In the March 7 issue of *Sinology*, we made the case that trade is good for most Americans, and that U.S. manufacturing is already great, with the loss of manufacturing jobs primarily due to improvements in productivity, not competition from imports.

In this second part of our series, we explain that bringing China into the WTO has delivered significant benefits for many American workers, consumers and companies.

Imports from China have added to labor market volatility, but protectionist policies are not the right response.

TRUMP, TRADE & CHINA, PART II

In the March 7, 2017 issue of *Sinology*, we made the case that trade is good for most American workers, consumers and companies; American manufacturing is already great (with output at close to record levels); and the loss of manufacturing jobs has been primarily due to improvements in productivity, not competition from imports.

In this edition of *Sinology*, we will explain that the U.S. has benefited significantly from trade with China, and that American firms have done well in that market. We acknowledge that a rapid rise in U.S. imports from China has added to labor market volatility, especially in labor-intensive sectors, but we explain why protectionist policies are not the right response.

Some U.S. Workers Do Bear the Burden of Imports from China

As we discussed in the last *Sinology*, change has always led to labor market volatility. Some occupations expand and thrive, others fade away, and brand new occupations appear.

But we must acknowledge, however, that over the last 15 years, a rapid rise in U.S. imports from China added to that labor market volatility, especially in labor-intensive sectors such as garments and furniture. But, has China’s 2001 inclusion in the WTO truly “enabled the greatest jobs theft” we have ever seen, as President Donald Trump has claimed?

One of the most widely cited academic studies of the impact of imports from China on U.S. employment is “Import Competition and the Great U.S. Employment Sag of the 2000s,” by economists Daron Acemoglu, David Autor and Brendan Price of M.I.T., David Dorn of the University of Zurich, and Gordon Hanson of U.C. San Diego.

That paper, published in 2016, reported that the authors’ estimates that “import growth from China between 1999 and 2011 led to an employment reduction of 2.4 million workers” in the U.S.

There is, of course, a very large impact on the individuals, families and communities affected by those 2.4 million lost jobs, but it is also important to put that number into the context of a U.S. labor market that experiences significant turnover every month.

Those 2.4 million jobs were lost over a *more than 10-year period*. In contrast, over the last quarter of 2016, there were an average of just over 5 million new hires *each month*, and an average of 3 million “quits” or voluntary separations *each month*, according to Bureau of Labor Statistics.
It is likely that the majority of jobs lost to Chinese imports came in the “routine manual” occupations we discussed in the previous issue of Sinology. The sectors most exposed to competition from Chinese imports have been computer and electronics, followed by the textiles and furniture industries, as well as metal and machinery, according to a working paper published by economists at the St. Louis Federal Reserve Bank.

But it is also important to recognize that trade with China (and the rest of the world) is not a zero sum exercise. U.S. workers and firms benefit significantly from exports to China.

Exports to China Create Jobs, Mitigating the Impact of Imports

China’s inclusion in the WTO has been a boon to many American companies. Over the last 15 years, U.S. exports to China rose by 500%, while U.S. exports to the rest of the world were up by only 90%.

A new study by Oxford Economics found that U.S. exports to China directly and indirectly supported 1.8 million new jobs and US$165 billion in GDP in 2015. When the economic benefits generated from U.S. investment in China and Chinese investment in the U.S. are combined, the total amounts to 2.6 million U.S. jobs and about US$216 billion of GDP.

The International Trade Administration reported an estimated 11.5 million American jobs were supported by exports to all countries in 2015. Moreover, on average, export-intensive industries pay workers up to 18% more than non-export-intensive industries.

Exports to China are especially important to American farmers. In 2015, for example, soybean exports to China accounted for almost one-third of the value of total U.S. soybean production. China became the largest importer of U.S. agricultural products beginning in 2011, and over the past 10 years, agricultural export volumes to China rose by more than 125%.
In 2014, total U.S. vehicle exports to China (307,425) were over 10 times higher than they were in 2009 when the U.S. exported 25,065 vehicles to China, a dramatic increase from 2003, when exports to China were less than 1,000 units. China is also the third-largest market for U.S. auto parts exports.

Even imports from China can be beneficial. Economists at the St. Louis Fed found that “Chinese competition reduced the U.S. unemployment rate by 0.03 percentage points in the long run,” and that trade with China “increases U.S. welfare by 0.6% … even when U.S. exposure to China decreases employment in the manufacturing sector, the U.S. economy is better off, as it benefits from the access to cheaper goods from China.”

