Aspects of International Trade on the U.S. Economy and Labor

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Abstract. Probably the most important single insight in all of international economics is that there are gains from trade - that is, when countries sell goods and services to each other, this exchange is almost always to their mutual benefit. Paper deals with issues such as the U.S. international trade characteristics in terms of its positive and negative aspects on the U.S. economy and labor and the labor relations and trade development synergies and parallels being discussed. This study is analyzing the US trade policy agenda and discussing the impact of foreign trade on the new jobs creation possibilities along with the U.S. social and economic development and its current status in international economic relations. Paper would demonstrate that trade means jobs for local communities throughout the United States as well as business opportunities for small and medium-size firms across the USA.

Introduction

The topic of international trade has been an integral part of the political scene over the last decade. Many supporters and opponents have voiced their opinions in various election campaigns, journals, and interviews. If international trade were an easy issue to evaluate, there would not be as much controversy over the information. However, there are studies and results of the benefits and problems that have come from international trade that justify the claims of both the opposition and the advocates. The debate is more of one over the virtues of a free market.

The trade policies that the world's economy has today are in effect largely because of the U.S. The U.S. has excelled in foreign relations and has been a role model for other countries. As the world's largest "trader," the U.S. operates now with one third of its wealth stemming from international trade. Until 1970, only one tenth of GDP was from exports and imports; now, approximately one fourth of GDP is from trade [1].

Paper will find out and discuss based on the U.S. international trade policy agenda analysis to figure out the impact of foreign trade on the U.S. economy highlighting the new jobs creation possibilities and their current status in international economic relations regarding the competitiveness enhancement. The main goal of the paper is to find out the proper involvement of the U.S. economy in international environment along with the possible risks and benefits for the U.S. economy within the new jobs creation. To accomplish this goal, methods such as analysis, comparison, synthesis and logical deduction are to be used; facts from scientific and professional publications, periodical and non-periodical press as well as internet sides will be primarily used and examined.

Economic Impact of Trade in the U. S. and Its Development

One of the most important initiatives undertaken by the U.S. Chamber of Commerce is its nationwide grassroots program, known as TradeRoots, initiated in 1999 and being amended and developed by the President’s Obama administration agenda. Trade roots helps communities throughout the country to understand better the vast role that international trade plays in their everyday lives. In short, trade means jobs, revenue, and prosperity. The U.S. Chamber TradeRoots initiative showcases how trade enhances the quality of life for all Americans and contributes to America’s prosperity from Oregon to
New York and Arizona to Kentucky [2]. Openness to international trade encourages productivity gains and improved competitiveness. Doing business internationally has allowed U.S. businesses, including small and medium-size enterprises, to grow in markets outside of the United States and prosper globally.

Here are some of the enormous benefits of the international marketplace for each state economy. Trade means jobs for local communities throughout the United States, secondly it means more business opportunities for small and medium-size firms across America, thirdly it means increased manufacturing for potential all key industrial sectors from chemicals and computers to machinery and transportation and finally trade means more sales revenue to supplement the tax base of each state to fund community assets like roads and schools [3]. As this report demonstrates, embracing international trade has bolstered the economic prosperity of companies from all 50 states. Nearly every state in the country exported at least a billion dollars’ worth of goods to markets overseas. These exports create thousands of jobs as local export-oriented businesses work to fulfill customers’ orders around the world.

Applying this to the U.S. economy, there are four key trade roots findings such as jobs, small business, manufacturing and sales revenues. In terms of jobs in states across the country, tens of thousands of jobs are tied to annual exports of manufactured goods. California, Texas, Ohio, Illinois, and Michigan are the nation’s leaders by the export of manufactured goods. Indeed, in California alone, more than 700,000 jobs are supported by the $117 billion in manufactured exports from the state to the rest of the world [4].

Trade roots demonstrates that in states across the nation, exports have enabled companies to stabilize and expand operations as they reduce their dependence on the existing domestic market. This phenomenon is not limited to large companies. In nearly all states, 70% or more of the businesses involved in global trade are small or medium-size. For instance, although many large companies are found in California, 95% of the California-based companies that export overseas are small and medium-size firms [5]. Access to international markets is crucial to the future growth of hundreds of U.S. businesses.

