

The United States in the Global Economy:

***A Look at Trade, Technology, and Finance
and Prospects for 2010***

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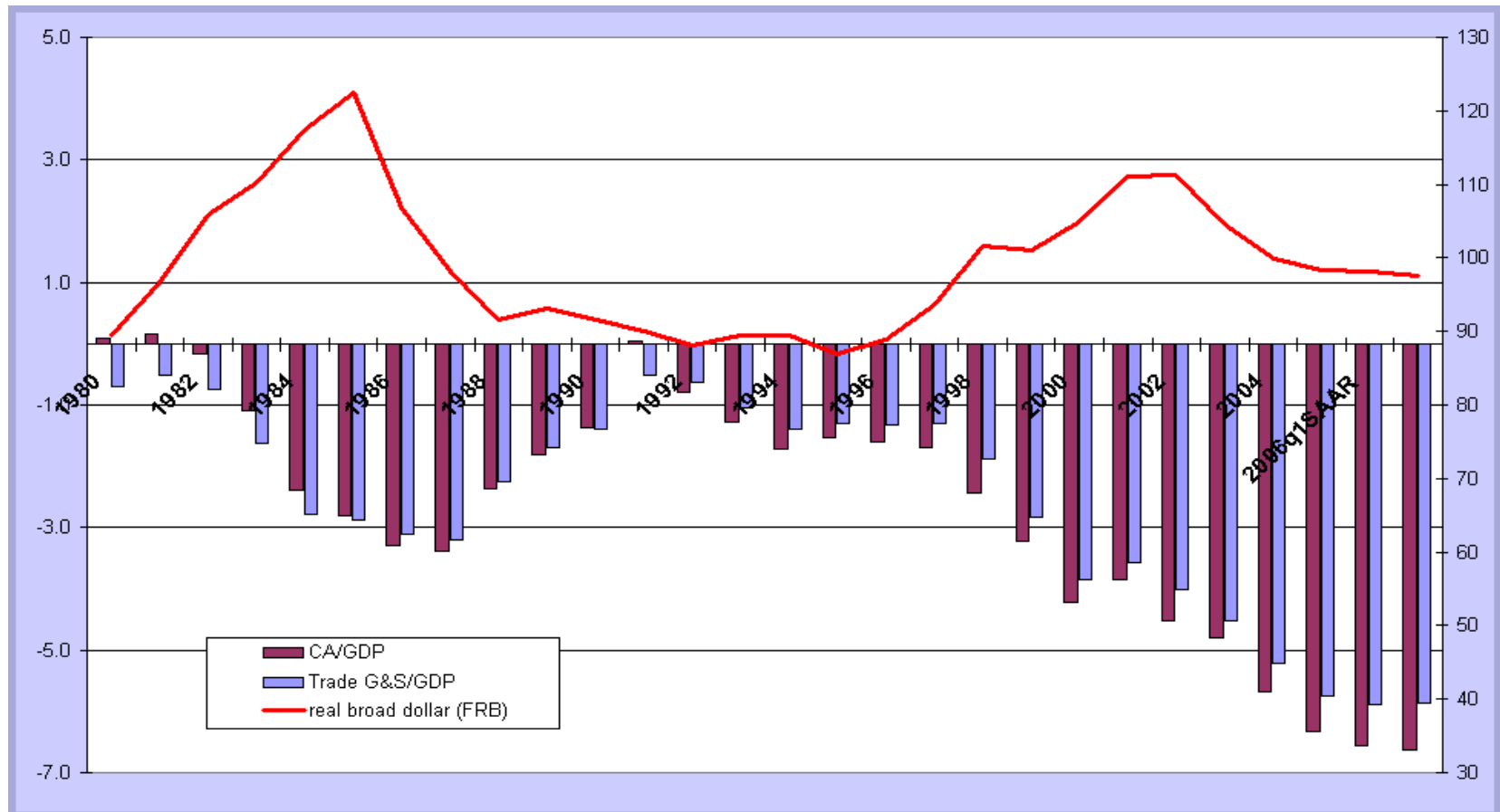
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The Big Picture: US Trade Deficit and the Dollar



***Small deficit in early 1990s was the last big recession;
Do we want a repeat? Does the world?***

What Are Key Exports? Imports?

