International Trade:

Yin and Yang of Dynamic Economies

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THE 4TH CENTURY BC CHINESE philosophers stressed the importance of balance in life: Yin with dark, Yang with sun, noise with silence, and bad with good. This system was not as superficial as this list of dichotomies makes it sound: dark is not necessarily bad and neither is noise.

Healthy economies are also not so simple and experience extremes and balance as they move through the business cycle. International trade acts as a catalyst for dynamic change inherent in a healthy economy. To assess the benefits of international trade in Oregon's economy, we must first ask the obvious question: What is bad and what is good about these changes? As we make a long list and sort between bad and good we must understand that our evaluation depends on our fairly subjective point of view. Is there a balance in the elements that make up Oregon's economy? The following essay describes the Oregon economy and its involvement with international trade under the major international trade agreements.

The world is slowly moving in the direction of what is best termed 'globalization'. The breakup of the U.S.S.R and the formation of the European Union have caused complex economic systems to converge and have increased the need for cooperation in conducting international trade. Barriers to trade have slowly been lifted by agreements such as the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA).

China joined the WTO in December 2001 and the United States and Chile signed a free trade agreement in December 2002. NAFTA may soon be expanded to include South America by the Free Trade of the Area of the Americas Agreement (FTAA).

Oregon has participated in the process of globalization by fundamentally changing its economy, from one based on natural resources, to one focused on high technology. The increase of our production of new traded goods has caused high technology's share of our Gross State Product (GSP) to rise from 3.3 percent to 28.6 percent in the decade preceding 2000, while employment in this sector increased by 45.3 percent. During the same period, lumber and wood products' share of GSP declined from 7.0 percent to 2.4 percent, dropping employment in this sector by 23.5 percent.

While the transformation of the Oregon economy diversified manufacturing, it also increased our dependence on the manufacturing base. Between 1990 and 2000 manufacturing's share of GSP rose from about 18 percent to almost 34 percent. This expansion in turn increased the amount of international exports passing through Oregon ports to 10.5 percent of GSP.

The changing base of the Oregon economy has also determined our major trading partners. Since 1990 our top three trading partners have remained the same: Japan, Canada, and South Korea, but the number 4 and 5 spots which were held by the U.K. and Germany in 1990 were taken by the Philippines and Malaysia in 2000. Our most recent 2002 data show that 7 out of our top 10 export markets are in Asia. China now holds the number 5 spot.

As our trading partners have changed, so have the products that we export. In 1990, lumber and wood products were the largest share, with 23.8 percent of total exports, followed by agricultural products (23.2 percent) and industrial machinery, including computer equipment (15.2 percent). In 2000, the top export goods were electronic products (34.0 percent) followed by industrial machinery, including computer equipment (16.6 percent) and high technology instruments (9.9 percent).

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Throughout most of the 1990's, Oregon's economy grew rapidly along with its export markets. As the manufacturing employment in the state grew dramatically after the 1991 recession, exports grew by an annual average rate of 16.7 percent from 1992 to 1996. But the Asian financial crisis dramatically slowed the growth in exports, culminating in a 1.3 percent drop in 1998. The following year, manufacturing jobs dropped by 1.6 percent.

As Asian countries started to recover, so did Oregon exports. The recovery was short- lived as the global recession of 2001 took hold, and Oregon exports plunged 22.2 percent in 2001. Manufacturing employment in Oregon fell by 3.0 percent in 2001. We appear to be at the bottom of this recession and exports are up 9.5 percent in the first three quarters of 2002 compared to the same time period in 2001.

Has international trade been beneficial to the Oregon economy? Well, the international market for Oregon goods has progressed along with our changing economic base. Along with traditional markets for agriculture, lumber, and wood products, exports continued to expand as the high technology sector grew. Export growth from domestic firms and new foreign investment helped to promote job growth. Because the health of each

Winners and Losers in International Trade: Oregon Hazelnut Exports

Much has been said about the trade deficit and how it has negatively impacted the U.S. economy. For hazelnut growers in Oregon, however, the opposite is true. Hazelnuts are the second most consumed tree nut globally, behind only almonds. While the Oregon hazelnut industry tends to have an alternate bearing pattern (big crop one year, small the next), export sales as a whole have increased virtually every year since 1992. Oregon hazelnuts are exported to six of the seven continents and more than 40 countries.

However, while Oregon hazelnuts receive higher prices because they are larger in size, both in the shell and shelled, they still only account for 3.5% of the world's supply and are just another commodity subjected to the real world economics of supply and demand. In 1992, Oregon shipped only 8,000 pounds of hazelnuts to Hong Kong. Then Chinese entrepreneurs turned this special American holiday treat into a year-round snack by cracking the hazelnuts by hand and salting and roasting them. Last year, when Oregon recorded its largest crop ever, growers shipped nearly 38 million pounds of hazelnuts to China and Hong Kong. That accounted for 73% of Oregon's record exports of 25,868 US tons.

The bad news for Oregon hazelnut growers is that agriculture products are at a disadvantage when demand increases substantially, because supply always lags behind. The 2002 crop in total produced less than Oregon shipped to China in 2001. As a result, China has filled a significant amount of its demand from Turkey, a country known for its smaller hazelnut kernels and lower production costs. The simple formula of short supply equals high price does not always bear economic fruit.

It is also possible that China will begin to grow hazelnuts and cause the same problems for Oregon hazelnuts as they have for apple and pear growers? There have been reports that nurseries have exported hazelnut stock.

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of these sectors depends on international trade, in this sense, international trade has helped make Oregon, economically, one of the fastest growing states in the 1990's.

To repeat the question: Has international trade been beneficial to the Oregon economy? There is very little doubt that the expansion years outweigh the recession years; however, more international trade has also contributed to more instability throughout the business cycle.

