

**The Benefits of Trade for New Hampshire and New England
World Trade Expo**

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I am delighted to be with you today visiting New Hampshire's World Trade Expo and marveling at the vast array of extraordinary new products northern New England exchanges with the world. Surrounded by the fruits of this season's high-tech harvest, it seems like an appropriate moment to explore the links between trade and economic growth in New Hampshire and the rest of New England. So I would like to focus my remarks on the importance of international trade -- not just to regional exporters and their employees but also to the economy at large.

To preview my main points, trade raises the efficiency with which each trading region uses the limited 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 heightens competitiveness and potential growth over the long run.

Unfortunately, ^{some} ~~a significant part of the media and the public~~ perceive that trade benefits only a few giant multinationals. Many people seem unaware of the gains to themselves as consumers or

to the economy as a whole. The resulting opposition to trade liberalization diminishes the U.S. role in current trade initiatives, such as the rapid development of a Latin American free trade area. All of us, business leaders as well as policy makers, have an important role in helping citizens to recognize the broad-based benefits of international trade.

Nowhere should these benefits be more obvious than in New England. Perched on a jumble of rocks jutting seaward or, here in the Granite State, skyward, we have no vast expanses of agricultural land, no iron or coal or oil. Basically, as the historian Charles Francis Adams noted long ago, New England's resources amount to "ice and rocks and men." While we have in the past actually shipped rocks and ice abroad, our most successful exports have generally reflected the brain-power of our entrepreneurs and our skilled labor force.

Of course, many New England entrepreneurs do export natural-resource-based products. One of the more unusual items on our export menu is sea urchin roe airfreighted to Japan; this

holiday delicacy is out of season in Japan's coastal waters in December, when it is particularly abundant off New England. Similarly, one of the chief exports from the Port of Boston, in volume terms, is eggs -- brown eggs. Massport ships over 10,000 metric tons of eggs a year, largely to the Far East. Since white represents death in parts of Asia, white eggs are not very popular there. And West Coast eggs dyed in tea are easily spotted as counterfeit. In addition, of course, paper, lumber, wood products, such as modular housing, and leather products are relatively important in New Hampshire's and much of New England's foreign sales.

But high-tech capital equipment and niche products make up the largest part of the state's and the region's export base. As in the nation, New Hampshire's most valuable merchandise exports include industrial machinery and computers, electronic equipment, transportation equipment, instruments and fabricated metals. But within those groups, the region's mix 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 and eight times more dependent on integrated circuits. For the United States as a whole, transportation exports mean autos, trucks, and parts; in New England, transportation tends to mean aircraft, aircraft parts, and other aerospace equipment, although auto parts remain important. Reflecting our industrial past, textile exports are still relatively strong in the region, but today we export high-tech fabrics such as woven fiberglass with thermoplastic coatings, while clothing and older synthetic fabrics top the list for the nation.

New England, it turns out, has an attractive export mix when compared with the nation. We sell what the world wants.

However, we are not always as prominent as we might be in the fastest-growing markets. During the late 1980s and early '90s, growth in the region's merchandise exports fell short of the nation's, even though our export base included some of the fastest-growing exports nationwide. The shortfall partly reflected

the region's limited exports to the world's most dynamic markets. For historic and geographic reasons, 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 recent years, emerging Asia and Latin America have accounted for over 40 percent of U.S. exports, but for just 26 percent of exports from New England. Canada, Europe, and Japan suffered more severe recessions than we did in the early 1990s, and, until recently, many of these economies had more tentative recoveries. By contrast, most emerging markets have continued to grow at remarkably robust real rates.

But that was then & this is now. It's encouraging to see that three New England states -- New Hampshire, Massachusetts, and Maine -- have been outperforming the nation in export growth in recent years. Among the three, New Hampshire is clearly the star, with exports up over 40 percent between 1994 and 1996, almost twice the national pace.

