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Trump's Border Tax Talk Threatens Rust Belt Jobs

Capital Flows, CONTRIBUTOR

Guest commentary curated by Forbes Opinion. Avik Roy, Opinion Editor. FULL BIO

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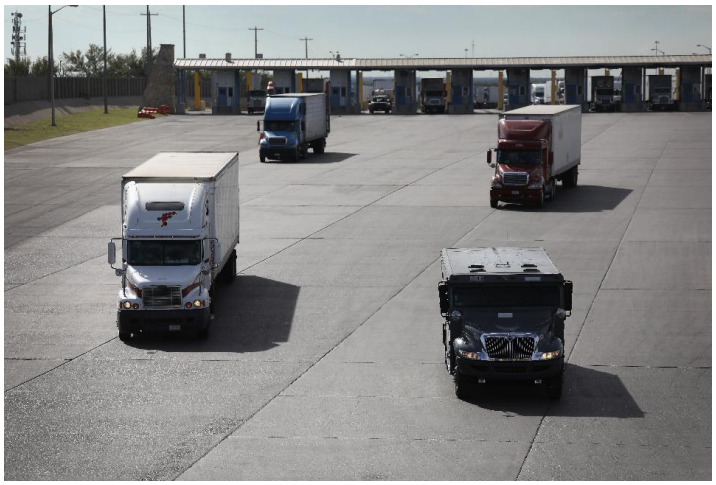
GUEST POST WRITTEN BY

Jeremy Haft

Mr. Haft (@JeremyRHaft) is author of 'Unmade in China: The Hidden Truth About China's Economic Miracle' and 'All the Tea in China.'



Trucks pass through U.S. customs on October 17, 2016 in Laredo, Texas. South Texas customs agents processed $166 billion in imports from Mexico last year, with the largest amount coming through Laredo. (John Moore/Getty Images)

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The Rust Belt gets a bad rap. It epitomizes the worst of globalization's impact on American communities. But the region is not all abandoned steel mills and shuttered factories. It's a vital powerhouse of advanced manufacturing, a major exporter to the world, and a bulwark of good-paying manufacturing jobs.

Rust Belt companies that export their products number in the tens of thousands, directly supporting over half a million jobs in Ohio and Michigan and nearly a quarter million jobs in Pennsylvania. They include manufacturers of cars and motorcycles, auto and aircraft parts, computers and electronics, industrial and electrical equipment, chemicals and resins and more. In 2016, they exported over $100 billion worth of goods from Ohio and Michigan, and nearly $40 billion from Pennsylvania. Their strength has propelled these three Rust Belt states into the ranks of America's top ten exporters, alongside California, Texas and Washington.

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But the Rust Belt sits in the crosshairs of President Donald Trump's proposal to levy a border tax on imports. Such a tax would do

more than just raise prices for consumer goods like avocados and tequila. It would kill good, middle-class manufacturing jobs. Consider the auto industry. More than just the Big Three car makers, it comprises scores of auto parts factories, most of which reside in the Rust Belt. These firms are deeply integrated into a manufacturing platform that spans our NAFTA partners to the north and south. So top-selling cars in America that are assembled in Canada and Mexico tend to have a lot of U.S.-made parts in them. The Chevy Camaro and Honda Civic, for example, are made in Canada with 65% U.S. content; the Dodge Ram 1500 truck is made in Mexico, with as much as 60% U.S. content.

Where do you suppose all those auto parts are produced? The Rust Belt, namely, in Ohio and Michigan. A border tax would raise the prices of imported cars from Canada and Mexico, ultimately dampening demand for the American-made auto parts that go into them. Lower demand would trigger lower sales, smaller profits and lost jobs at U.S. auto parts factories. What's worse, the border tax would disproportionately harm small to mi-sized companies, which make up about 90% of the Rust Belt's exporters.

If this all comes as a surprise, you can thank our out-of-date trade measurements. Most of the products we consume today are made in collaboration with many countries. Yet our trade balances absurdly attribute all of the value of an import to the last country that shipped it to us, as if we were still swapping wine for cloth. So an iPhone is counted as 100% Chinese-made in our bilateral trade balance, when it really contains just a small

fraction of Chinese value, mostly for assembly. The U.S., on the other hand, makes many of the iPhone's critical components and captures the lion's share of the profits, which in turn flow to U.S. companies and support jobs. Gross trade measurements tell us practically nothing about real trade flows.

Unsurprisingly, bad trade data inform bad trade policies. President Barack Obama's tariffs on imported Chinese solar panels, though meant to protect U.S. jobs, actually caused a net job loss to the solar industry. Imported panels from China usually contain U.S.-made raw materials and are often fabricated by U.S.-made capital equipment, produced in states like Pennsylvania, where industrial machinery is a top export to China. Make the panels more expensive, and there's less demand for the American inputs. We see this pattern play out again and again. Every factory job saved by the 2009 tire tariffs killed three retail jobs downstream. Every steel job saved by tariffs kills three American jobs in companies that use the steel to make things.

Tariffs pick winners and losers, protecting some jobs at the expense of others. If we want trade policies that help all American workers, we first need to revamp the way we

measure trade. Adopting a value-added accounting system would reveal that more than 40 cents out of every dollar we spend on Mexican imports flow to U.S. firms for U.S.-made content, like auto parts from the Rust Belt. Our $58 billion trade imbalance with Mexico is misleading; a gross trade measurement, it doesn't account for all the value America contributes to Mexican imports—and all the U.S. jobs supported by this contribution. Imposing tariffs on imports may feel like we're meting out justice against bad trade partners, but we're only hurting ourselves.

Which gets us back to the Rust Belt. While it's indisputable the region has lost basic manufacturing jobs, causing grave harm to communities, it is also true that the Rust Belt has created advanced manufacturing jobs in their stead. However well-intentioned, border taxes and protective tariffs would threaten these jobs, not save them.