A Gallup Poll this February reported that 57 percent of Americans view open trade positively. That’s certainly an improvement from surveys a few years ago, which found that far more of them believed in flying saucers (35 percent) than supported free trade (9 percent). Yet, Gallup found that 35 percent of the public – that’s some 100 million Americans – still see imports as an unambiguous threat to their jobs.

No wonder, considering that all recent American presidents, regardless of party, have had the same take on the benefits of trade: exports are good things, because they create jobs; job-threatening imports, we won’t talk about. George W. Bush, speaking in 2003 to an audience of importers and exporters at the Port of New Orleans, explained that the famous port existed to promote U.S. exports, avoiding any mention of the politically incorrect “i” word. And Barack Obama helped win a second term by skillfully tapping into fears of import competition. “I don’t want to buy stuff
Stupid!

BY GREG RUSHFORD
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from somewhere else,” he said, vowing to spark a U.S. manufacturing renaissance by doubling exports by 2014. Audiences cheered when Obama told them that his three favorite words were “made in America.”

Come again? The mercantilist political premise – we want to sell our products to foreigners and buy as little from them as possible – is a ticket to stagnation and conflict. Indeed, rapidly evolving trade patterns have scrambled who does and who doesn’t benefit from imports, putting many opponents of open trade in the position of undermining their constituents’ long-term interests – in effect, cutting off American workers’ noses to spite their faces.

In the 21st century, imports are as vital to the health of American manufacturing as the coronary artery is to the health of the human heart. Nearly two-thirds of the $2-trillion-plus worth of U.S. imports are component parts and raw materials that sustain American jobs. If you want to export more manufactured goods, you’ll need to import more components. “Manufacturing in today’s world of interdependent global supply chains,” Pascal Lamy, the director-general of the World Trade Organization, explains, “is no longer just about products made in the U.S.A., or France or China – but ‘made in the world.’”

Lamy’s reasoning is supported by solid research. Economists at the World Trade Organization, working with their colleagues from the Organization for Economic Cooperation and Development, have created sophisticated databases that show how global supply chains (sometimes called value chains) dominate just about all manufacturing. Sweden’s National Board of Trade has published research that translates this data into common sense terms. Thus, for example, about half of a Volvo’s value is added by parts imported from the United States, Japan, England, Canada and Argentina. So, while Volvos may be less Swedish these days, the supply chain that allocates component acquisition according to what individual economies do best makes it possible to do a fair share of the manufacturing in high-wage Sweden.

LOCKING IN ECONOMIC LOGIC

To be sure, neither of the 2012 presidential candidates could be accused of walking an extra mile to enlighten the public on the jobs-sustaining role of imports. Mitt Romney’s most relevant utterance was a promise that, on his first day in the Oval Office, he would roll back imports from the “cheating” Chinese. Romney also accused his Democratic opponent of having been “asleep” on promoting job-creating U.S. exports.

Obama definitely didn’t look sleepy when he reminded American audiences that, with trade, employment was priority No. 1. “It’s time to stop rewarding companies that ship jobs overseas, and start rewarding companies that are creating jobs right here in the USA,” Obama told the cheering workers at the Master Lock Company in Milwaukee.

Master, which for nearly a century has made the iconic locks that adorn so many high-school lockers, had come to Obama’s attention when it moved about 100 jobs back to Wisconsin from China. The president got the point that supply chains matter; when businesses like Master Lock create new American jobs, he explained, “it’s also good up and down the supply chain, because if you’re making this stuff here, that means that there are producers and suppliers in and around the area who have a better chance of selling stuff here.” But he neglected a critical exten-
sion of the argument – that supply chains ignore borders.

**BOEING, BOEING**

Two days later, Obama was in Everett, Wash., where he visited the assembly line for Boeing’s new 787 Dreamliner, which he called “the world’s most advanced commercial airplane.” “Companies like Boeing,” Obama proclaimed, “are realizing that even when we can’t make things cheaper than China, we can make things better. That’s how we’re going to compete globally.”

While Dreamliners are made in Washington State, the entire U.S. economy gets a boost, thanks to “nearly 11,000 small, medium and large supplier businesses,” the economist-in-chief explained. “Boeing has suppliers in all 50 states, providing goods and services like the airplanes’ groundbreaking carbon-fiber-composite aircraft structure from Kansas, advanced jet engines from Ohio, wing components from Oklahoma, and revolutionary electro-chromic windows from Alabama,” he said. Again, though, he stopped short of acknowledging the role of imports in the mix.

The following month, Obama visited a
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Rolls-Royce plant in Petersburg, Va. that makes jet engines for the Dreamliner. The president praised the venerable British manufacturer for investing in America. It is “creating jobs here, manufacturing components for jet engines, for planes that we’re going to send all around the world,” he declared. What Rolls-Royce has been doing in the United States represents “the kind of business cycle we want to see,” Obama stressed. “Not buying stuff that’s made someplace else and racking up debt, but by inventing things and building things and selling them all around the world stamped with three proud words: ‘Made in America.’”

