August 2003

Understanding the Role of the United States in the Global Economy

By James K. Glassman and Kevin A. Hassett

Critics of globalization and America's dominant economic position fail to recognize that the primary beneficiaries of globalization are developing countries, many of which run substantial trade surpluses with the United States. Far from being a predator in the world economy, America offers an invaluable market to the developing world.

Rarely in history has one nation been as dominant in the world economy as the United States is today. The U.S. output of goods and services—that is, Gross Domestic Product (GDP)—exceeded $10 trillion in 2002. That is greater than the total GDP of the next five countries *combined*. All told, the United States, with one-twentieth of the world's population, accounts for one-third of the world's output and, last year, more than three-fifths of its growth.

The U.S. economy is so large that its *metropolitan areas* produce more than entire countries. For example, in 2002, Chicago had about the same GDP as Australia. Boston had the same as Taiwan; Dallas, the same as Saudi Arabia; San Francisco, Hong Kong; and Milwaukee, Pakistan.

The Win-Win Dynamics of Trade

It is only natural that such a dominant position can sometimes provoke envy and anger from other nations, but the truth is that economics is not a zero-sum game. In a world that is tied together by trade, the United States wins when other nations prosper—and other nations win when the United States prospers.

Trade is a two-way street. Consumers benefit from imports, which provide goods and services of higher quality or lower prices (or both) than those made at home. And producers (that is, owners of businesses and employees) benefit from exports, which provide more customers for goods and services.

In 2002, imports to the United States from developing nations totaled a whopping $317 billion. (The United States is the single largest market for developing nations' goods.) Exports from America to those nations totaled $130 billion. Both imports and exports are important, but look at the difference, that is, the trade deficit that resulted for the United States: $187 billion. That is 44 percent of the entire trade deficit that the United States ran last year with *all* nations.

In other words, with developing countries, the United States buys a good deal more than it sells. Consider a few examples: Last year, the Philippines sold exports worth $11 billion to the United States and bought American imports worth $7 billion, for a deficit (to America) of $4 billion. Malaysia's exports to the United States exceeded its American imports by $14 billion. For Korea, the surplus relative to the United States is $13 billion; for Brazil, $3 billion.

James K. Glassman is a resident fellow and Kevin A. Hassett is a resident scholar at AEI. A version of this article appeared in the State Department's *U.S. Foreign Policy Agenda* (August 2003).

It may be surprising, but high technology is now the largest export sector for developing countries. Information and communications technology accounted for $450 billion worth of exports by developing nations—compared with $235 billion for resource-based goods and $405 billion for low-tech goods.

Benefits of Capital Flow

Not only does the United States buy hundreds of billions of dollars worth of goods produced by developing nations, it also invests heavily in those countries. Roughly three out of every eight dollars in foreign direct investment in Africa comes from the United States—more than from any other country (France is second at 18 percent—less than half as much). Between 1996 and 2000 (latest figures), the United States invested $9.2 billion in Africa, compared with $4.4 billion invested by France and $3.3 billion by the United Kingdom.

The integration and liberalization of financial markets over the past twenty years has allowed capital to flow to its best uses, with broad benefits globally. An academic paper published earlier this year by Geert Bekaert of Columbia University and two colleagues found that "equity market liberalizations, on average, lead to a one percent increase in annual real economic growth over a five-year period." That figure, say the authors, "is surprisingly large" (after all, GDP growth averages only about 3 percent a year). "Liberalization" means that foreign investors can invest in the securities of other countries—their stocks and bonds. The researchers also discovered that the countries that gained the most from liberalization were those—such as developing nations—that were furthest behind but moving forward in implementing macroeconomic reforms.

For example, in the five years after liberalization, GDP growth in India averaged 5.7 percent annually, compared with 3.2 percent in the five years *before* liberalization. Thailand's average five-year growth was 8.7 percent after liberalization of its securities markets and 3.5 percent before. Of course, not all developing nations enjoyed such increases, but the average country did, and the results are powerful.

Again, investment is a two-way street. Because the United States is a relatively stable and safe place to invest, it provides an enormous haven for capital investments (in stocks, bonds, real estate, and whole businesses) from abroad. Those capital inflows provide the necessary support for imports into the United States, so that this country can sustain those large trade deficits. Income generated through investments in the United States is often used by foreign entrepreneurs and investors to start and expand businesses at home. Think of the United States as the engine room, powering the world economy.

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Importance of Globalization

The success of the United States has come not from its natural resources or its large population but from its free-market system, which allows people, either alone or in groups, to make their own choices (where they work, what they buy, what they pay), with little government interference. Capital and labor move to where they are most efficient. No wonder studies have shown a direct correlation between how free an economy is and how successful it is.

Liberalized trade—in broadly multilateral, regional or bilateral agreements—is a key ingredient in the recipe for prosperity. And the benefits for developing countries are even greater—on a proportional basis—than for the United States. New global trade negotiations will, if they succeed, generate $90 billion to $190 billion a year in higher incomes for developing nations, according to a study by Joseph François of Erasmus University in Rotterdam. Recent World Bank research found that developing countries that embraced globalization grew three-and-a-half times faster than developing countries that did not. As Kofi Annan, the United Nations secretary general, put it, "The poor are poor not because of too much globalization but because of too little."

The trade liberalization that was introduced in the Uruguay Round provides a good illustration. In the six years after the round, exports from developing nations grew by $1 trillion, to a total of $2.4 trillion in 2002. During that time, the United States boosted its imports from developing countries by 82 percent. The reason is not hard to guess: Three-fifths of those imports came into the United States duty-free.

An absolute prerequisite for long-term economic growth is full participation in the global economy and trading system. Still, the U.S. Agency for International Development (USAID) has a budget of $1.2 billion for

food assistance this year, up from $850 million in 2002. The United States is the largest donor to the World Food Program's operations in southern Africa, and USAID has recently provided funding for emergency assistance in Central America, the Sudan and other parts of the world. In addition, private U.S. charities, like the Bill and Melinda Gates Foundation are giving billions of dollars to fight poverty and hunger.

Developing Countries Need Trade

The notion that wealthy countries and big businesses are the main beneficiaries of global free trade is flat-out nonsense. The United States could continue to prosper if it backed away from the world-trade stage. Even if it stopped trading altogether, the United States would continue to enjoy a high standard of living, with a GDP of more than $30,000 per person. America's lifestyle might slip from 2003 levels to mid-1990s levels. That's all. But if trade stops or even slows down, developing countries would be devastated. No longer would citizens be able to get quality goods at bargain prices. No longer would smaller nations be able to increase their markets on a vast scale.

But the United States understands the responsibilities that come with being the world's largest economy. By giving foreign nations access to its domestic markets—and pushing other nations to open up even more—the United States has become a key contributor to growth in developing nations.