

The Importance of Trade to Maine and New England
Remarks by Cathy E. Minehan
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I am delighted to join you today in exploring trends reflecting and affecting the international competitiveness of the Maine economy. In particular, I would like to focus my remarks on the importance of international trade -- not just to New England exporters and their employees but also to the economy at large.

To preview my main points, trade increases the efficiency with which each trading region uses the resources available to it. This increased efficiency improves each region's standard of living. In addition, trade is linked to learning; it promotes technological progress and, thus, competitiveness and potential growth over the long run.

Unfortunately, current events indicate that a significant part of the public believes that trade only benefits a few giant multinationals. Many individuals seem to forget the gains to consumers or to the economy as a whole. The resulting opposition to trade liberalization within parts of the general public diminishes the U.S. role in current trade initiatives, like the rapid development of a Latin American free trade area. Accordingly, I'll

end by suggesting the need for a public education effort to remind citizens of the broad-based benefits of international trade.

Nowhere should the benefits of trade be more obvious than in New England. Here we sit on a jumble of rocks jutting out into the North Atlantic. We have no vast expanses of agricultural land, no iron or coal or oil. Basically, as Charles Francis Adams noted long ago, New England's resources amount to "ice and rocks and men." While we have in the past exported rocks and ice, our most successful exports have generally reflected the brain-power of our entrepreneurs and our skilled labor force.

Of course, many creative New England firms do export natural-resource-based products -- particularly here in Maine. You may, for instance, have noted the occasional news coverage of Maine exports of sea urchins and urchin roe to Japan; this holiday delicacy is out of season in Japan's coastal waters in December but is particularly abundant off New England at that time. Similarly, one of Massport's chief exporters, in volume terms, is DeCoster Egg Farm of Turner, Maine, which ships over 10,000

metric tons of eggs a year, largely to the Far East. Their secret? Brown eggs. Since white represents death in parts of Asia, white eggs are not very popular there. And when West Coast exporters tried dying their eggs in tea, they got found out. In addition, of course, paper, lumber and wood products, and leather and leather products have above-average importance in Maine's export base.

Still, elsewhere in New England, and increasingly in Maine (where electronics exports are growing rapidly, for instance) high-tech capital equipment and niche products dominate our export base. As in the nation, New England's most valuable merchandise exports include industrial machinery, electronic equipment, transportation equipment, instruments and chemicals. ~~But, within those groups, our export base differs a good deal from the nation's, at least according to detailed data on trade with Canada, our largest trading partner. New England trade is three times more dependent on computer-related products than the nation's (12 percent versus 4 percent) and eight times more dependent on integrated circuits (16 percent versus 2 percent of total exports).~~

but we tend to specialize in the high-end products in each of these categories: computers and integrated circuits, for example, and high tech fabrics like Goretex.

For the nation, ~~transportation exports mean autos, trucks and parts; in New England transportation tends to mean aircraft and aircraft parts or, here in Maine, yachts and boats.~~ Reflecting our industrial past, ~~textile exports still have above-average importance in the region but, today, we export high-tech fabrics like Gortex, while clothing and synthetic fabrics top the list for the nation.~~

New England, it turns out, has a favorable export mix when compared with the nation. We sell what the world wants, but we are not selling it in the fastest-growing markets. If New England's ^{merchandise} export growth in each industry to each foreign market had matched the national pace, overall export growth would have been faster in New England than in the nation from 1987 to 1993. It wasn't. Why? ~~As manufacturing activity has shifted south and west, export activity has shifted with it.~~ In addition, ^{It turns out that} New England is more dependent than the nation on merchandise trade with Europe and Canada, and less dependent on trade with fast-growing markets in Asia and Latin America. In 1993, emerging Asia and Latin America accounted for about 40 percent of U.S.

exports, but for just 25 percent of exports from New England. As you know, Canada, Europe, and Japan suffered more severe recessions than we did in the early 1990s, while most emerging markets continued to grow at remarkably healthy real rates.

Encouragingly, recent merchandise trade data from the Department of Commerce indicate that Maine along with Massachusetts, New Hampshire, and Vermont outperformed the nation in exporting in 1995. As of last year, merchandise exports supported an estimated 403,000 jobs in New England, of which 23,000 were in Maine. (That's about 7 percent of non-agricultural employment for the region and 4 percent for the state.) Assuming that each \$1 billion in exports supports 17,000 jobs, last year's merchandise export growth accounted for about half of the increase in the region's nonagricultural jobs from 1994 to 1995.

