

Trade Policy Likely to be Key Issue in Presidential Election – with Potentially Large Impact for US Manufacturers

Has Open Trade Hurt or Helped Key Swing State Ohio? The Results and Voter Opinion are Mixed

SCDigest Editorial Staff

As is common during almost any slow economy, the issue of trade policy and lost jobs due to “offshoring” is once again being elevated, exacerbated by this being a presidential election year and an undeniable acceleration in recent years of companies moving production from the US to China or other low cost countries.

Not since Ross Perot memorably described the “great sucking sound” he anticipated from the then proposed NAFTA accord during the 1992 presidential race has trade policy had such a high profile.

It is unclear exactly how US policies might be changed under an Obama administration, but the impact potentially could be significant for US manufacturers in any number of ways:

- Changes to existing trade policies that will make it more costly to source product from low cost countries, making some moves offshore impossible or a poor financial decision. That might keep some jobs in the US, but increase costs for business and consumers.
- Protection in part for some US manufacturers from global competition.
- Potentially retaliatory moves by US trading partners that might put a crimp on currently surging US export volumes and, according to some, lower overall world GDP growth.

In general, Republican John McCain is for continuing existing free trade policies. Democrat Obama has been critical of arrangements such as the North American Free Trade Agreement (NAFTA), saying it needs to be amended to be more supportive of US interests – but offering little additional specifics on what changes he would propose. One Obama eco-

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nomic advisor reportedly told Canadian officials this spring that the NAFTA talk was just political rhetoric, and wouldn’t result in significant policy changes in practice.

Obama has said he would extend the Trade Adjustment Assistance program – which right now only provides assistance to manufacturing workers that lose jobs due to trade policies, to service workers, such as IT personnel that lose jobs when computer work is sent offshore. He has also said he would end tax breaks and other subsidies to companies that send jobs overseas, and take unclear action, such as tariffs, in cases where foreign governments provide subsidies to their manufacturers, enabling them to sell at lower prices or make more investments.

Ohio Provides Interesting Test

Ohio has emerged in recent elections as a key swing state, and illustrates the complexity of the free trade issue, which will likely be a key theme there this year.

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Ohio lost about 42,000 manufacturing jobs between 2002-2007 due to trade policies, as measured by the number of workers eligible for the Trade Adjustment Assistance program, fourth highest in the nation.

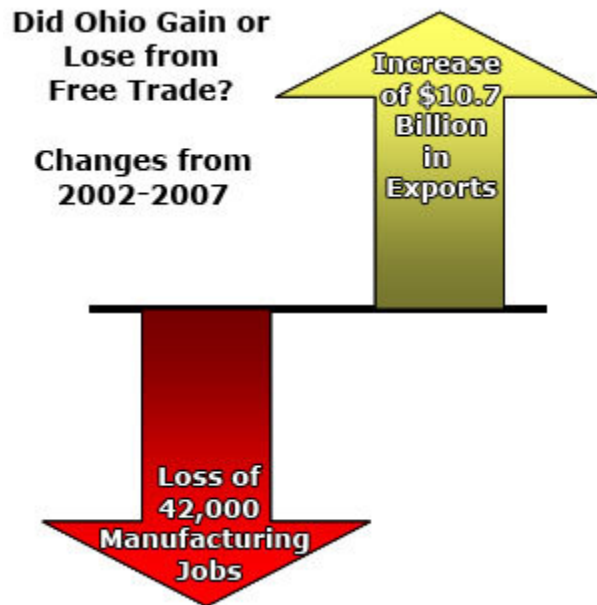
However, it lost 105,000 manufacturing jobs in total during the period, meaning the majority of the losses were due to automation, higher productivity, or general business changes.

On the other hand, Ohio is strongly benefiting from export growth. It is the only state that has seen export volumes grow every year since 1998, and Ohio export trade has grown by \$10.7 billion since 2002. The National Association of Manufacturers estimates there are 317,500 jobs tied to exports, including 174,300 manufacturing jobs.

Many of these could be at risk if changes to US trade policies trigger reciprocal trade wars.

"A number of companies said they lost jobs because of trade, when in fact it was bad management," the Dayton Daily News quotes Cleveland State University professor **Ned Hill** as saying. "It isn't China's fault GM, Ford and Chrysler couldn't design a car people wanted to buy."

Then again, a number of auto parts manufacturers have shifted production overseas, regardless of the ups and downs of Detroit automakers. **Bo Andersson**, Supply Chain VP at GM, has said, "The automobile market in the United States is great – as long as you don't manufacture in the US."



While that statement was before the recent auto sales slump, especially for gas guzzling SUVs and trucks, nonetheless it shows the cost allure of going offshore.

Either way, it is important for US companies to monitor potential changes in trade policies, and how those might impact current or future decisions about where to invest or source products.

"I expect a lot of companies to sit a bit tight right now, waiting to see how things shake out," said SCDigest editor Dan Gilmore. "You'd hate to make a decision today that would look much different in 2009 under a different set of trade policies."