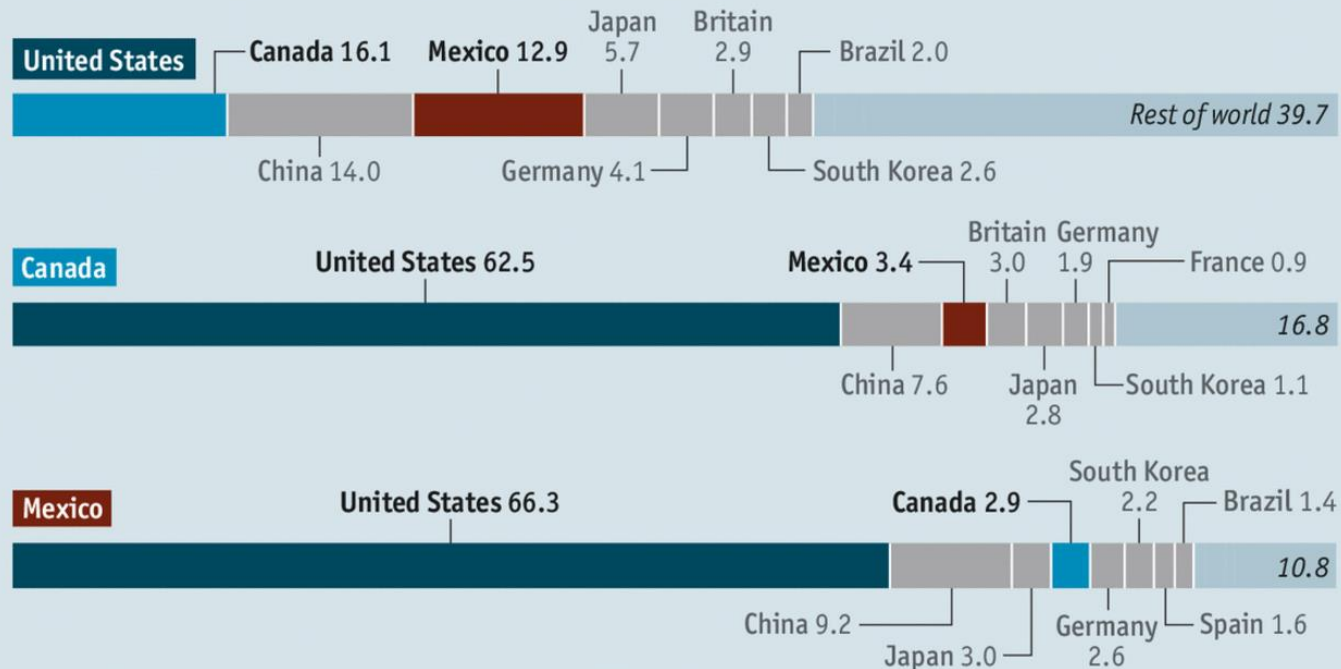
Congressional Research Service, Feb 2017  
<https://fas.org/sgp/crs/row/R42965.pdf>

# NAFTA Trading Partners

## Three-way street

2

Merchandise trade by main trading partners, 2012, % of total



Sources: US Department of Commerce; Statistics Canada; IMF

In the longer term, two further things favour North America; demography and energy. Two-fifths of Mexicans are under 20. Between 2000 and 2030, BCG expects Mexico's labour force to grow by 58% and the United States' by 18%, as China's shrinks by 3%

<http://www.economist.com/news/briefing/21592631-two-decades-ago-north-american-free-trade-agreement-got-flying-start-then-it>

# TPP



## DONALD TRUMP

The Trans-Pacific Partnership "was designed for China to come in, as they always do, through the back door and totally take advantage of everyone."

— *PolitiFact National* on Thursday, November 12th, 2015



It might actually hurt  
China

However, the TPP has other glaring deficiencies that also deserve attention by Congress and the presidential candidates: the poor protection given to the environment, food safety and human rights. There is not a single mention of climate change or human rights in the treaty text. Conservation protections for wildlife are minimal at best.

Foreign companies are granted the ability, for example, to challenge environmental laws of other countries through a controversial clause known as the investor-state dispute settlement system. And the TPP's environment chapter is weaker than those in previous free trade agreements.

<http://www.businessinsider.com/hillary-clinton-ignoring-problem-with-tpp-trade-deal-2016-7>