

## **Race to the Top II**

### *The Facts About American Trade and a Debate That Misses the Point*

*by Edward Gresser with Sarah West*

America's contemporary debate on trade and globalization begins with the assumption that times have radically changed. Anti-globalization groups in particular – whose public credibility has been enhanced by our everyday contact with toys, clothes, cars, and other imported consumer goods—argue that the principal change is a rapid growth in trade with the developing world. This in turn raises a powerful fear that poor countries, with labor and environmental standards assumed to be weak, have an unfair advantage over rich countries with presumably higher standards; and that the world, including the United States, will be forced into a “race to the bottom” to compensate for it.

The resulting debate has been at the heart of most of the trade controversies of the past decade, from the 1993 passage of the North American Free Trade Agreement to this fall's clash over “trade promotion authority.” The left has called for inclusion of enforceable labor and environmental standards to remedy the perceived advantage held by the poor; the right, often opposing these standards for other reasons, argues that no adjustment is necessary. But a look at the statistical record, kept over decades, reveals that both sides may be missing the point.

A review of America's trading history does not, in fact, show a single story of growing trade with the poor. Rather, it reveals two separate, more complicated and perhaps more interesting stories, which point toward a different debate altogether:

- ▶ First, the popular perception that America imports and exports more than ever before is true, including when the value of U.S. trade is compared to the size of the American economy. But the facts show no clear trend in the balance between our trade with developing countries and the industrial world. Though poor countries gained ground in the 1970s and 1990s, they lost out to richer countries in the 1960s and 1980s; and their share of American imports remains today far below the peak it reached in the 1950s.
- ▶ Second, the truly radical transition is not in the countries and people with whom we trade, but in the types of goods and services America trades. Over the past 50 years – and especially in American exports – the share of trade taken up by natural resources and primary manufactures has diminished, eclipsed by information technology goods and services.

Long-term trade trends thus illustrate less a change in our external trade with the world than a change at home. In effect, the United States has been racing our trading partners to the top – away from a largely autarkic or self-sufficient economy depending on basic manufacturing and unskilled labor, toward one integrated with the world and relying on high-technology, high-wage industries. This in turn means a more demanding domestic economy: one in which workers need higher skills and businesses need to develop the flexibility to meet new competitive pressures. The right question for U.S. policymakers therefore is, “How do we adjust to a fundamentally changed domestic economy?”

To illustrate the trends, this paper looks at three basic questions: First, how much do we trade? Second, what do we trade? And third, with whom do we trade?

## I. How Much Do We Trade?

First, the impression of America’s growing trade drawn from daily life – as families buy imported clothes, toys, and cars; as American factories, farms, and ranches produce more and more for foreign markets – is quite true.

To be specific, as Table 1 illustrates, trade has grown in nominal terms by over 10,000 percent since 1950. In real terms, exports have grown about 17-fold and imports about 27-fold. More important, as shown in Table 2, relative to the U.S. economy as a whole, imports have quadrupled and exports tripled. American reliance on exports for growth, and imports for low-cost consumption, is greater than ever before, exceeding even the era before the First World War.

Likewise, in accord with the perception in daily life, our trade growth, relatively slow in the 1950s and 1960s, has rapidly accelerated in recent years, reflecting the implementation of the major trade agreements of the 1980s and 1990s – i.e., the U.S.-Canada Free Trade Agreement, the North American Free Trade Agreement and the Uruguay Round which created the World Trade Organization, and most recently, President Clinton’s negotiation of China’s entry into the WTO.