Shares of total trade (goods and services) 2003		
categories	Imports	Exports
Capital goods + industrial materials (excl. energ	30%	44%
Autos	14%	8%
Consumer goods	22%	9%
Other (agr&energy)	17%	9%
Private services + intellectual property receipts	7%	18%
Transportation, travel, + military services	10%	12%

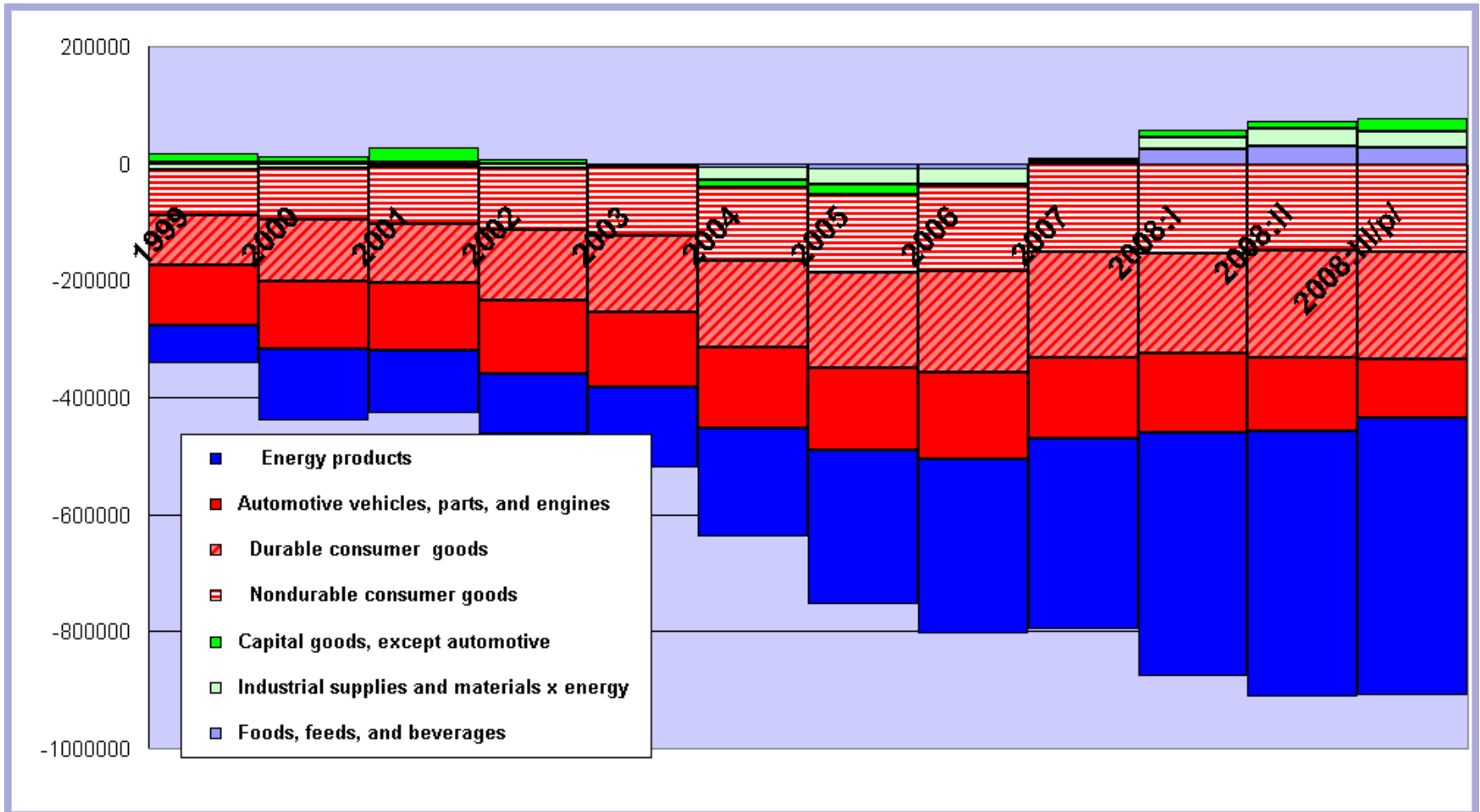
Capital goods and ISM: Largest Trade Category, Trade Surplus