Well, sort of. It doesn’t take any special economic insight to see how global supply chains sustain the jobs of Americans who make locks, airplanes and jet engines. Just consider their provenance.

WHERE DO MASTER LOCKS COME FROM?

Master Lock’s signature products are composed of a dozen or so parts, notably cylinders, ball bearings, shackle pins and screws. In 1995, the last year for which publicly available documentation is found in U.S. Customs’ records, 9 of the 11 parts used in one of Master’s locks were made in Milwaukee. But the lock case and cylinder-retainer block were imported from Taiwan – and those two parts constituted an estimated quarter to a third of the production cost of the finished lock.

In Milwaukee, Master Lock now employs more than 400 workers, including the workers in the 100 jobs repatriated from China. The company has another 700 workers in Nogales, Mexico. The Milwaukee and Mexican plants account for about 55 percent of the company’s lock production, with the remainder still in China. These Chinese, American and Mexican workers depend upon each other so much to complete the supply chain that it is often difficult to say which country really makes the locks.

Indeed. In 2010, U.S. Customs officials struggled to determine where one of Master Lock’s products really was made. It had ten components, of which the principal ones, the lock body and the shackle, were made in Milwaukee and China, respectively. All of the components were then assembled in Mexico. Customs finally decided the finished padlock should be marketed as a product of Mexico – a judgment call that reflects political and bureaucratic imperatives more than reality.

Other times, Master Lock has imported the lock bodies and shackle assemblies from Asia or Mexico, with workers in Milwaukee finishing the product by attaching the cylinder locks. Those padlocks were labeled “Made in USA.” (As a chastened Karl Marx might have quipped if he were alive today: “Workers of the world: you really are united.”)

GLOBAL DREAMS

It’s the same story for Boeing’s Dreamliners, which Obama praised for having supply chains that stretched to all 50 states. The Swedish National Board of Trade estimates that 70 percent of the Dreamliner’s components are produced outside the United States, with suppliers “spread over 135 sites around the world.” In fact, the board said, “the wings are produced in Japan, the engines in the United Kingdom and the United States, the flaps and ailerons in Canada and Australia, the fuselage in Japan, Italy and the United States, the horizontal stabilizers in Italy, the landing gear in France, and the doors in Sweden and France.”

FUZZY ECONOMICS

When Obama toured the Rolls-Royce engine plant near Richmond, “I learned a bit about how a jet engine comes together,” he told the workers there. The president drew apprecia-
tive chuckles when he added, “I’m a bit fuzzy on some of the details.”

But the president insisted he was clear on one principle: the virtues of a buy-American world. “Think about how important this is,” he said. “I mean, imagine if the plane of the future was being built someplace else.”

But while we’re in an imagining mood, reflect on how the jobs of those Americans who make jet engines in Virginia would fly away if the plant lacked easy access to imported components. For example, the Rolls-Royce AE 3007 gas-turbine engine—a workhorse in short-haul passenger jets—requires titanium fittings imported from “unspecified” countries, U.S. Customs records show.

Those engines also need fire-resistant braided cord that ties bundles of electric
cables together, which is imported from England. There are also stainless steel oil-seals and bolts from Great Britain, and stainless steel gravity tanks from Sweden. Imported socket screws, shaft liners and sleeves for thruster-propulsion systems from Finland, Sweden and Norway (and machine screws from too many countries to mention) keep Rolls-Royce’s Virginia workers busy.

Throughout the presidential campaign, Obama wrapped himself in the flag of economic nationalism without saying much about imports. And the shuck worked. Romney tried his best to turn the tables, calling Obama the true “outsourcer-in-chief” for having spent federal stimulus funds on American manufacturers who had been making wind turbines from — horrors! — imported blades. But it apparently didn’t quite resonate. (And it didn’t advance the candidate’s buy-American credentials when it came out that his wife had been flying around the country on a chartered regional jet made in Canada.)

**EXPORT THIS!**

Obama’s first-term, five-year goal of doubling U.S. exports of goods, which totaled $1.07 trillion in 2009, remains a worthy objective. To accomplish that, the president is busy touting the usual policy mix: trade missions, investment in infrastructure and breaks for small businesses. In his 2013 State of the Union message, the president announced that he would like to create 15 “manufacturing hubs” around the country. He also wants Congress to give the Defense and Energy Departments $1 billion, “to turn regions left behind by globalization into global centers of high-tech jobs.”

Ironically, though, the president’s national export initiative has pretty much ignored one federal program that has a highly successful record in promoting American exports. In fact, expansion of U.S. foreign-trade zones — which revolve around cheap access to imports — weren’t even included in the Obama export-doubling program.