**Table 1: Total U.S. World Trade (in billions of constant 2000 dollars) <sup>1\*</sup>**

	1950	1960	1970	1980	1990*	2000*
<b>Exports</b>	\$10	\$21	\$43	\$221	\$532	\$1,066
<b>Imports</b>	\$9	\$15	\$41	\$245	\$593	\$1,441

*\*Figures for 1990 and 2000 include services trade; services trade data are unavailable for earlier periods.*

**Table 2: Trade as a Percentage of U.S. GDP<sup>2</sup>**

	1950	1960	1970	1980	1990	2000
<b>Imports</b>	3.1%	3.0%	4.1%	8.8%	10.1%	13.3%
<b>Exports</b>	3.6%	4.1%	4.4%	8.1%	9.1%	10.4%

## II. Who Are Our Trading Partners?

The facts about the growth of trade and our integration with the world economy mesh well with impressions drawn from daily life. But the statistical record also reveals some unexpected shifts among America's leading trading partners. In particular, the impression of rapid growth in trade with the developing world relative to our trade with Europe, Canada, and Japan appears to be mistaken. Historical trade statistics, rather than indicating a simple growth of trade with developing countries, reflect the discrete events of the past half-century: the decline of Latin America as a trading partner in the 1950s and 1960s during the era of economic nationalism and military rule; the oil crisis of the 1970s; the rise of Asia as a manufacturing center; our more recent integration with Canada and Mexico; and the unchallenged dominance of Europe and Japan in our services trade.

*Merchandise trade.* Tables 3 and 4 examine merchandise trade over 50 years. The statistics show that in the 1950s, the Americas dominated both imports and exports—Canada and Latin America made up five of the top eight American export markets, and six of the top eight sources of imports. During the 1960s and 1970s, as many Latin American governments adopted more nationalistic and protectionist approaches to economics, U.S. trade shifted toward Europe. In the 1980s, on the import side, energy producers briefly became some of our largest trading partners. Still more recently, and particularly with respect to imports, Asia became a leading trading partner.

**Table 3: Top U.S. Merchandise Export Markets (in billions of dollars)<sup>3</sup>**

Goods	1950	1960	1970	1980	1990	2000
<b>Total</b>	<b>\$10.1 billion</b>	<b>\$20.3 billion</b>	<b>\$43 billion</b>	<b>\$221 billion</b>	<b>\$393 billion</b>	<b>\$772 billion</b>
1.	Canada \$2.0	Canada \$3.7	Canada \$11.0	Canada \$35.4	Canada \$93.8	Canada \$178.8
2.	Mexico \$0.5	U.K. \$1.4	Japan \$4.7	Japan \$20.8	Japan \$93.1	Mexico \$111.7
3.	U.K. \$0.5	Japan \$1.3	Germany \$2.7	Mexico \$15.1	Mexico \$30.8	Japan \$65.3
4.	Cuba \$0.5	Germany \$1.1	U.K. \$2.5	U.K. \$12.7	Germany \$29.0	U.K. \$41.6
5.	Germany \$0.4	Mexico \$0.8	Mexico \$1.7	Germany \$11.0	Taiwan \$23.9	Germany \$29.2
6.	Japan \$0.4	Netherlands \$0.7	Netherlands \$1.7	Netherlands \$8.7	U.K. \$20.9	Korea \$27.9
7.	Venezuela \$0.4	Italy \$0.7	France \$1.5	Saudi Ar. \$5.8	Korea \$19.2	Taiwan \$24.5
8.	Brazil \$0.3	France \$0.6	Italy \$1.4	Italy \$5.5	France \$13.6	France \$20.3

**Table 4: Major Sources of Merchandise Imports<sup>4</sup>**

Goods	1950	1960	1970	1980	1990	2000
<b>Total</b>	<b>\$9 billion</b>	<b>\$15 billion</b>	<b>\$40.0 billion</b>	<b>\$219 billion</b>	<b>\$393 billion</b>	<b>\$1,224 billion</b>
1.	Canada \$2.0	Canada \$3.2	Canada \$11.0	Canada \$42.0	Canada \$83.0	Canada \$229.2
2.	Brazil \$0.7	Japan \$1.1	Japan \$5.9	Japan \$33.0	Japan \$48.6	Japan \$146.6
3.	Cuba \$0.4	U.K. \$1.0	Germany \$3.1	Saudi Ar. \$13.3	Mexico \$28.4	Mexico \$135.9
4.	U.K. \$0.3	Venezuela \$0.9	U.K. \$2.2	Mexico \$12.8	U.K. \$23.5	China \$100.5
5.	Venezuela \$0.3	Germany \$0.9	Italy \$1.3	Germany \$12.4	Germany \$18.7	Germany \$58.7
6.	Mexico \$0.3	Brazil \$0.6	Mexico \$1.2	Nigeria \$11.3	Korea \$14.4	U.K. \$43.5
7.	Colombia \$0.3	Mexico \$0.5	Venezuela \$1.8	U.K. \$10.2	France \$13.7	Taiwan \$40.5
8.	Malaya \$0.3	France \$0.4	Hong Kong \$0.9	Libya \$7.4	Netherlands \$13.0	Korea \$40.3