Consumer Goods, Autos: Major Import, Trade deficit

Energy: Major Import, Huge Deficit

Private Services: Major Export, Trade Surplus

How is Trade Adjustment Taking Place?



Source: Bureau of Economic Analysis.

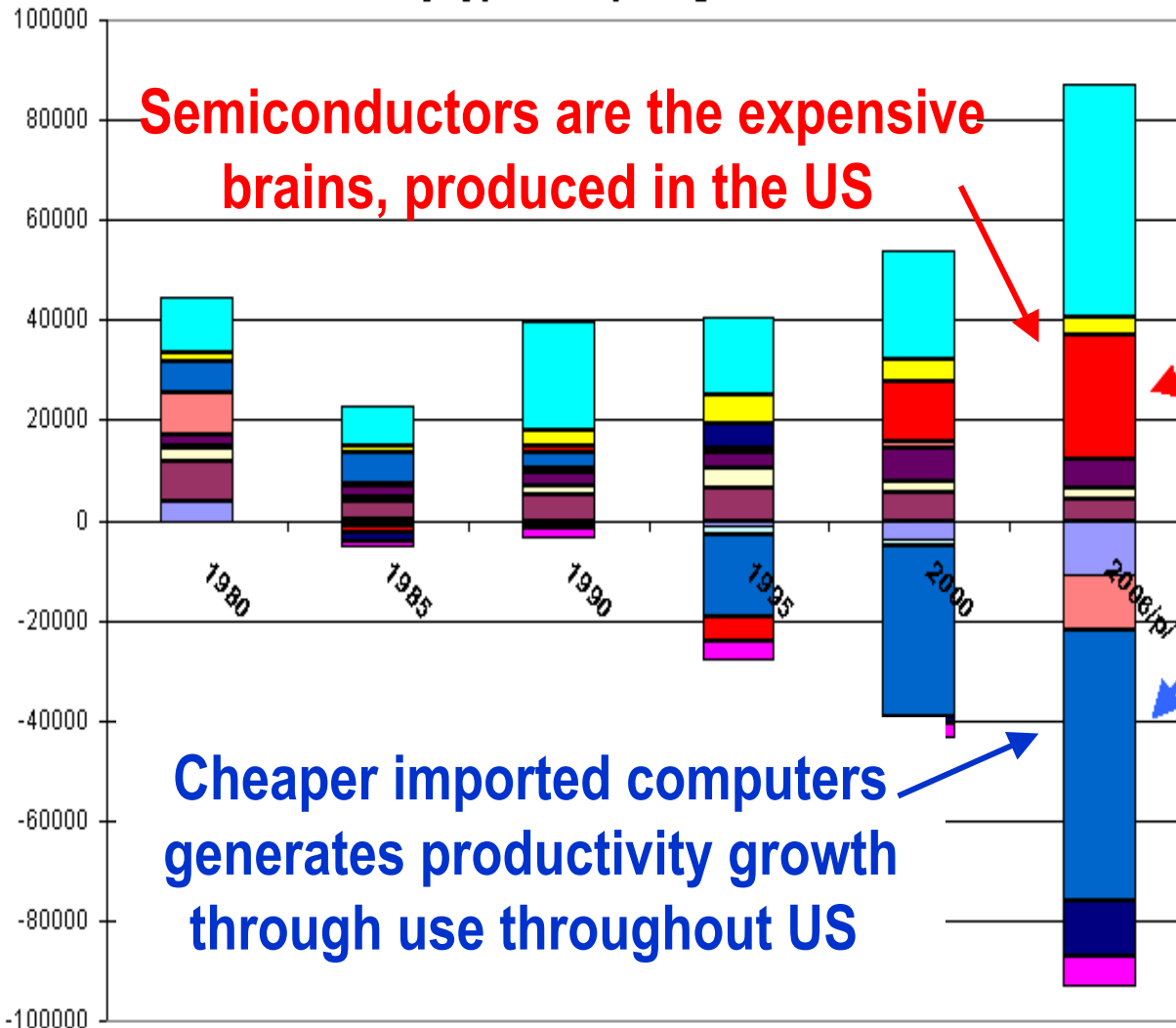
Capital goods and ISM: Small increasing trade surplus