As of last year, \$31 billion in merchandise exports supported an estimated 500,000 jobs in New England, of which 26,000 were in

New Hampshire. That's about 8 percent of non-farm employment for the region and 5 percent for the state. Assuming that each \$1 billion in exports supports 16,000 jobs, the last two years' merchandise export growth contributed one-third of the net gain in the region's jobs from 1994 to 1996.

New England's improved export performance undoubtedly reflects strenuous public and private efforts to broaden the region's export horizons. Many of our business contacts report impressive gains in sales in Eastern Europe and China as well as other Asian and Latin American markets. One New Hampshire firm with far horizons is Pitco Frialator. As you know, McDonald's golden arches are among the most widely recognized symbols in the world. They are nearly ubiquitous, and Pitco follows close behind, selling the frialators for their fries and chicken nuggets. With offices in Singapore, Prague, and Mexico City, Pitco's exports have grown from 8 percent of sales in the late 1980s to 22 percent last year. More generally, data for 1994 through early 1996 indicate that, among the region's 50 largest export markets,

nontraditional trading partners like Finland, Kuwait, Indonesia, and Honduras exhibited the fastest growth. Several of these countries appear on the U.S. list of fast-growing markets as well.

Obviously, New Englanders have little choice but to continue to explore burgeoning new markets. Over the long run, annual growth in the mature industrial countries is likely to stay in the same 2 to 2.5 percent range expected here in the United States. Most industrial countries face pressures to reduce government budget deficits. In Europe, the need to meet and maintain the fiscal standards set for European Monetary Union looms over the future, and in Japan the budgetary impact of a rapidly aging population is a constant concern. Moreover, in all of these countries, firms feel burdened by excess labor. Like fiscal stringency, industrial restructuring is likely to restrain growth in the mature foreign economies for the foreseeable future.

By contrast, the emerging markets are expected to continue growing at double or triple the rates seen in the industrial world. While the recent currency turmoil in Southeast Asia will likely give

the tigers some pause, they should resume rapid growth within a matter of months -- just as Mexico started to recover less than a year after its peso crisis. Mexican real GDP soared more than 8 percent, at an annual rate, in the second quarter of this year.

So far I have been discussing only exports of *goods*. Unfortunately, we have no data on state exports of intangibles such as tourism, transportation, and business and professional services, which now account for more than one fourth of the nation's total exports. From national data, we know that in this strong dollar period, total *service* exports have been growing about as fast as exports of goods, although for many years they had been growing considerably faster. We also know that services, including finance, insurance and real estate, account for 39 percent of jobs in New England, a larger share than the nation's 34 percent. Thus it is likely that this region accounts for a disproportionately large share of the nation's growing service exports.

Travel and transportation exports compose the largest piece

of U.S. service exports. Here too, as a trip to North Conway or Mt. Washington attests, New Hampshire has succeeded in attracting a growing number of foreign tourists who come specifically to shop or ski or, more broadly, to absorb the "New England experience." The state has been so successful, in fact, that a BBC crew filming the fall foliage from Mt. Washington's cog railway a year or so ago could find no U.S. tourists to interview -- the train was overflowing with German and British travelers. These foreign tourists reportedly spend more time per trip to New England and many more dollars per person in local stores and restaurants than do U.S. travelers. Looking forward, as foreign incomes grow, foreigners will likely choose to spend increasing shares of that income on travel. And northern New England, with its clear comparative advantage in this industry, should be in a good position to benefit.

License and royalty receipts also account for a major share of service exports. A significant part of New England's biotech and software companies' foreign receipts 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 the region.

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 spending cuts we may have to be patient. But cooperative marketing initiatives, such as Discover New England -- which is, incidentally, a New Hampshire corporation -- would clearly benefit from additional data.

Now I would like to broaden the perspective from exporting to discuss the benefits of trade for the economy as a whole. International trade increases the efficiency with which regions and nations use the resources available to them. To make the

economic benefits of trade more explicit, consider the case of U.S. trade with developing countries. The United States may be more efficient than Mexico or Thailand in producing all goods -- from tomatoes to turbines. But it will still gain from using its resources to produce goods at which it is relatively more efficient, while importing goods from countries that are comparatively well-equipped to make those other products. With its advanced technology base, the United States is likely to gain by concentrating on making telecommunications equipment and cutting-edge pharmaceuticals, instead of pulling resources away from these sectors to make all of its own textiles and televisions.