Foreign-trade zones have been around since the Great Depression, when Congress and President Franklin D. Roosevelt were scrambling for ways to keep Americans working by getting around the crippling Smoot-Hawley tariffs that hovered in the 50-plus percent range.

Manufacturers in these special zones — administered by the Commerce and Treasury Departments — were allowed to import the raw materials and components to manufacture finished products without initially paying import duties. The goods could then be sold in the United States, where they would be subject to the lower U.S. duty rate for the finished product. Or they could be exported to other countries without paying any U.S. tariffs.

That model for stimulating exports is still in place. These days, some 2,800 companies employing more than 340,000 American workers operate in such zones in every state of the union. And talk about results: from 2004 to 2008, the value of exports from U.S. foreign-trade zones more than doubled, from $19 billion to $41 billion. Since 2009, they are up by more than 80 percent.

Moreover, these zones operate in parts of the country that have lagged behind in the rapidly evolving economy. BMW has exported more than one million spiffy roadsters and four-wheel-drive vehicles from the free-trade zone in Spartanburg, S.C. since 1994. Mercedes exports its M-class SUVs and other luxury vehicles from a duty-free zone in Alabama. Meanwhile, Toyota recently announced it will be selling its Kentucky-made Venza crossover to customers in Russia and Ukraine.

Another shining export success originates...
in Elkton, Va. (pop. 2,700), nestled in the Shenandoah Valley about 100 miles south-west of Washington. There, pharmaceutical giant Merck operates a sprawling factory that makes drugs to treat diseases from HIV to river blindness to Parkinson’s to cervical cancer. In a story that should now be familiar, the Merck plant depends on cheap imports, paying no U.S. tariffs on the imported raw materials – various chemicals, gums, resins – that otherwise would be subject to duties.

Nonetheless, it remains an uphill battle to beat back opposition to foreign-trade zones. The United Auto Workers opposes them – especially those in the South that use non-union labor. Detroit automakers, which have in the past operated from U.S. foreign-trade
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zones, no longer serve as a counterweight. Thanks to the North American Free Trade Agreement, General Motors can make its Silverados and Suburbans in Mexico and export them duty-free to the United States. The foreign automobile manufacturers that operate in foreign-trade zones in the rural South have to pay normal U.S. tariffs on automobiles if they sell their cars in the United States (as opposed to exporting them).

When Obama became president in 2009, he was offered the opportunity to support an idea aimed at boosting the number of jobs of Americans who work in foreign-trade zones. Representative Bill Pascrell, a New Jersey Democrat, was pushing legislation that would have put the Americans who make BMWs in South Carolina on an equal footing with GM’s Mexican workers by exempting domestic sales of autos made in free-trade zones from the regular tariff.

But Obama, loath to challenge the auto workers’ union, refused to support Pascrell’s proposal. Nor did any major Republican show much interest. Even Pascrell decided not to speak in favor of his own bill, which he quietly dropped.

REALITY CHECK

Though polls show a majority of Americans are inclined to accept global economic integration, politicians see little advantage in offending the vociferous third who are still demonizing imports. That’s why both Republican and Democratic bigwigs decline to explain the relationship between exports and imports in intellectually honest terms.

But corporate CEOs don’t have that excuse. And many of America’s top business leaders – who certainly know better – have refused in recent years to acknowledge the vital role that imports play in keeping domestic jobs, preferring to invest their political capital on other issues. U.S. steelmakers, to cite the most glaring example, know that their American workers cannot make finished steel products without access to duty-free imports of semifinished steel. Yet presidential candidates who want to win votes in steelmaking states like Pennsylvania and Ohio long ago learned not to rock that particular political boat.

The more encouraging news is that some influential trade groups have begun to speak candidly about the role of imports in the U.S. manufacturing supply chain. For the past two years, the U.S. Chamber of Commerce has been supporting an Imports Work For America week. The Business Roundtable – not so long ago a bastion of anti-imports sentiment recently posted a study by Matthew Slaughter, a Dartmouth economist, that praises the contributions of imported goods to U.S. manufacturing.

“Exports are great for Caterpillar, but so are imports, and that’s a point that often gets overlooked,” Doug Oberhelman, Cat’s chief executive and the head of the Roundtable’s task force on trade, said. “Without access to manufacturing inputs from around the world, Caterpillar’s global supply chain would be less competitive and our ability to compete in all markets would be diminished.”

Free trade has always been controversial because it produces both winners and losers, even though the evidence that open trade promotes innovation, retards inflation and increases consumer-centric competition is undeniable. But with the economy changing, the exports-good/imports-bad mantra is less and less relevant to groups traditionally opposed to free trade. The more the American public hears the simple truths about why imports are good things, the sooner the politics of trade will cease to be dominated by interests stuck in the 1980s.