Consumer Goods, esp. Autos: Smaller trade deficit

Energy: Worsening deficit

A Closer Look at Technology Trade

Trade Balance--Capital Goods
by type of capital good



- Civilian aircraft, engines, and parts
- Scientific, hospital, and medical equipment and parts
- Other office and business machines
- Telecommunications equipment
- Semiconductors
- Computers, peripherals, and parts
- Other industrial, agricultural, and service industry machinery
- Measuring, testing, and control instruments
- Machine tools and metalworking machinery
- Industrial engines, pumps, and compressors
- Oil drilling, mining, and construction machinery
- Electric generating machinery, electric apparatus, and parts

Globalization & Diffusion of Technology

Accentuates wage, employment gaps

Detailed US IT-Related Occupations 1999-May 2006

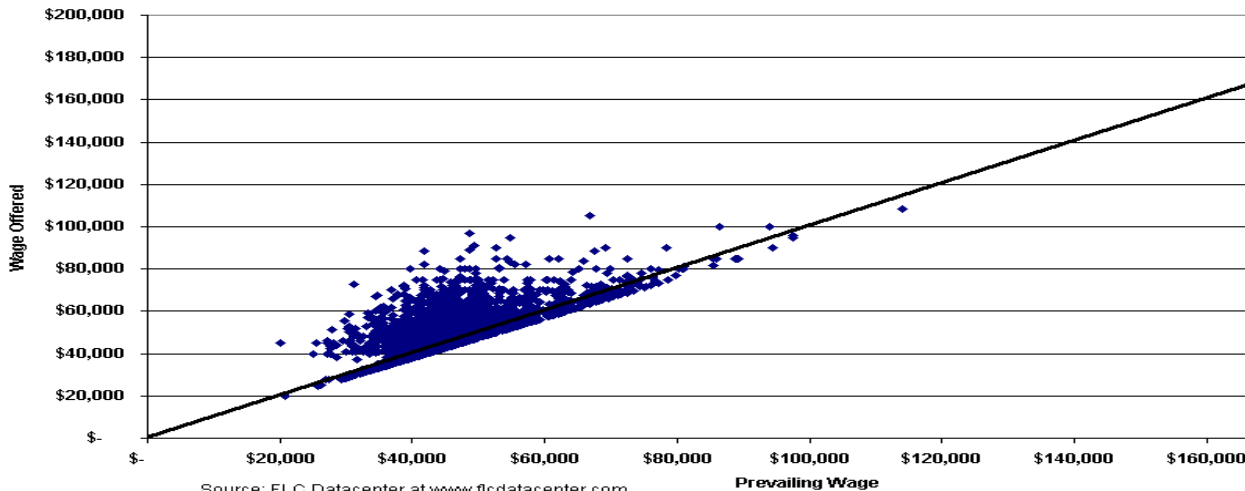
Occupations	1999	May-06	Total Change	Percentage Change	Annual Wage May 2006
Total Call-Center and Low-Wage Tech. Workers	2,241,650	1,440,460	-801,190	-35.7%	\$ 27,227
Mid-Level IT workers: Computer Support Specialists	462,840	514,460	51,620	11.2%	44,350
Total High-wage Technology Workers					
<i>of which Computer programmers</i>	528,600	396,020	-132,580	-25.1%	69,500
Total High-wage Tech. Workers	2,200,650	2,628,810	428,160	19.5%	\$ 75,819