Also encouraging for Maine's export prospects is the outlook for growth in our traditional trading partners. Although France and Germany have been going through a rough patch, and the latter has probably experienced negative growth in the last two quarters,

European GDP growth is generally expected to accelerate in the second half of the year. Incoming data -- housing starts, auto sales, and the like -- indicate a rebound in Canada as well. In Japan the worst recession of the postwar period finally seems to be over, as private investment and industrial production are picking up steam. Even in Mexico, first-quarter GDP fell much less than expected from year-ago levels. Mexico's contraction seems to be over, and some analysts expect that Mexican output will have recovered its pre-crisis levels by the middle of next year.

Nevertheless, it remains essential that New Englanders continue their efforts to expand their export markets. After all, competitiveness includes marketing savvy. And over the long run, annual growth in the mature industrial countries is likely to stay in the 2 to 2.5 percent range. All of these countries face pressures to reduce government budget deficits. In Europe the need to meet Maastricht fiscal standards looms large, and in Japan the budgetary impact of a rapidly aging population is a constant concern. Moreover, in all of these countries, firms continue to feel

burdened by excess labor. Like fiscal stringency, industrial restructuring is likely to restrain growth in the mature economies for the foreseeable future. By contrast, the emerging markets are expected to continue growing at relatively rapid rates.

You've probably noticed that so far I have only discussed merchandise exports. Unfortunately, we have no data on state exports of services like tourism, transportation, and business and professional services, which now total close to 40 percent of merchandise exports nationally. From national data we know that service exports have been growing a good deal faster than exports of goods -- an 85 percent gain for private service exports from 1988 to 1994, for instance, versus a 60 percent increase for goods. We also know that services, including finance, insurance and real estate, account for a larger share of jobs in New England (39 percent) than the nation (34 percent). Thus, it is probably safe to assume that this region accounts for a disproportionately large share of the nation's rapidly growing service exports.

According to national data, travel and transportation exports

bulk largest in service exports, as those of you who live in the state with "Vacationland" on its license plates undoubtedly know. As a trip through Freeport or Kennebunkport confirms, Maine has succeeded in attracting a growing number of foreign tourists who, reportedly, spend more per person in local stores and restaurants than U.S. travelers. Astoundingly, tourism jobs have grown faster in Maine since 1982 than in the region despite the surge in casino-related employment in Connecticut. Looking forward, tourism is an income-elastic service. In other words, as foreign incomes grow, foreigners will choose to spend increasing shares of that income on travel. And Maine, with its clear comparative advantage in this industry, should be in a good position to benefit.

License and royalty receipts account for another major share of service exports. A significant part of the region's biotech and software companies' foreign earnings falls in this category. And foreign earnings often equal 30 to 50 percent of these companies' total revenues. Other major service exports include education, financial services, telecommunications, data processing and data

base management services, and construction, engineering and architectural services -- all major industries in New England.

While we hear useful anecdotes from successful service exporters, we really need more complete information if New England is to take full advantage of expanding foreign markets for our services. While a national initiative to provide consistent data on service exports by state would be extremely useful, in this era of federal downsizing, we may have to be patient. But cooperative marketing initiatives, like Discover New England, would clearly benefit from additional data.

Now I would like to broaden the perspective from exporting and discuss the benefits of trade for the economy as a whole. As I mentioned at the outset, international trade increases the efficiency with which regions and nations use the resources available to them. By so doing, trade raises these nations' standard of living above levels achievable in the absence of trade. As David Ricardo pointed out to fellow Britons during the Industrial Revolution, nations gain by producing and exporting the products

which they can make comparatively efficiently. Even if an industrialized nation is absolutely more efficient at producing all goods, it will still gain from using its resources to produce goods at which it is relatively more efficient while importing goods made in countries that are relatively efficient at other products.

In ^{David} Ricardo's classic example, thus, it was better for England, with its relatively abundant capital and skilled labor, to concentrate on making cloth to trade for wine from Spain, rather than to pull labor and capital away from textiles in a struggle to make British wine. By concentrating on what each country was equipped to do best and trading, both could consume more wine and cloth in total than they could in the absence of trade.

In this ^{scenario} classic example, each country's exporters clearly gain from having access to larger markets, while firms making import-competing goods lose out, as they and their workers are quick to tell elected officials. And consumers in both countries gain by having access to cheaper and more varied goods. Together, the gains to exporters and consumers ^{over time} will more than offset the losses

suffered by import-competing firms in both countries, though, again, perceptions of relative benefits may vary.

In addition to these one-time gains based on comparative advantage, trade also allows dynamic gains based on economies of scale and specialization or increased competition. Among industrial countries, for example, trade liberalization generally leads to increased two-way trade in closely related products like different grades of paper, newsprint versus fine stationery, say, or different types of integrated circuits, as producers on both sides of a disappearing border seek economies of scale or specialization. Again, consumers get a more varied menu and better prices than they would in the absence of trade. But in this case, many import-competing firms also thrive by finding a niche from which they can serve the domestic market or can even begin exporting themselves. Thus, in time gains from trade based on economies of scale benefit almost everyone. Indeed, the prevalence of two-way trade has helped smooth adjustments to recent trade liberalizations in Europe and North America.