That conclusion was echoed by Oxford Economics, which reports that “at an aggregate level, U.S. consumer prices are 1% to 1.5% lower because of cheaper Chinese imports. The typical U.S. household earned about US$56,500 in 2015; trade with China therefore saved these families up to US$850 that year.”

Bringing China into the WTO, which required them to play by global trade rules which the U.S. helped write, hasn’t solved all problems, but has clearly benefited many American workers and companies.

**China is Increasingly Open to U.S. Business Under WTO**

While U.S. firms continue to battle against non-tariff barriers and non-transparent government regulatory policy, many American companies have done well in China.

The U.S.-China Business Council represents some of those companies, and their latest member survey found that 90% of their China operations were profitable in 2016, up from 85% in 2015 and 83% in 2014. About one-third of those firms said the profit margin for their China-based operations was better than that for their global operations.

The American Chamber of Commerce in China (Beijing) conducted a similar survey of its members, and 68% of companies described their operations in China as profitable or very profitable, and 69% of companies said they plan to increase their investment in China operations this year, including a 30% share that plan a double-digit increase. About 14% of firms said they had moved capacity out of China over the last three years, but 75% said they had no plans to move. The top reason cited for moving out of China was rising labor costs.
Finally, 95% of those American firms said China’s enforcement of intellectual property rights (IPR) improved over the last five years, up from 86% in 2014. In one example, General Motors and its joint ventures delivered a record 3,870,587 vehicles in China in 2016, which was an increase of 7.1% from the previous high in 2015. Cadillac deliveries topped 100,000 units in China for the first time, an increase of 46 percent year over year. The company reported that China remained GM’s largest market in terms of retail sales for the fifth consecutive year, accounting for more than one-third of the company’s global sales.

Last year, Ford sold over 1 million vehicles in China, up 9% from 2015. China is the single-largest market for Boeing, supporting many American jobs. Between 2012 and 2016, Boeing delivered more aircraft in China than in the U.S. Boeing reports that the company “and its subsidiaries had approximately 140,000 employees working in 49 states as of December 31, 2016. In 2015 alone, Boeing paid nearly US$50 billion to more than 13,600 businesses, supporting an additional 1.5 million supplier-related jobs across the country.”

Nike, to cite one more example, reported that its footwear sales in China rose 15% in the six months through November 2016.

Assisting Workers Who Do Suffer From Trade: Protectionism Is Not the Solution

In the first part of this series, we explained that while most labor market volatility is due to advances in technology and productivity, as well as from changes in consumer spending preferences, some jobs are lost each year due to competition from imports.

A few politicians have proposed that protectionist policies would help those displaced workers, but we believe the evidence establishes that protectionism hasn’t worked in the past, and would not succeed today.

In 1986, President Reagan warned against protectionism. “In trying to help workers in ailing industries, we must be careful that the cure is not worse than the disease, like the infamous Smoot-Hawley tariffs that deepened and prolonged the Great Depression. The best way to help is with the pro-growth policies of free and fair trade.”

A new round of protectionist policies would be similarly destructive. Raising barriers to imports would hurt American firms that export, as well as American companies that use imported components. Boeing, for example, sells most of its planes outside of the U.S. and its new 787 Dreamliner incorporates wings made in Japan and South Korea, as well as landing gears and brakes from France. Restricting imports would lead to retaliation, which would reduce U.S. exports and have a negative impact on the many American jobs they support. And reducing competition from imports would likely lead to less innovation by U.S. companies.

Protectionism would also hurt most Americans, because, as we noted earlier, imports have helped keep the prices of many consumer goods more affordable, and this is important to poor and middle-class Americans who spend more of their income on tradable goods such as food and clothing.

Douglas Irwin, a professor of economics at Dartmouth University who has written extensively on trade, explained recently that “Since trade is not the underlying problem in terms of job loss, neither is protectionism a solution. While the gains
from trade can seem abstract, the costs of trade restrictions are concrete. For example, the United States has some 135,000 workers employed in the apparel industry, but there are more than 45 million Americans who live below the poverty line, stretching every dollar they have. Can one really justify increasing the price of clothing for 45 million low-income Americans (and everyone else as well) in an effort to save the jobs of just some of the 135,000 low-wage workers in the apparel industry?”

**The Solution Is Support for Displaced Workers**

Back in 1962, U.S. President John F. Kennedy said: “Those injured by trade competition should not be required to bear the full brunt of the impact. Rather, the burden of economic adjustment should be borne in part by the federal government ... There is an obligation to render assistance to those who suffer as a result of national trade policy.”

That principle remains valid, but the U.S. government has not delivered on that obligation.