International trade and investment further each state’s industrial base. Globally competitive manufacturing industries are located across the country. U.S. manufacturers that produce leading-edge computers and electronic products located in such states as California, Colorado, or Texas sell their products globally. So do chemical manufacturers in Michigan and transportation equipment manufacturers in Alabama and South Carolina. These manufacturing exports account for thousands of jobs at the state level. Global trade means more than just overseas sales. It is important to remember that the large U.S. market is one of the world’s favored investment destinations. The investments by overseas firms generate thousands of jobs and millions of dollars in wealth in each state. In the country’s largest states, nearly 550,000 Californians are employed by foreign companies and some 340,000 Texans are employed by overseas firms. In smaller states, like Alabama and Colorado, more than 70,000 workers in each state are employed by foreign firms attracted to the vibrant local business climate[6,7]. The demand for U.S. exports also generates revenues for state economies. Companies must purchase components in order to manufacture goods for export. For instance, in Ohio, these local purchases translate into $60 billion being pumped into the state economy [8]. These sales revenues generate jobs and supplement the tax base, which in turn, fund community projects like schools and roads.

A question has been raised stated as why is international trade and investment so important for the United States? We can find several determinants. International trade-both exports and imports supports 38.1 million American jobs [9]. These trade related jobs are at large and small companies, on farms, in factories, and at the headquarters of globally engaged firms. The United States exports trillions of dollars in goods and services annually, including petroleum products, transportation equipment, farm products, travel services, and royalties from industrial processes. The vast majority of U.S. exporters are small and medium-sized companies with less than 500 workers. Customers in 234 countries around the world buy American—grown and manufactured goods and services. Top
markets like Canada, Mexico and China buy hundreds of billions of dollars of U.S. products and services annually. Free trade agreements (FTAs) have led to rapid export growth to partner countries. America’s FTA partners purchased 12.8 times more goods per capita from the United States than non-FTA countries did in 2012. And finally foreign-owned companies invest in the United States and employ 5.3 million Americans [10,11].

**Labor Relations and Trade Development Synergies and Parallels**

With the favorable statistics concerning the U.S.’s role in international trade, the debaters must have platforms with which to disagree. This disagreement comes in the area of U.S. labor relations. Labor is one of the most important issues in the international trade debate and has been a great concern beginning as far back as 1948 when the International Trade Organization (ITO) was proposed. The theory behind international trade is to reduce real wages of the input that is scarce and increase the real wages in the input that is abundant [12]. This can be interpreted as allowing the U.S. to have skilled workers experience increases in wages while the less skilled workers possibly experience wage decreases. Both sides of the international trade debate agree that the worker will bear costs of globalization, such as downward pressure on wages. But the main question to be answered is of the extent of the costs and of the extent of the benefits that go along with them [13].

Pro trade advocates, such as Paul Krugman, have much of a substantial edge over those opposing trade. The winning hand that trade supporters can play is that of globalization gains and adaptation to technological changes [14]. Trade has not been the single contributor to changes in wages for skilled and unskilled labor. Deunionization, technological changes, and eroding real minimum wages are just a few of these other factors. Believers in this pro trade idea—many labor economists—use complex statistical analysis to disprove the notion that trade did not greatly contribute to the rising demand of skilled labor. Unskilled labor, on the other hand, will not be excessively benefited, but ignoring the benefits of trade for the skilled work force is destructive to the U.S. economy [15]. Evidence is available that dismisses many opponent's claims that the overall effect of trade is the loss of jobs. Many labor economists stress the aspect of supply in the economy. The basis of this belief uses the theory of Marginal Product of Labor (MPL) - that is, the addition to the output occasioned by the addition of another worker [16]. Krugman agrees with this productivity issue, stating that wages should "reflect labor productivity in the economy as a whole, not labor productivity in that sector alone" [17,14,]. Therefore, if the economy follows this competitive MPL strategy, trade should not affect wages.