Oregon now faces the highest unemployment rate in the country and the growth in the manufacturing base of the economy has been a contributing factor. The depth of the recession is also in part due to strong international connections. The agricultural and manufacturing sectors were hurt by the U.S. economic downturn and further harmed by the global recession, especially relating to our Asian trading partners.

As one zooms in from the macro level and looks at individual sectors or firms, the question of benefits can also be answered in both the positive and the negative. The increases in trade due to globalization have benefited electronic and transportation equipment sectors. However, questions still surround its impact on agriculture, lumber, and wood products.

While technology exports grew by 385.7 percent in the decade between 1990 and 2000 agriculture exports only increased by 7.9 percent and lumber and wood products declined by 43.1 percent. To say that either NAFTA or the WTO was solely responsible for any of these growth rates is a mistake.

We cannot, for instance, say that the transportation equipment sector's growth of exports of 344.7 percent over the same ten-year period was due to any particular trade agreement, even though data shows that export of transportation equipment to Mexico was very strong in the late 1990's. Circumstantial evidence supports a connection but does not prove a direct cause and effect relationship between the implementation of NAFTA and the advent of such spectacular numbers.

Has international trade helped Oregon? Unfortunately, one can always find individual firms, which have been harmed by international trade. From pear orchards in Hood River to rose flower producers in the Willamette Valley, high volume, inexpensive imports have hurt their businesses.

Other Issues

One huge obstacle to accurately assessing the impact of trade agreements on Oregon is the lack of accurate import data. Information is available through customs at point of entry. However, no trade boundaries exist between states. While this makes for great efficiency in the movement of goods, tracking imports from foreign countries to their final destination is very difficult. A few sources do attempt to associate imports at the U.S. state level, such as the Canadian government's Industry Canada: Trade Date Online. (http://strategis.ic.gc.ca)

Even with these difficulties, inferences can be made for specific commodities. For example, total imports of lumber would most likely have an impact on Oregon, given the importance of this industry to the Oregon economy. Over the past 10 years, we have seen a steady decline of U.S. lumber exports and a rise in lumber imports. Given the relative size of Oregon in U.S. lumber production, this would indicate that these imports are competing directly with Oregon lumber producers.

Despite their trade-enhancing features, NAFTA and the WTO are still filled with restrictions and protections for industries, such as some agricultural products, which can both help and harm different sectors' trading partners.

On March 5, 2002, President Bush issued temporary tariffs on steel imports. The intent was to protect a domestic industry from unfair trading practices. Other domestic industries that use steel were concerned that prices would rise. The Institute for International Steel and the Consuming Industries Trade Association lobbied against the tariffs. The concerns by users of steel were soon followed by concerns from steel producers. The tariffs apparently did not protect Oregon steel producers from imported steel. Joe Corvin of Oregon Steel, who was once a supporter of the tariffs, was quoted in the February 2003 American Institute for International Steel News as saying "I think that 201 [the tariffs] was a mistake. I don't think that it has done anything. What it did is give false hope to a lot of companies that probably should have gone out of business." Apparently prices are still stagnant because there are more domestic steel plants than needed to sell to a slow market. Meanwhile the market in China has heated up and American steel can only compete there by being competitive with the countries from which the steel industry was seeking protection. *(See sidebar, "Steel Tariffs are Reportedly Causing Job Losses"—ed.)*

Another complex element of trade relations is that under WTO agreements, parties can argue appeals against international dumping through the International Trade Commission (ITC) on a case-by-case basis. There is no direct evidence that such rules have improved trade.

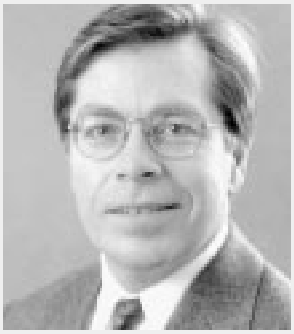
The latest case involving soft lumber imports from Canada was unanimously decided by the ITC in favor of U.S. soft wood suppliers. Now both sides are complaining that prices are too low and soft lumber imports into the United States from Canada have not declined. Prices did initially rise as the new tariffs were being put in place. This allowed soft wood lumber suppliers from Europe and non-wood substitutes to successfully gain market share. In the end, Canadian producers increased production to lower unit costs and thus tried to absorb the new tariffs. Although production is up, profits are still suppressed, prices are lower on the market, and neither Canadian nor U.S. producers are any better off than before.

Another issue with the dispute resolution process is that corporations, on both sides of the border, sometimes appeal to the ITC simply to gain advantage over a hard-working competitor. Nevertheless, current economic theory supports a 'level playing field' and anti-dumping agreements are essential to the larger picture to encourage efficient use of resources. *(Please see Paul Thiers's side bar "Who's Dumping on Whom" for an another angle on this issue—ed.)*

The dynamics of international trade under current agreements, such as NAFTA and the WTO, should make all countries more efficient. In theory, resources will flow to their most desirable use. It is also this flow of resources that hurts some segments of an economy. Over the last ten years, Canada has run a large trade surplus with the United States in lumber and a large trade deficit with the U.S. in semiconductor devises. Both of these commodities have important production centers in Oregon.

The end result should be a net benefit, with more winners than losers and economic gains for the economy as a whole. *(Please see glossary entry "Comparative Advantage" and Jim Bailey's comments in his article—ed.)*

In spite of a lack of objective data, Oregon's economy appears to have benefited from greater involvement with international trade even in the face of greater instability. As the economy evolves and trade barriers are reduced through NAFTA and the WTO, international trade will continue to grow in importance for the Oregon economy. Along the way, there will be winners and losers and a lot of Yin balancing a lot Yang as dynamic trade promotes a balance in the economy.



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