A Council on Foreign Relations report points out that the U.S. already has a successful model for “livelihood insurance”:

“American farmers, who have seen their work opportunities diminish over the years as farming has become far more capital-intensive and productive, have long enjoyed government support through various forms of insurance. One form is education, which prepares children of farmers and those in related agricultural occupations for other careers if they so choose. For those who remain in agriculture, crop insurance historically has paid farmers when harvests are low due to bad weather or other natural causes or when commodity prices fall sharply in years of bountiful harvests.

American workers in other sectors should have a similar form of insurance that offers some protection against job and income loss not just from trade competition but also from technology and changing consumer demands.”

The U.S. does in fact have a similar program, called Trade Adjustment Assistance (TAA). But political disagreements in Congress led to the establishment of very rigid rules for using the TAA. As a result, in 2015, the program covered only 50,000 unemployed Americans.

The TAA program should be strengthened to provide more unemployed Americans with assistance in moving from industries that are either in decline, or which are thriving but employing fewer workers due to productivity gains, into industries that are generating employment growth.

Equally important is a renewed effort to prepare our overall workforce for tomorrow’s jobs, through better education and training.

*The New York Times* reported that when Siemens Energy recently opened a gas turbine production plant in Charlotte, North Carolina, “some 10,000 people showed up at a job fair for 800 positions. But fewer than 15% of the applicants were able to pass a reading, writing and math screening test geared toward a ninth-grade education.”

“In our factories, there’s a computer about every 20 or 30 feet,” a recently retired Siemens executive told the Times. “People on the plant floor need to be much more skilled than they were in the past. There are no jobs for high school graduates at Siemens today.”
If that is representative of modern manufacturing, that is a serious problem, because almost 9% of the U.S. workforce has less than a high school degree and another 24% has only a high school degree.

This helps explain why the unemployment rate for those without a high school degree was 8% in 2015, almost double the average unemployment rate for all workers. Workers with only a high school degree fared better, but still faced an unemployment rate of 5.4%, roughly double the rate for those with a bachelor’s degree. The chart below, from the Bureau of Labor Statistics, also illustrates the strong positive relationship between educational attainment and income.

**Figure 3. EARNINGS AND UNEMPLOYMENT RATES BY EDUCATIONAL ATTAINMENT, 2015**

<table>
<thead>
<tr>
<th>Educational Attainment</th>
<th>Median usual weekly earnings</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctoral degree</td>
<td>$1,623</td>
<td>1.2%</td>
</tr>
<tr>
<td>Professional degree</td>
<td>$1,730</td>
<td>1.5%</td>
</tr>
<tr>
<td>Master’s degree</td>
<td>$1,341</td>
<td>2.4%</td>
</tr>
<tr>
<td>Bachelor’s degree</td>
<td>$1,137</td>
<td>2.8%</td>
</tr>
<tr>
<td>Associate’s degree</td>
<td>$798</td>
<td>3.8%</td>
</tr>
<tr>
<td>Some college, no degree</td>
<td>$738</td>
<td>5.0%</td>
</tr>
<tr>
<td>High school diploma</td>
<td>$678</td>
<td>5.4%</td>
</tr>
<tr>
<td>Less than a high school diploma</td>
<td>$493</td>
<td>8.0%</td>
</tr>
</tbody>
</table>

A 2016 study by the Peterson Institute for International Economics notes that “U.S. elite high schools and (even more so) elite colleges remain among the best in the world,” but:

“Whereas the United States was the leader in high school graduation and then college graduation for much of the twentieth century, over the last 30 years it has become something of a laggard in both as compared to other industrialized nations ...

AP calculus students in the United States compare favorably with the advanced mathematics students in almost any country, while the average U.S. student lags behind the average student in most OECD countries in math and science.

The U.S. school system is not performing well overall, but it is failing particularly for poor, minority and immigrant children. The problem is not necessarily that the U.S. school system has declined in absolute quality, but that the skill requirements of the workplace have risen and, simultaneously, the challenges that schools face in managing the diversity and poor school preparedness of a substantial fraction of the student population have mounted.”

**Concluding Comments**

To summarize, bringing China into the WTO has delivered significant benefits for many American workers, consumers and companies.

The problem is that a relatively small number of workers always bears the brunt of labor market volatility, including that caused by imports from China. In our search for policies to assist those people, we must avoid the temptation to focus on protectionism—which would not bring back lost jobs. We should instead work toward creating programs that will directly help those who have lost employment due to technology and trade, and which will better educate our future workforce.

In the upcoming, final issue of our *Sinology* trilogy, we will examine the U.S. trade deficit and its impact on employment.

*Andy Rothman*
*Investment Strategist*
*Matthews Asia*