Source: Bureau of Labor Statistics CES Data, 1999, 2000, 2001, 2002, May 2003, November 2003, May 2004, November 2004, May 2005, and May 2006 National Occupational Employment and Wage Estimates

Low-wage in real trouble—from trade & technology
‘Codification’ puts some high-wage at risk (programming)
Middle & high-wage demand integrative/analytical skills

H1B: Implications for incumbent & pipeline

Figure 5.5 Tata Consulting Services, Tata InfoTech, Wipro, Infosys, Satyam, Birla Software and Ramco, LCAs FY 2004



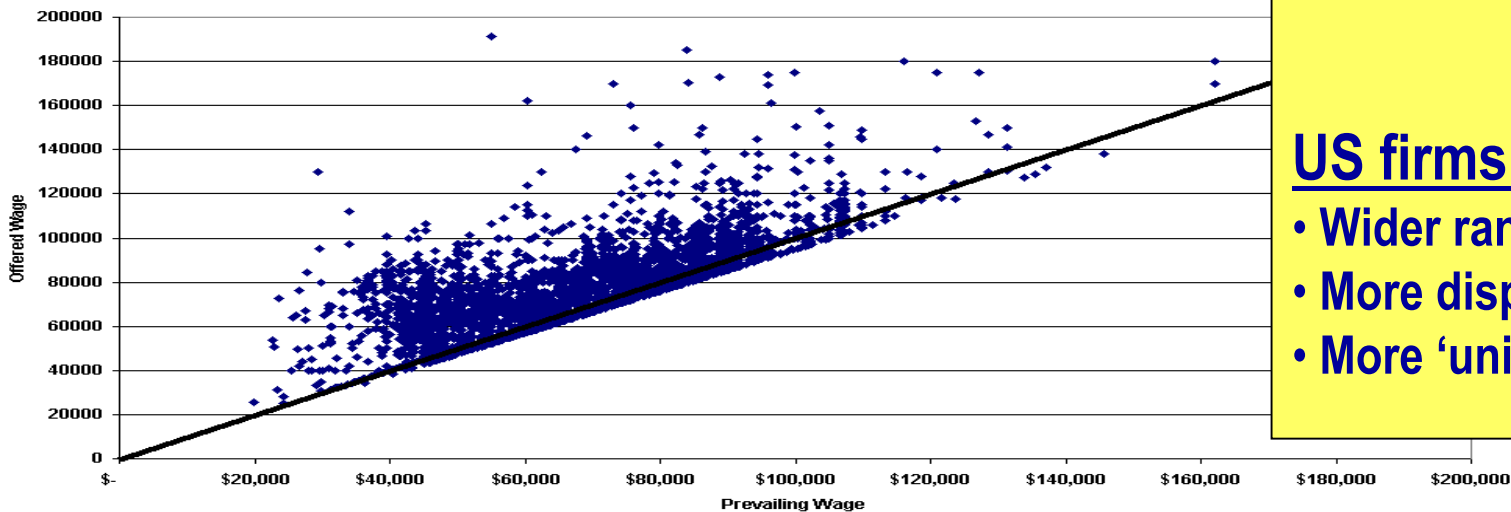
Source: FLC Datacenter at www.flcdatacenter.com