It remains true, however, that increased trade can ^{appear to} leave some groups worse off. Indeed, it seems clear that increased competition from low-paid labor in developing countries is one -- but only one -- of the explanations for the increased wage inequality causing distress in this country. (As you may know, between 1969 and 1993, real earnings for men in the bottom earnings quintile fell more than 10 percent while real earnings for men in the top quintile rose over 15 percent.) However, most analysts looking at this issue conclude that technological change is the key contributor to the increase in wage inequality seen in the 1980s, with foreign trade a lesser factor.

To the extent that trade is seen as causing increased wage inequality, ~~however~~, we hear calls for added protection. But, ^{would this really help?} in my view, ~~a more effective response is a focus on improving worker skills and labor mobility.~~ Indeed, tariffs on imports, especially consumer goods and capital equipment, would lower most workers' real wages and make our ^{goods} manufactures less competitive on world markets. ~~Thus,~~ ^{could} tariffs would be a very

expensive way of helping individuals hurt by imports and would do nothing to equip them to find more productive jobs.

Unfortunately, the prospective sale and possible closure of Hathaway, with its distressing consequences for its 500 workers, raises the issue with special urgency in this state. It would seem that Hathaway's problems are more a consequence of changing lifestyles and a reduced demand for dress shirts than a matter of international competition. In fact, as I understand it, Warnaco plans to close the Ontario and Puerto Rican plants as well as the facility in Waterville. Still, the issue of helping displaced workers find satisfying new jobs remains a pressing problem locally and nationally. As a society, we need to give serious thought to how we should share the costs of adjusting to rapid economic change. Does responsibility for investing in retraining ^{and reemploying} rest with individual workers? Individual firms? With taxpayers collectively? We need to develop a national consensus on this issue, ^{because the level of uncertainty in labor markets over this issue is acute,}

To end with one final benefit for the entire economy, international trade promotes technological progress. Marco Polo's

trips to China leap to mind, but the close links between trade and technology diffusion are far older. Did you see, for example, a recent New York Times article, headlined "And the mummy wore plaid"? It described discoveries of mummified remains that dramatize how Celtic or Germanic peoples traveling the Silk Road two to four thousand years ago carried the day's new technologies -- wheels and plaid-weaving looms -- along with them. Closer to home, unusual flint knives show that Penobscot Bay's Red Paint People were trading all along the coast from northern Labrador to New Jersey at least four thousand years ago. Today, the links between trade and technology remain important for a high-tech region like New England. Since New Englanders surely hope to retain their current comparative advantage in knowledge-intensive products, it is essential that the region's firms and workers be exposed to technical breakthroughs and have a chance to work with the most advanced equipment and components, which increasingly originate overseas. Indeed, data on foreign holders of U.S. patents, and on license and royalty payments to

foreigners, confirm that the flow of technology is no longer entirely one way. Moreover, just as exporting allows developing countries to exploit economies of scale unavailable at home, so too New England firms developing cutting-edge products benefit from large foreign markets that permit them to move faster along successive learning curves.

Unfortunately, as the widespread suspicion of NAFTA and the World Trade Organization make clear, sizable segments of the U.S. public do not fully appreciate the essential importance of trade for the U.S. economy. This lack of understanding matters, because it hinders the United States in taking a leadership role in current trade negotiations. For example, since the expansion of NAFTA appears to be on hold, the Latin American countries are charging ahead to create a Latin American free trade area with Brazil as the major market. The United States also needs to be able to provide leadership in ongoing negotiations on service exports and intellectual property rights. These issues are, of course, of particular interest in New England.

For this reason, I will end by suggesting the need for a public education effort to promote a better understanding of the benefits of trade for the nation and the region. While programs to spur exports are surely worthwhile, a wider appreciation of the benefits of trade for today's consumers and tomorrow's technological progress is also essential and deserves support. Moreover, whether technological progress or trade liberalization is the primary cause of increased earnings inequality, worker retraining ^{maybe} ~~is~~ a more effective response than blaming foreign competition. Indeed, admitting the existence of transition costs for low-skilled individuals and asking the majority who benefit from trade to share the costs of improved retraining programs could be the most effective way of moderating protectionist sentiment. Otherwise, lack of political support for trade liberalization may undermine the U.S. position in ongoing trade negotiations, and endanger the fragile trading system that promotes efficiency and competitiveness to the long run benefit of us all.

*business opportunities
for you, and many
other CEO's like
yourself in
Maine, New England
and the country as a
whole. Our economy
benefits from trade, and we
must work together to protect
the fragile trading system that promotes
efficiency and competitiveness here.*