

# The Economic Landscape for Los Angeles Under President Trump

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The presidential election result seems to have shocked the whole country. Trump won four Upper Midwest states: Ohio, Pennsylvania, Wisconsin, and Michigan, all of which have predominantly supported Democrats for the past three decades. Working-class Americans in these states voted for Trump decisively in 2016, after waiting and failing to see the delivery of a promise of better life in the globalized world.<sup>1</sup>

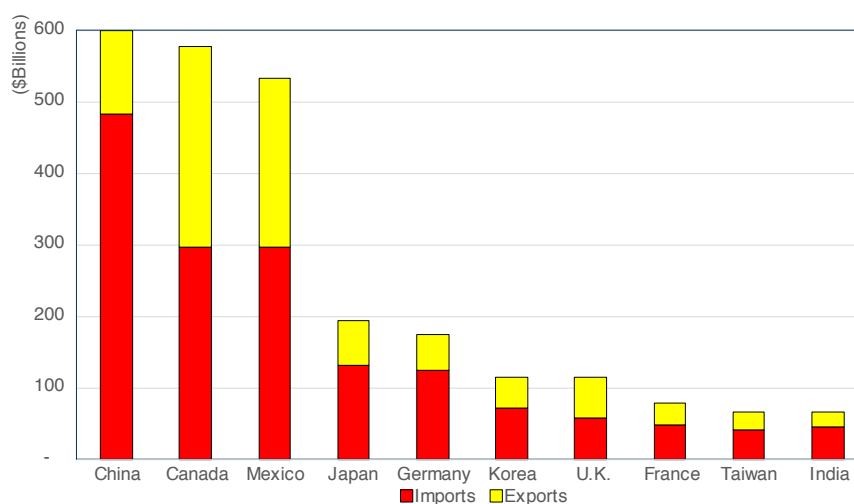
In this report, we will discuss how President-elect Trump's policies would influence and perhaps transform the Los Angeles economy. Among various policies, such as tax cuts, deregulation, replacing Obamacare, defense spending, and infrastructure spending, we focus on two policies that are particularly important for L.A.: international trade and

immigration. Let's begin with some important statistics to reveal the most serious trade problems facing the U.S. today.

## International Trade Statistics

Figure 1 shows the top ten countries in terms of total volume of goods traded in 2015--imports into the U.S. (red bar) and exports from the U.S. (yellow bar). It is not surprising that China is our number one trading partner with total trading amounts of \$599 billion followed by our two NAFTA trading members: Canada at \$577 billion and Mexico at \$532 billion. Among these ten trading partners, readers might notice that an one country, China—has an extremely imbalanced trade with the U.S., in which imports are significantly larger than exports.

Figure 1 Top Ten Trading Countries with the U.S. in Goods in 2015

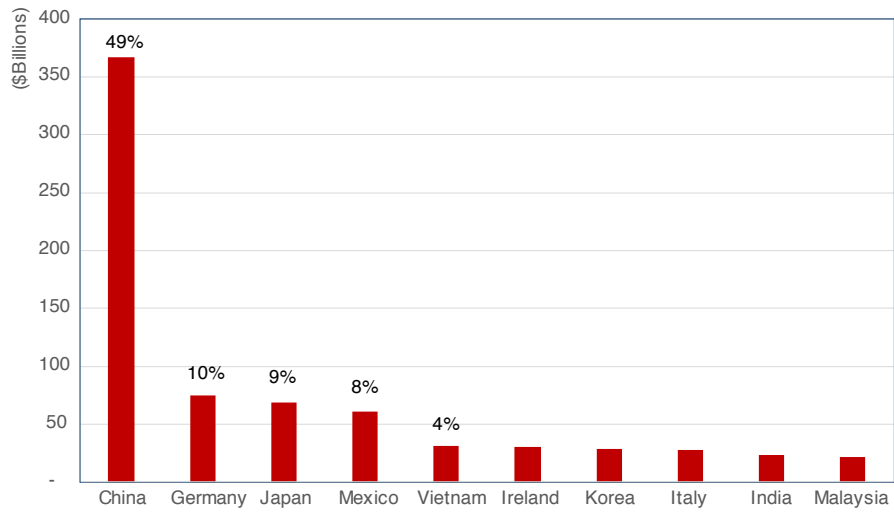


Source: The Census (<https://www.census.gov/foreign-trade/statistics/country/index.html>)