H1B visas

Foreign firms

- Cluster at lower skills
- Closer to prevailing wage
- More commodity skills

Figure 5.6 Dell, HP, IBM, Intel and Microsoft LCAs FY 2004



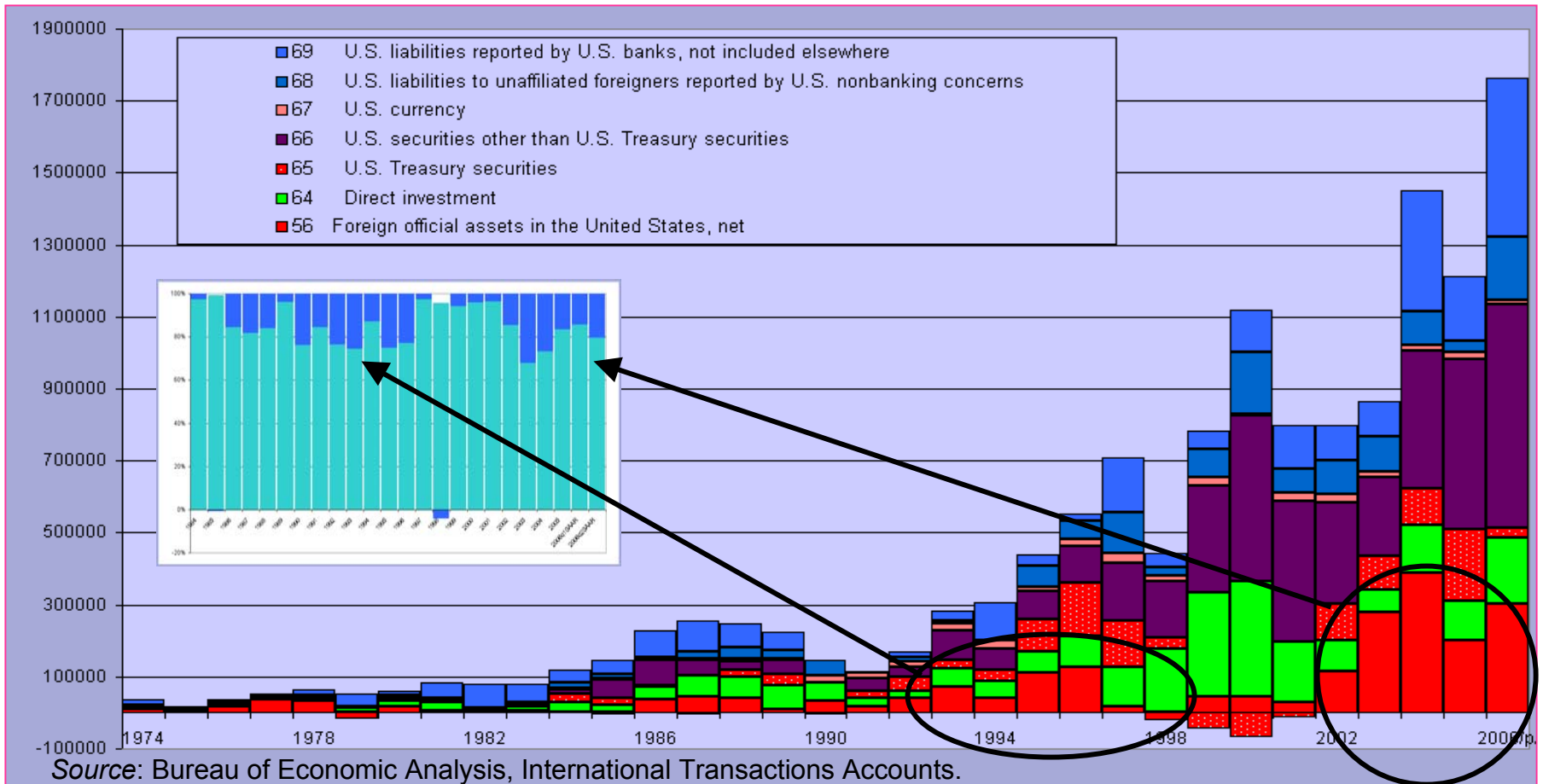
Note: For presentational reasons five LCA filings offering wages above \$200,000 were excluded. Source: FLC Datacenter at www.flcdatacenter.com

US firms:

- Wider range of skills
- More dispersion of wages
- More 'unique' individuals

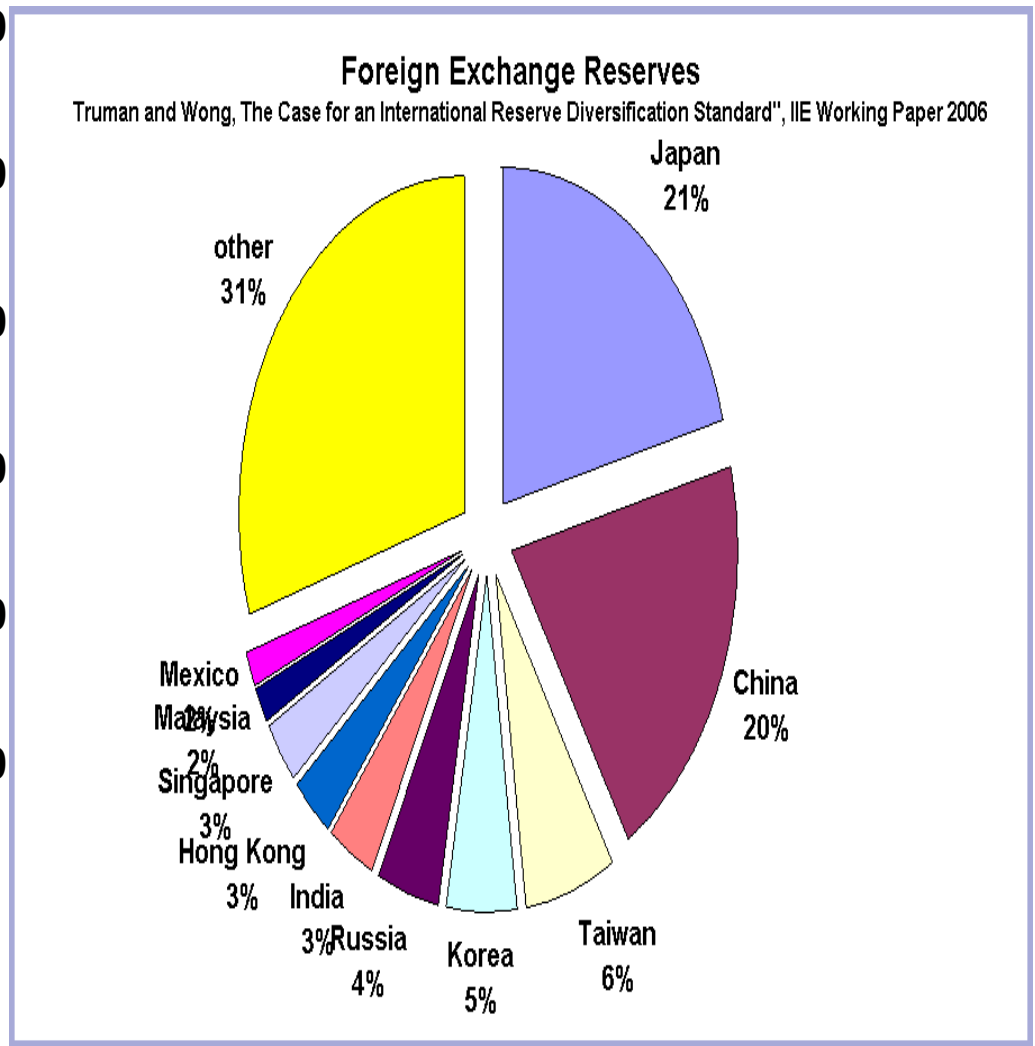
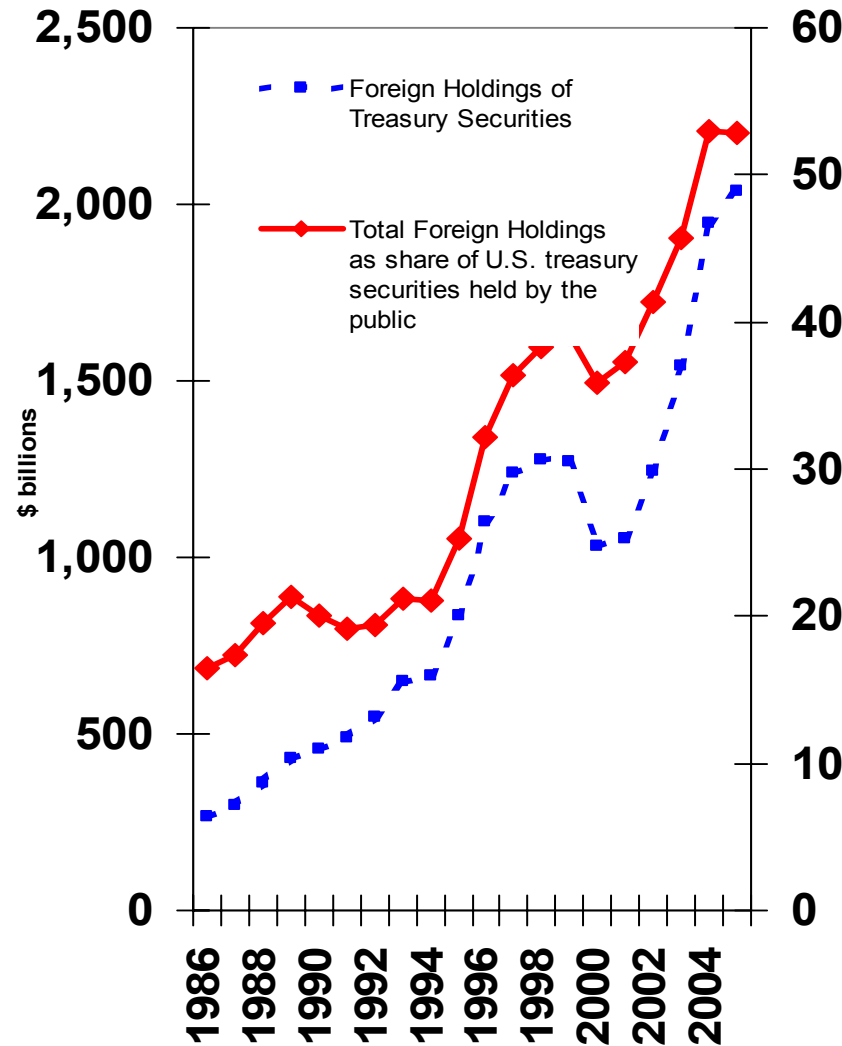
Dramatic Financial Integration