*Services trade.* As noted earlier, services trade figures have been available in detail only since the mid-1980s. The major U.S. export markets and import sources in these industries—now among the most sophisticated, technologically driven forms of trade—contrast sharply with goods figures, as U.S. services trade remains largely dominated by the wealthiest nations and most sophisticated economies. Typically, developing countries are growing suppliers of manufactured goods; in services, by contrast, Europe and Japan remain by far our largest trade partners.

**Table 5: Major Services Export Markets<sup>5\*</sup>**

	1986	1990	1995	1999
<b>Total</b>	<b>\$77.5 billion</b>	<b>\$137.2 billion</b>	<b>\$203.8 billion</b>	<b>\$254.7 billion</b>
1.	Japan - \$10.2	Japan - \$21.2	Japan - \$33.2	Japan - \$30.5
2.	Canada - \$8.5	Canada - \$15.7	U.K. - \$18.6	U.K. - \$27.2
3.	U.K. - \$6.5	U.K. - \$13.0	Canada - \$17.9	Canada - \$21.1
4.	Mexico - \$4.5	Mexico - \$8.6	Germany - \$12.7	Germany - \$15.3
5.	Germany - \$4.0	Germany - \$7.4	Mexico - \$8.7	Mexico - \$12.5
6.	France - \$2.9	France - \$5.5	France - \$8.0	France - \$9.8
7.	Netherlands - \$1.9	Italy - \$3.3	Netherlands - \$6.1	Netherlands - \$8.4
8.	Italy - \$1.9	Netherlands - \$3.3	Korea - \$5.7	Brazil - \$5.5

\* Services trade figures are not available before 1986; 2000 figures not yet available by country.

**Table 6: Major Sources of Services Imports<sup>6\*</sup>**

	1986	1990	1995	1999
<b>Total</b>	<b>\$64.7 billion</b>	<b>\$98.2 billion</b>	<b>\$128.8 billion</b>	<b>\$174.7 billion</b>
1.	U.K. - \$8.9	U.K. - \$11.6	U.K. - \$16.1	U.K. - \$23.8
2.	Canada - \$6.8	Japan - \$10.5	Japan - \$13.5	Japan - \$15.7
3.	Japan - \$6.7	Canada - \$9.1	Canada - \$11.1	Canada - \$15.2
4.	Germany - \$5.2	Germany - \$6.8	Mexico - \$7.9	Germany - \$10.2
5.	Mexico - \$3.7	Mexico - \$6.7	Germany - \$7.6	Mexico - \$9.8
6.	France - \$2.3	France - \$3.9	France - \$6.0	France - \$8.0
7.	Italy - \$2.3	Italy - \$3.3	Italy - \$3.7	Italy - \$4.7
8.	Australia - \$1.1	Australia - \$2.3	Korea - \$3.6	Korea - \$4.5

\*Services trade figures are not available before 1986; 2000 figures not yet available by country.

**Developing and Industrial Economies.** These trends together show that the popular view that trade is growing largely with developing countries is mistaken. While the United States’ major developing-nation trading partners have changed over time—from Latin America in the 1950s and 1960s toward the Middle East, then Asia, and more recently Mexico and China—the balance between our trade with developing and industrial economies has remained largely unchanged for the past 20 years.