1. For example, see Jeffrey Sachs', "The Truth About Trade," Boston Globe, October 17, 2016.

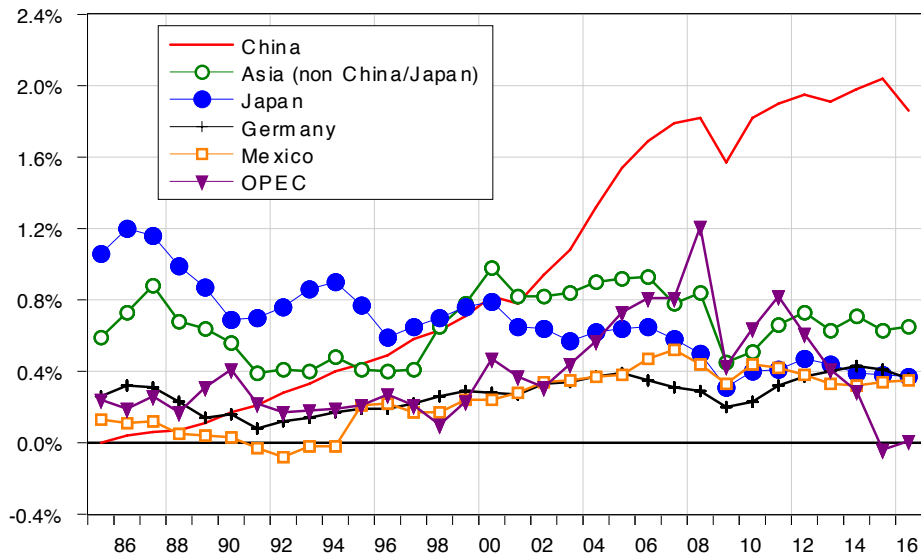
# THE ECONOMIC LANDSCAPE FOR LOS ANGELES UNDER PRESIDENT TRUMP

Figure 2 Top Ten Countries of Goods Trade Deficits with the U.S. in 2015



Source: U.S. Census Bureau

Figure 3 The U.S. Presidential Electoral Votes from 1968 to 2012



Source: U.S. Census Bureau, 2016 Estimated

Figure 2 displays the top ten highest-trade-deficits countries with the U.S. in terms of the percentage of a country's trade deficit over the total U.S. trade deficit. The total U.S. trade deficit with the world was \$746 billion (exports: \$1.5 trillion; imports: \$2.2 trillion) in 2015. Among them, the trade deficit with China of \$367 billion (exports: \$116 billion; imports: \$483 billion) accounted for 49% of the whole U.S. deficit, followed by Germany's \$75 billion (10%), Japan's \$69 billion (9%), and Mexico's \$61 billion (8%).

The trade deficit with China alone equals the combined trade deficits from the next nine countries! By contrast, the trade between the U.S. and Canada is a poster child of healthy, balanced, and free trade with high total exports/imports and low trade imbalance.

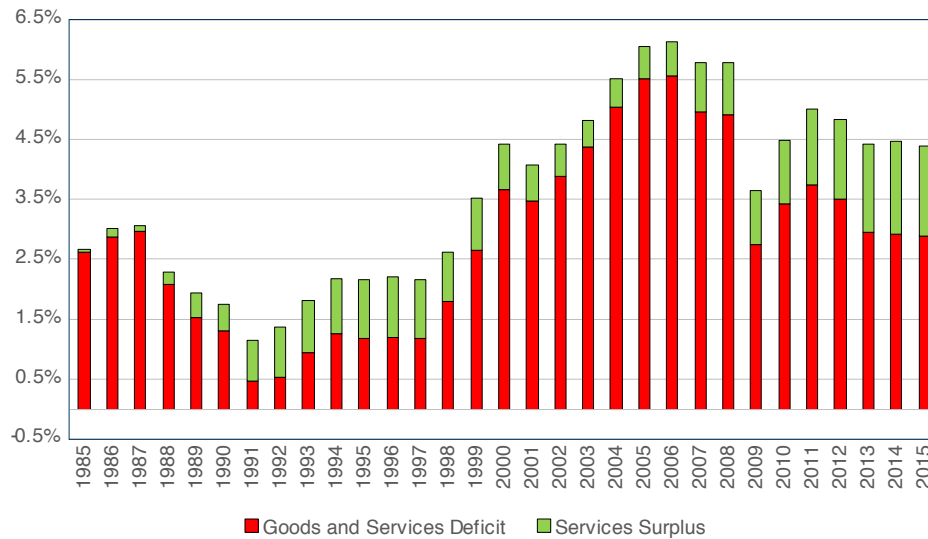
Figure 3 presents six countries' trade deficits over the U.S. nominal GDP from 1985 to 2015. We can see the trade deficit with China (red line) has been running away since 2001 after China entered the World Trade Organization (WTO). It reached 2% of the U.S. GDP in 2015 while trade deficits with Germany, Japan, and Mexico fluctuated around

0.3% to 0.4%. In other words, President-elect Trump should focus on trade problem coming from China, not NAFTA.

