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TRADE, JOBS, AND GROWTH

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The 2012 elections are now behind us, and official Washington is back to today's crisis. Yet nearly four years after the official end of the 2008–2009 recession, the U.S. economy continues to struggle with slow growth. The IMF recently trimmed its 2013 forecast for U.S. GDP growth to 2.3 percent, following 1.7 percent in 2011 and 2.0 percent in 2012. November's unemployment report revealed falling labor force participation rates—down 350,000 despite an increase of 191,000 in our working-age population.

What policy options are available to the White House and Congress? Additional fiscal stimulus is a political nonstarter. Diminishing returns appear to have set in with regard to further monetary easing. Regulatory reform would help, but it's nowhere near the top of the agenda. But opening markets—at home and abroad—would boost economic performance at very low cost. An ambitious trade and investment policy is a powerful tool for generating better jobs and accelerating growth.

NEW RESEARCH ON TRADE AND EMPLOYMENT

Findings from the OECD-led International Collaborative Initiative on Trade and Employment (ICITE) are collected in a new publication.[1] The report provides a thorough look at many aspects of trade, including supply networks and global services, and examines economies at different levels of development.

The headline conclusions are straightforward. First, market openness drives growth through increases in productivity. Open economies grow faster than closed ones, demonstrated in 14 out of 14 multicountry econometric studies. To the contrary, trade restrictions often amount to a "tax on the poor," protecting few jobs at a high cost and stifling productivity. Second, trade—both imports and exports—contributes to new and better jobs. Exporting firms tend to pay higher wages, while imports act to raise productivity growth.

The ICITE report notes that the composition of jobs has changed over the past 30 years, with the locus of manufacturing shifting from higher- to lower-income countries. From 1995 to 2005, the services sector accounted for all the net job growth in high-income countries and 85 percent of new jobs in middle-income countries. As services grow in importance, most economies have untapped trade opportunities.

ICITE draws four key recommendations for policymakers:

1. Open markets further: multilaterally, regionally, or unilaterally. More open markets are a necessary condition for growth and prosperity.

[1] Douglas Lippolt, ed., *Policy Priorities for International Trade and Jobs* (Paris: OECD, 2012), http://www.oecd.org/site/tadicite/50258009.pdf.

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

UNITED STATES & RUSSIA: PERMANENT NORMAL TRADE RELATIONS

On November 30, 2012, the Scholl Chair and the CSIS Russia and Eurasia Program cohosted a Capitol Hill conference entitled "U.S.-Russia Relations after PNTR: The Long View." The conference featured Representative Adam Smith (D-WA), former U.S. trade representative Carla Hills, Senator Richard Lugar (R-IN), and former national security adviser Zbigniew Brzezinski. Panelists discussed the policy, business, and trade implications of U.S.-Russia permanent normal trade relations (PNTR). You can watch the conference at: http://csis.org/event/us-russia-relations-after-pntr-long-view.

OPEN FOR BUSINESS *(continued)*

2. Avoid protectionism, which leads to job losses in the long run. Promote markets, not business. Protect workers, not jobs.
3. Invest in education, skills, and physical infrastructure, and improve the investment climate. These policies complement open markets.
4. Implement active labor market policies to equip workers for new opportunities and help the adjustment process.

HOW SHOULD THE UNITED STATES RESPOND?

The United States can accelerate growth by adopting the ICITE's policy advice and strengthening its trade agenda. While many believe this is a "no brainer," there is clearly a need for clarification within Congress. I propose three specific, yet simple points to aid policymakers in adopting ICITE's recommendations, while promoting a pro-growth trade agenda:

1. *Open Markets.* The Trans-Pacific Partnership (TPP) is the main item on the 2013 trade agenda. That's a good start, but meaningful growth would require greater ambition. The transatlantic agenda, with hope for a U.S.-EU free trade agreement (FTA), offers major productivity benefits to the massive volume of existing trade and investment relationships. In Geneva, the International Services Agreement would kick-start growth for highly competitive U.S. services exporters. Beyond negotiations, the United States could further liberalize on a unilateral basis. Today, the average U.S. export contains 21 percent imported content, so why keep a tariff on inputs if there is no domestic source? Since tariffs on inputs simply raise the cost of goods, eliminating them would be a quick boost to U.S. competitiveness.

2. *Avoid Protectionism*. Americans benefit every day from the openness of the U.S. market, where the average applied import tariff is only 1.4 percent. Yet American politicians are not immune from contracting a little "feel-good" protectionism on behalf of favored constituencies. "Buy America" is a rallying cry that resonates, yet most actions backfire, as less-disciplined trading partners implement their own more extreme versions to the detriment of U.S. exporters. As the ICITE report concludes, protectionism is costly and ineffective. Consider, for instance, the 2011 tariffs on tires from China. A thorough analysis by the Peterson Institute for International Economics showed that the measure (a) provoked Chinese retaliation, not compliance; (b) cost the U.S. economy about $1.1 billion, mostly borne by tire consumers; and (c) "saved," at most, 1,200 U.S. jobs, at a cost of $900,000 per job saved.[2] The action was taken consistent with U.S. law, but that which is legal is not necessarily wise.

3. *Invest in Human and Physical Capital*. While others have more expertise to recommend policies, it's clear that the United States needs to do more in both job skills and physical infrastructure. A recent McKinsey on Society report points to a massive shortfall in high- and middle-skilled workers.[3] Almost half (44 percent) of American young people believe their education hasn't improved their employment prospects, while a similar share (45 percent) of U.S. employers say they can't find skilled workers for entry-level jobs. When it comes to physical infrastructure, gross domestic investment (as reported by the Federal Reserve Bank) has fallen from 20 percent of GDP in 2006 to 16 percent in 2011.

The overall picture is clear: we have work to do to open markets and improve global competitiveness. Let's get going.

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[2] Gary Hufbauer and Sean Lowry, "U.S. Tire Tariffs: Saving Few Jobs at High Cost," *PIIE Policy Brief,* April 2012, http://www.iie.com/publications/pb/pb12-9.pdf.
[3] Mona Mourshed, Diana Farell, and Dominic Barton, *Education to Employment: Designing a System that Works* (New York: McKinsey Center for Government, n.d.), http://mckinseyonsociety.com/downloads/reports/Education/Education-to-Employment_FINAL.pdf.

The Forgotten Person: Our Canadian Neighbors

By Clare Richardson-Barlow

Similar to the United States, economic success in Canada hinges on international trade. The United States' largest trading partner, Canada has in recent years become a top choice for foreign investment, due in part to unilateral trade liberalization. In 2009, Canada announced the elimination of tariffs on many industrial inputs, quickly becoming one of the most globally competitive and open markets in the Americas. In 2010, Canada expanded the list of goods that no longer require tariffs and by 2015 expects to make permanent zero rates on 1,755 tariff lines. The U.S. Congress is still debating a Miscellaneous Tariffs Bill, which would temporarily reduce tariffs on around 800 products with no domestic source—while our northern neighbor has become a tariff-free zone for manufacturers.