**Table 7: Developing vs. Industrial Country Trading Partners <sup>7</sup>**

	1950	1960	1970	1980	1990	2000
<b>Total Exports</b>	<b>\$10.1 billion</b>	<b>\$20.7 billion</b>	<b>\$43.2 billion</b>	<b>\$221 billion</b>	<b>\$532 billion</b>	<b>\$1066 billion</b>
Industrial	\$5.9	\$13.7	\$29.7	\$141	\$256	\$404.9
Developing	\$4.3	\$6.9	\$13.5	\$82	\$127	\$288.1

**Table 8: Industrial and Developing Economy Shares of U.S. Trade<sup>8</sup>**

<b>Exports</b>	1950	1960	1970	1980	1990	1999
Industrial Economies	58%	67%	69%	63%	65%	60%
Developing Countries	42%	33%	31%	37%	35%	40%

<b>Imports</b>	1950	1960	1970	1980	1990	1999
Industrial Economies	43%	63%	73%	51%	61%	55%
Developing	57%	37%	27%	49%	39%	45%

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### III. What Do We Trade?

Finally, and perhaps most revealing, are the changes in the types of goods America trades.

In the early postwar era – during the 1950s and 1960s – a few natural resource products and basic manufactures made up the majority of our imports and exports. (On the import side, the leading goods were coffee, sugar, rubber and wool; on the export side cotton and grains.) Over time, this has shifted rather dramatically – first toward higher-value manufactured goods. Over the 1980s and 1990s, and especially in American exports, these in turn have been eclipsed by information technologies.

**Table 9: U.S. Merchandise Imports (in billions of dollars)<sup>9</sup>**

	1950	1960	1970	1980	1990	2000
<b>Total</b>	<b>\$9 billion</b>	<b>\$15 billion</b>	<b>\$40 billion</b>	<b>\$253 billion</b>	<b>\$517 billion</b>	<b>\$1,224 billion</b>
1.	Coffee (\$1.1)	Coffee (\$1.0)	Transport equipment (\$5.9)	Crude oil (\$65)	Autos (\$48)	Autos (\$112)
2.	Rubber (\$0.5)	Crude Oil (\$1.0)	Autos (\$5.8)	Autos (\$18.0)	Crude oil (\$47)	Crude oil (\$90)
3.	Newsprint (0.5)	Newsprint (\$0.7)	Food (\$5.4)	Refined oil (\$12)	Electronics (\$35)	Computer parts (\$75)
4.	Sugar (\$0.4)	Autos (\$0.6)	Misc. manufactures (\$4.8)	Chemicals (\$9)	Computers (\$28)	Clothes (\$60)
5.	Wool (0.4)	Refined oil (\$0.6)	Crude oil (\$2.7)	Electronics (\$8)	Clothes (\$26)	Semi- conductors (\$48)

Table 10: U.S. Merchandise Exports (in billions of dollars)<sup>10</sup>

	1950	1960	1970	1980	1990	2000
<b>Total</b>	<b>\$10.1 billion</b>	<b>\$20.3 billion</b>	<b>\$43 billion</b>	<b>\$221 billion</b>	<b>\$393 billion</b>	<b>\$772 billion</b>
1.	Cotton (\$1.0)	Grains (\$1.7)	Chemicals (\$3.8)	Chemicals (\$20.8)	Trans. equip.	Semi-conductors (\$60)
2.	Grains (\$0.6)	Cotton (\$1.0)	Autos (\$3.6)	Grains (\$18.1)	Electronics (\$32)	Computer parts (\$44)
3.	Electrical machinery (\$0.4)	Machinery (\$0.7)	Aircraft (\$2.7)	Autos (\$14.8)	Autos (\$31)	Telecom Equipment (\$32)
4.	Auto parts (\$0.3)	Fabric (\$0.6)	Grains (\$2.6)	Aircraft (\$12.9)	Aircraft (\$30)	Electronics (\$31)
5.	Farm machinery (\$0.2)	Auto parts (\$0.5)	Office machinery (\$1.4)	Industrial machinery (\$12.7)	Computers (\$28)	Industrial machinery (\$27)