### Services Trade

So far, we have only talked about the trade of tangible goods. How about the intangible services trade, such as international students, tourism, and Hollywood movies in Chinese theaters? Figure 4 shows that the U.S. indeed has had a services surplus steadily since 1985 (green bar, meaning that the U.S. exports more services than it imports). Including the services trade surplus, the total U.S. good and services trade deficit was reduced from \$746 billion to \$522 billion in 2015. Who benefits from this services trade surplus with the world? Mostly educated and skilled Americans living in big cities, such as New York, Washington D.C., Boston, Los Angeles, Seattle, and Silicon Valley. It is therefore not surprising to see the majority of urban Americans voting for Secretary Clinton, who supports globalism and free trade much more than Trump. By including the services trade, the U.S. goods and services trade deficit with China was slightly reduced from \$367 billion to \$334 billion in 2015, still an unsustainable number.

Figure 4 Percentage of Goods Trade Deficit over GDP in the U.S., 1985 to 2015



Source: U.S. Census and Bureau of Economic Analysis

Trade and the Los Angeles Economy

Some fear trade wars could erupt between the U.S. and China and Mexico due to President-elect Trump’s brash campaign rhetoric. We suggest that trade wars will be less likely because our trading partners will have everything to lose. In our forecast, we do not assume the occurrence of trade wars over the next 2 years. Meanwhile, Trump might be able to get better trade deals for Americans especially from China.

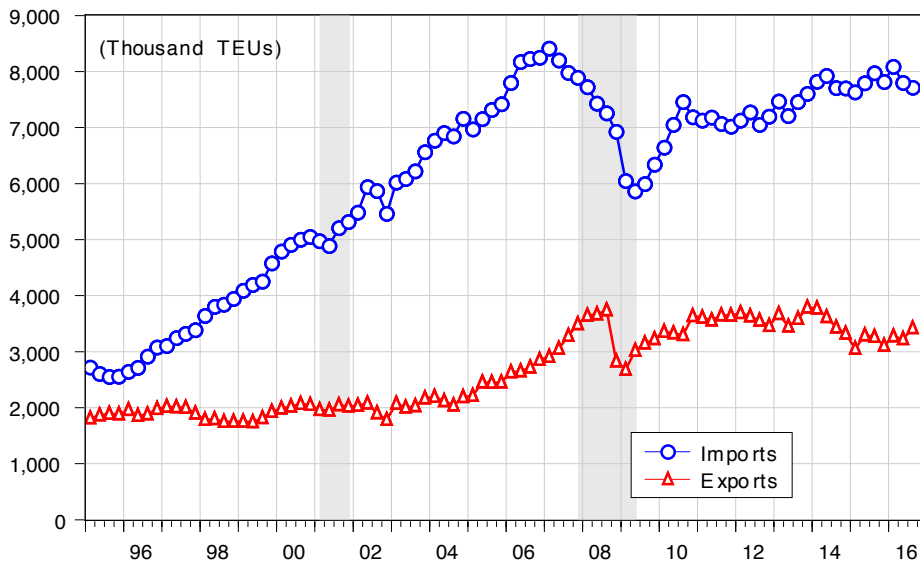
The following sectors in L.A. County are closely related to the impact of a changing U.S. trade landscape with China: the information sector (e.g. movies industry), which accounts for 4.8% of the total L.A. payroll employment; the professional and business services sector (14.1%); the manufacturing sector (8%); the transportation/warehousing sector (3.6%); and the wholesales sector (5.1%).

If Trump could get a better trade deal with China, we could expect all these L.A. sectors to benefit and to increase their employment with the rise of goods and services exports to China. On the contrary, if there is a trade war with China, though less likely, then we expect that the transportation/warehousing sector and the wholesales sector will be hit directly and more seriously than other sectors.

Figure 5 shows the import and export volumes (by TEU) for the Ports of Los Angeles and Long Beach combined since 1995. It is obvious that L.A. ports import much more than they export, mostly with Asian trading partners. And this matches the national trend, in which the U.S. continuously runs a trade deficit, as mentioned before. We can see the rise of imports from China and the consequent U.S. trade deficit in Figures 3 and 5 during the period of 1998 to 2006 when the Ports’ imports doubled!