Share of Official is not unprecedented; dollar value is



Official investors tend to buy US treasury securities
Securities (stocks and bonds); controlling shares
Bank/non-bank institutional finance

Financing the Stimulus Program: Will Foreigners Buy the US Gov't Bonds?



Summary and Observations

- **Trade:**
 - Global recession will take a toll on manufacturing exports
 - Domestic recession will take a toll on consumer goods imports
 - Trade deficit likely to narrow, but not for a ‘good’ reason
- **Technology:**
 - Technology trade enhances productivity, lowers costs
 - But widens skilled/less-skilled wage and employment gaps
 - How to retain the former, ameliorate the latter?
- **Finance:**
 - Foreign Officials are important buyers of US govt securities
 - Will they continue to buy to finance stimulus program?

Policies for the National Interest

– Domestic Transformation Challenge

- National gains to the economic pie from global sourcing requires business environment conducive to transformation, and ensuring worker-job matches so that gains are widely shared. Requires new labor-market policies

– Domestic Education and Innovation Challenge

- National gains from global collaborative innovation require a ‘home base’ supply of domestic sci/tech people, university-business consortia, and R&D funding.

– Global Trade and Economic Challenge

- Our economic gains from globalization depends on other countries’ policies and economic growth. Open trade combined with the domestic policies generate the largest gains and ensures that gains are widely shared.