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OPEN FOR BUSINESS

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Welcome to the first newsletter from the CSIS Scholl Chair in International Business. Once a quarter, we plan to reflect on current issues in U.S. trade and investment policy and its impact on globally engaged businesses large and small. Each issue will focus on one or two policy matters with a connection to the Scholl Chair's research agenda.

VIEWPOINT

As a starting point, we want our readers to understand our way of looking at the world. Three main "lenses" focus our attention and inform our work:

First, open markets matter. Economies that are open to trade and investment consistently deliver better economic performance, which helps create opportunities for workers, consumers, and firms. At a time of weak economic recovery, high unemployment, and pressure on government budgets, trade and investment liberalization represent a low-cost, ready-to-implement economic stimulus both at home and abroad.

Second, the pace of change is accelerating in most fields of international commerce. While it's often the case that government policy is a "trailing indicator"—problems arise that create political pressure for change and lead eventually to changed policy—today's faster, less predictable global environment creates a risk of a larger-than-usual gap between business reality and trade policy.

Third, there is a "forgotten person" in most trade policy debates—the consumer. Despite the evidence that consumers have the most to gain from open markets in the form of higher living standards and greater economic freedom, policymakers sometimes overlook the consumer harm caused by actions to "protect" the interests of producers.

GLOBAL VALUE CHAINS AND "UNBUNDLED PRODUCTION"

In August, the Scholl Chair hosted a logistics conference. Tony Prophet, the keynote speaker and senior vice president of Hewlett-Packard, described the complete reinvention of the company's supply chain for laptop computers and printers between 2003 and 2012. Mr. Prophet's case study demonstrated the remarkable degree to which tasks along the production chain benefit from specialization. The HP system of production and distribution simultaneously improved efficiency and employee satisfaction while reducing its carbon footprint.

About the Scholl Chair

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Scott Miller is a senior adviser and holds the William M. Scholl Chair in International Business at CSIS. From 1997 to 2012, Mr. Miller was director for global trade policy at Procter & Gamble, a leading consumer products company. He advised the U.S. government as liaison to the U.S. Trade Representative's Advisory Committee on Trade Policy and Negotiations, as well as the State Department's Advisory Committee on International Economic Policy. Mr. Miller was the founding chairman of the Department of Commerce's Industry Trade Advisory Committee (ITAC) Investment Working Group.

International Business Developments

TRANS-PACIFIC PARTNERSHIP: A CANADIAN PERSPECTIVE

On September 20, the Scholl Chair hosted the Honorable John Manley, president and CEO of the Canadian Council of Chief Executives, for the final installment of the Trans-Pacific Partnership (TPP) Speaker Series. Mr. Manley gave the keynote address and fielded questions from the audience, providing an alternative view of the controversial TPP and offering insight into the perspective of one of the newest members of the TPP. If you missed Mr. Manley, you can catch his full speech at http://csis.org/event/trans-pacific-partnership-canadian-perspective.

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Another speaker, Dr. Donald Ratcliff of the Georgia Institute of Technology, demonstrated the scope of public-sector effects when a government decides to improve logistics performance. Specifically, an initiative by the government of Panama involved a total of 11 separate agencies. Dr. Ratcliff noted, "Logistics are a big deal, but no government has a 'department of logistics.'"

As the case of Hewlett-Packard illustrated, the production process has been "unbundled" (a term coined by economist Robert Baldwin). Firms along the supply chain specialize in the production of individual components, or the performance of a set of tasks. Technology makes this both feasible and efficient. Information and communication technology supports global production and distribution networks. Container shipping radically lowered the cost of ocean transport. Advanced materials have reduced the weight (and therefore the transport costs) for many goods. Today, a consumer device like a smartphone may be designed and engineered in the United States; assembled in China using components from Germany, Taiwan, or other economies; and distributed by global logistics companies and retailers. Based on Tony Prophet's examples, it's evident that HP printers and computers are "made on planet earth."

Unbundled production has multiple impacts on the trading system. On the positive side, during the recent recession, the existence of supply networks appeared to reduce interest in trade protection. Practically, a manufacturer will not encourage his or her government to raise tariff barriers if the effect will be to make needed inputs more expensive.

Supply chain thinking reorients the basic commercial interest in trade agreements. In the past, advocates promoted the "demand side," seeking market access for exports to new customers. With unbundled production, it is the "supply side" argument that is dispositive: firms need access to the most efficiently produced components. NAFTA, initially promoted because of the benefits of new market access, is now supported by U.S. producers because it allows firms in "Factory North America" to make things together.

Supply chains put pressure on trade policy assumptions as well. Many policymakers are comfortable with aggregate measures of trade flows, and some draw conclusions about the success of trade policy by examining bilateral surpluses or deficits. But when one considers that more than 50 percent of global trade in goods is in intermediate products or components, gross measures fail to tell the story. Consider: a $170 smartphone assembled in China counts against the U.S. bilateral trade deficit, yet perhaps only 3 to 5 percent of the value is attributed to Chinese assembly costs.

Finally, supply networks can be disrupted by nontariff problems like physical infrastructure or regulation. Sometimes problems arise from a regulation that meets the classic test of nondiscrimination by excluding from commerce a necessary component or service. All sorts of non-trade-related factors have an effect on the attractiveness of a sourcing strategy.

RESEARCH AGENDA

Research on global value chains is relatively new, and as a consequence there are few concrete policy recommendations available. In the coming months, the Scholl Chair will take a closer look at the issues created by deeper economic integration and greater interdependence. We plan to investigate the operations of globally engaged U.S.-headquartered firms and explore the policy implications. As always, we welcome the advice of readers to help shape our agenda. ■

The Forgotten Person

American consumers benefit from the country's relatively low import tariffs. In 2011, U.S. customers imported goods worth $2.19 trillion, on which $28.6 billion in tariffs were collected—an average applied rate of 1.4 percent. However, as Ed Gresser of Progressive Economy notes, parents who bought their school-age child a new imported backpack paid a tariff of 17.6 percent, adding about $2.50 to the price of a $15.00 item. Mr. Gresser goes on to show that the tariff bill for back-to-school shoppers this fall totaled $1.5 billion (http://progressive-economy.org/tariff-bill-for-american-back-to-school-shoppers-1-5-billion/).