The literature suggests that the import demand elasticity and export demand elasticity for the U.S. is at the range of -1 to -4, meaning that a 10% change of tariffs will impact 10% to 40% of imports and exports. That said, a 45% tariff imposed on China will significantly reduce the imports from China. In the long run, some manufacturers will come back to the U.S. with the help of robots reducing production costs while some will move to other countries and continue exporting to the U.S. If there were a trade war with China and those manufacturers relocate to Southeast Asia, then L.A. ports’ imports will remain at the same level as before. If they relocate to Mexico, then L.A. ports imports will decline because imports from Mexico will use trucks and trains rather than seaports.

Figure 5 Los Angeles Seaport Traffic, Ports of Los Angeles and Long Beach Combined (Thousand TEUs, Annualized Seasonally Adjusted)



Source: Ports of Los Angeles and Long Beach  
 Note: A “TEU” is a “twenty-foot equivalent,” a standard shipping container

Based on our simple calculation, a 10% increase of the Ports' trade volume, as shown in Figure 5, could predict around a 2% increase of transportation/warehousing and wholesales sector jobs. In other words, a simple back-of-the-envelope calculation shows that a successful trade deal with China--in which, for example, Ports' exports doubled, meaning a balanced Ports' cargo trade--could lead to 10,000 additional jobs in the transportation/warehousing sector and 14,000 additional jobs in the wholesale sector in L.A. County. If a trade war erupts, then we would see a negative impact on these sectors as well as the whole L.A. economy. We do not have clear evidence of the employment impact on other sectors.

Major cities like L.A., New York, and San Francisco not only benefit from the services trade surplus due to the competitive advantage of high-skilled Americans living in coastal areas, but also enjoy an additional bonus from the inflow of capital from trade-surplus countries like China, which purchase prime real estate in these so-called superstar cities. That said, a trade war might reduce the capital inflow of Chinese investment into L.A.

#### Immigration and the Los Angeles Economy

We expect President-elect Trump to enforce immigration laws much more rigorously than previous presidents. He plans to deport the illegal immigrants with criminal records in his first 100 days. We also expect that he will make significant moves to secure the southern border and follow through on an e-verify system or other similar measures. All will lead to a predictable result: we would see fewer undocumented immigrants arriving over the next few years and perhaps decades around the country and in L.A. With the assumption of 11 million undocumented immigrants in the country, we estimate there are about at least 1 million undocumented immigrants living in L.A. County, about 10% of the County population.

Note that there will be no mass deportation of undocumented immigrants from a Trump administration, as he is targeting criminals specifically. The media can sometimes give the wrong idea. Since we do not know the clear definition of "criminal records," we cannot say how many will be deported. Nevertheless, we expect some undocumented immigrants will voluntarily choose to leave L.A. County for three reasons: (1) Because of enforced immigration laws, undocumented immigrants would have a harder time finding jobs. (2) The rising cost of housing in L.A. has been driving low-wage immigrants to other low-cost counties or states

already, and this will continue. (3) California's minimum wage incrementally rising to \$15 over the next few years will reduce some employment opportunity in low-wage fields.

Taking a closer look: we suggest that the enforcement of immigration laws under President-elect Trump will reduce the low-skilled labor supply in L.A. A simple economics supply-and-demand analysis tells us that the equilibrium wage of low-skilled workers will rise. This could mitigate a potential problem from the \$15 minimum wage in California: disemployment. That said, the smaller labor force in L.A. County due to a shrinking undocumented immigrant population could result in lower unemployment rates for those \$15 minimum wage jobs in the future.

How about high-skilled immigrants? President-elect Trump is not clear on this point. We suggest that he will control H1B visa abuses but he might be less likely to reduce the current legal high-skilled immigration quotas if he really wants to make America great. He and most economists know high-skilled immigration has always been a contributor to our nation's competitiveness, dynamism and innovation. That said, we might even see Trump expand the gate of high-skilled immigration to fuel his pro-growth Trump Train.

#### Conclusions

President-elect Trump will take trade and immigration issues very seriously. With the support of working-class and middle-class Americans, Trump's tenure will possibly create a paradigm change of our economic landscape. Globalization of goods, capital and labor will be redefined and refined.

For better or for worse, Los Angeles would probably evolve and transform to be more like the Bay Area with more residents, native and immigrant, of high human capital and skills. The high cost of housing problem will persist. If L.A. wants to be a more inclusive and prosperous metro for middle-class Americans, high-density development is the key.

Whether or not President Trump follows through and succeeds with his economic agenda, that remains to be seen. We believe the U.S. will always overcome our challenges on the horizon one way or another. Put aside our discussions on trade and immigration, we think one of the biggest challenges in the future will be: One day when robots and Artificial Intelligence replace most of current jobs done by human beings, will we be ready for that kind of economy and society?