Services trade also deserves some special mention here, in particular with respect to exports. American exports of financial services, telecommunications, professional services, arts and entertainment, and education have both grown in absolute terms and found easier access to foreign markets through electronic commerce. As a result, in 2000, private services exports totaled \$278 billion, or about 40 percent of our merchandise exports. The leading categories compare very favorably to the major U.S. goods exports, with travel receipts totaling \$82 billion, passenger and freight fares \$51 billion, royalties and license fees from intellectual property goods \$36 billion; and business and professional services such as engineering, computer consulting, medicine, and others approximately \$28 billion.<sup>11</sup>

Altogether, these figures illustrate how completely the American economy, in a single lifetime, has been transformed. An economy driven by primary manufacturing in the 1950s and 1960s is reflected in imports of wool, newsprint, and rubber; the modern, globally integrated and information-led U.S. economy appears today as trade has tripled relative to the size of our economy, and as semiconductors, computers, and high-tech services dominate our world trade.

## Conclusion

In reviewing these figures, one concludes that much of America's contemporary debate over trade and globalization simply misses the point.

The debate, with its central focus on the question of whether developing countries are gaining advantages from weak labor and environmental standards, has led to policy

proposals which have little relevance to the main issues. Liberals generally argue that weak labor and environmental standards are a trade advantage for our partners and should be strengthened through threats to restrict trade. Conservatives (setting aside the Helms-Buchanan-ite right, which appears largely to agree with the liberal critics of trade) maintain that no adjustment to a new and changed world is necessary at all.

Neither side appears to grasp the basic questions. Where the left seeks a solution for a problem that does not seem to exist in the real world, the right ignores a sharp change in the economy, caused in part by accelerating economic integration with the outside world, that requires a systematic policy response.

The phenomenon clearly evident in the long-term trends, by contrast, is the race to the top: the shift toward a high-tech, high-skill economy. This raises a different set of questions for policy to address: on one hand, how to expand the winner's circle and give Americans the education, training and other tools necessary to compete in such an economy—and on the other, how to best develop the infrastructure of rules and agreements that will fit a world economy in which America's greatest opportunities and advantages lie in newly emerging industries.

One awaits, from trade skeptics on the left or administration trade enthusiasts on the right, a response that will meet the needs of a unique moment.

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## Endnotes

<sup>1</sup> See *Historical Almanac of Statistical Abstracts*, Foreign Commerce Section, Series U 335-352 and U 317-334 for trade figures between 1820 and 1970. Commerce Department FT-900 forms released each month for modern figures. <http://www.census.gov>.

<sup>2</sup> See Bureau of Economic Analysis report, available at [www.bea.doc.gov/bea/dn/gdplev.htm](http://www.bea.doc.gov/bea/dn/gdplev.htm) for historical GDP figures in current and constant dollars.

<sup>3</sup> See *Historical Almanac of Statistical Abstracts*, Foreign Commerce Section, Series U 317-334 and U 335-352.

<sup>4</sup> See *Historical Almanac of Statistical Abstracts*, Foreign Commerce Section, Series U 317-334 and U 335-352.

<sup>5</sup> *Survey of Current Business*, October 2000. <http://www.bea.doc.gov/bea/pubs.htm>.

<sup>6</sup> *Ibid.*

<sup>7</sup> IMF Direction of Trade Statistics annual reports 1950, 1960, 1970, 1980, 1990 ([http://www.mimas.ac.uk/macro\\_econ/imf/dotshome.html](http://www.mimas.ac.uk/macro_econ/imf/dotshome.html)) and *Historical Almanac of Statistical Abstracts*, Foreign Commerce Section for goods trade; *Survey of Current Business* for services trade.

<sup>8</sup> *Ibid.*

<sup>9</sup> *UN Yearbook of International Trade Statistics* for 1950, 1960, 1970, 1980 and 1990, <http://esa.un.org/unsd/pubs/>; Commerce Department FT-900 report for 2000, [www.doc.gov](http://www.doc.gov).

<sup>10</sup> *Ibid.*

<sup>11</sup> *Survey of Current Business*, October 2000.