By allowing competition to shift resources to what each country does relatively well, and then trading, both countries can consume more in total than they could in the absence of trade. Exporters gain from having access to larger markets, while consumers everywhere gain by having access to cheaper and more varied goods. Domestic firms can be disadvantaged by foreign competition, of course, but the gains to exporters and

consumers more than offset their loss. Moreover, and in some ways most importantly, foreign competition can force domestic producers to improve their own cost structures and become more technically efficient.

Indeed, one of the primary benefits of trade is that it promotes technological progress and growth. The close links between trade and technology diffusion are far older than Marco Polo's trips to China. Not long ago, The New York Times ran an article headlined "And the mummy wore plaid." It described newly discovered mummified remains that dramatized how Celtic or Germanic peoples, traveling the Silk Road two to four thousand years ago, carried with them the day's new technologies -- wheels and plaid-weaving looms. Closer to home, unusual flint knives show that the Red Paint People of Maine's Penobscot Bay 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 any high-tech region. 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.

It remains true, of course, that increased trade can leave some groups worse off. Some U.S. producers and their workers do face reduced demand for their output when foreign unit labor and other production costs fall below U.S. levels. Sometimes, very low wages in developing countries are offset by low labor productivity and high transportation costs, making the overall

combination less threatening. But the possibility that low-wage countries can import advanced technologies from the industrialized world, and leapfrog to increasingly potent competitive positions is understandably of concern to many vulnerable workers. The adjustments required of individual workers displaced by import competition can be painful. And the individuals likely to be most severely affected usually come equipped with relatively low skills.

In this regard, the impact of increased import competition on domestic income distribution is similar to that caused by technological change. Trade and technological change both improve the efficiency with which a society uses its resources and increase economic welfare over the long run, but both exact adjustment costs from vulnerable people. Efforts to prevent these costs by slowing the pace of change are unlikely to succeed. Tariffs or other measures, such as the "voluntary" export restraint programs once popular in this country, raise the price of imported goods and make the cost of each job supposedly "saved" from foreign competition very high -- a multiple of the annual wage for

the job in question. Such barriers clearly are not the most effective way to spur U.S. employment.

Far more promising, in my view, than trying to halt the tides of innovation and trade would be to give workers the tools to cope with change. Redoubled efforts on the education and retraining front would make it easier for workers to move from jobs in declining industries to positions in growing endeavors; they would also provide businesses with a more ample supply of high-quality, entry-level labor.

The issue of helping displaced workers find satisfying new jobs will remain a pressing problem locally and nationally. The business cycle is not yet dead, recent obituaries notwithstanding, and labor markets will not stay tight forever. 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 rest with individual workers? With individual firms? With taxpayers collectively? From my work with Boston's Private Industry Council, I am glad to report that New

England employers increasingly see work-focused high school programs and ongoing worker retraining as important investments. These efforts enhance shareholder value by expanding the available labor pool and improving current worker flexibility, security, and satisfaction. But we need to develop a national consensus on this issue, and businesses have an essential role in moving the debate forward.

In the meantime, as the widespread suspicion of NAFTA and the World Trade Organization make clear, sizable segments of the U.S. public do not yet 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, to Latin Americans, the U.S. Administration's failure to obtain fast-track authority signals a lack of serious interest in expanding NAFTA. Accordingly, these countries have been charging ahead to create a Latin American free trade area with Brazil as the major market. This initiative puts excluded U.S. producers at a significant disadvantage and

promotes inefficient trade within Latin America. 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.

We all have an opportunity to speak out in this regard -- in op-ed pieces, in speeches, in conversations with elected representatives, with colleagues, with friends. 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. Moreover, whether technological progress or trade liberalization is the primary cause of increased earnings inequality, worker retraining 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 ^{for} 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.