There are several issues necessary to be discussed when it comes to labor relations and trade development synergies and parallels. The first one is the skilled labor surplus. The U.S. is "over stocked" in the area of skilled labor. For example, think of a clothing store. When items are "over stocked" and not being productive to the sales of the store as a whole, what does the store do? It holds a sale, to get the excess supply out and make room for new merchandise that will help the store's sales. The labor sector in the U.S. follows the same idea. In order to maximize the productivity of U.S. labor, the U.S. must exchange its skilled labor for the goods in other countries that make good use of unskilled labor [18]. The advocates of trade believe that although there will be a downward effect on wages of low skilled workers, trade should still be considered a beneficial opportunity. According to this idea, productivity increases often stem from competition, especially that of international competition when import prices decline.

Secondly there are benefits from trade. When countries trade, each benefits from the other. When the two countries are different, the exchange benefits to an even greater extent. How is this possible when neither country has more resources as a whole? Basically, the productivity of the country is where the benefits are evident, using products that will maximize all efforts. We can explain the benefits of exchange in simple terms. Using the universal theories of opportunity costs and utility curves, proving that trade improves individual countries' technologies, and therefore their productivity levels. Jovanović states that this trade also only affects employment composition and not
the employment level. The jobs available after trade will be more efficient, with an increase in those necessary to prosper and a decrease in those that can be carried out elsewhere. Average incomes will increase and the standard of living will increase through the greater specialization of jobs after trade. Prices will decline and choice and quality will increase when trade is abundant in U.S. foreign relations [19]. Pro trade believers also justify their beliefs through recent statistics. Recent statistics state that over 12 million Americans have jobs that depend on trade which pay approximately 18 percent more than jobs not associated with trade. Compared to the size of the U.S., the deficit is not as big as it seems, equating to about $421 for every American. The U.S. has experienced growth over the last 10 years that has raised the average consumer's wealth by over $3,500 [20]. Unemployment and inflation are lower than in many previous periods, and during the last decade, over 14 million new jobs were created in the U.S. Without trade barriers, these jobs grew in areas vital to the prosperity of the American people - medical, pharmaceutical, agricultural, information technology, and electric and gas power [21].

Finally there is protectionism. Despite all of the evidence showing the benefits of trade on U.S. labor, opponents of the idea stand firm in their beliefs. They are labeled as “protectionists” and said to stand against progress and the public interest. However, there are evident reasons that support these ideas. Two of the most public opponents of trade are Pat Buchanan and Ross Perot. Perot used this argument as a predominant part of his electoral campaigns. Perot claims to be for “intelligent free international trade,” but against “stupid, one sided deals” that harm U.S. jobs. Perot claims that foreign products are getting less and less valuable, and that the U.S. is fueling its deficit by shipping more and more money overseas—proving why the eighteen largest banks in the world are overseas. The fact that “made in the U.S.A.” products are decreasing from 90 percent to 50 percent of the total products sold illustrates that U.S. jobs are suffering. Perot does not incorporate the new jobs created due to trade (technological, medical, etc.) into his theories [22,23].

Opponents of trade see a decrease in wages due to trade. According to their beliefs, trading with countries with cheap labor will cause U.S. labor to drop to that level in both cost and quality []. The increases in investment abroad and open trade agreements will only push low skilled wages down in the more developed countries, such as the U.S. American workers worry about U.S. jobs, especially in the areas where Americans must bid for jobs against those with fewer labor rights and lower wage rates. One example of this wage/labor debate is the case of the Xerox production facility in New York. Here, over 4,000 workers took decreases in pay in order to keep the plant from being moved to a lower wage country such as Mexico or India. This decision should not be necessary for U.S. workers, claim trade opponents, for Americans should have job security in their own country [23, 10]. We can point out that trade extinguishes this security; it decreases the level of productivity in U.S. jobs, pressures American workers, and decreases U.S. wages.

Conclusion

The U.S. has experienced many different benefits and consequences because of international trade over its history. The question now is whether trade will harm U.S. workers and productivity in the new millennium. The world is progressing so rapidly and on so many dimensions that a mistake in our progress and growth would be detrimental to our survival. The U.S. must decide what to do about the standard of living and its position as a leader in the global economy. Whether the U.S. will erect walls of protection or heartily embrace trade as a prosperity factor will determine the future of U.S. workers and the U.S. economy. By discussing the issue in this paper it has been proven that trade is beneficial and necessary for U.S. survival, but until there is a definite analysis that completely disproves the opposing side of the argument, the debate will continue.
References


