

The Global Political Consequences of China's Trade Boom

Centro Studi Luca d'Agliano, November 2019

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Being Anti-Trade Is Increasingly Popular Politically



Rise of (Anti-Globalist) Right-Wing Populism



How Did We Get Here?

- In the 1990s, freer trade was presented as a panacea

“We have made a decision now that will... promote more growth, more equality, better preservation of the environment, and a greater possibility of world peace.”

President Bill Clinton, NAFTA signing, 1993

- Trade has been far more *disruptive* than we expected

Political Consequences of Globalization

- **The argument** (in my joint work with David Autor and David Dorn)
 - Globalization (and the rise of China in particular) has caused *concentrated job loss* in towns and cities specialized in manufacturing
 - Job loss involved widespread plant closures that *hit less-educated men especially hard*, severely and long-lastingly *disrupting affected regions*
 - This hardship has created an opening for politicians who *stoke animus toward minorities and foreigners* and *advocate closing borders*
 - Any constructive solution to the rise of populism and nationalism must bring *greater economic opportunity to distressed regions*

Roadmap

1. ***Context:*** Why were manufacturing regions in high-income countries so vulnerable to globalization?
2. ***Disruption:*** How did globalization affect regional economies?
3. ***Polarization:*** How did the adverse impacts of trade affect political outcomes in high-income countries?
4. ***Recovery:*** What can we do to improve economic opportunity in struggling regions?

Roadmap

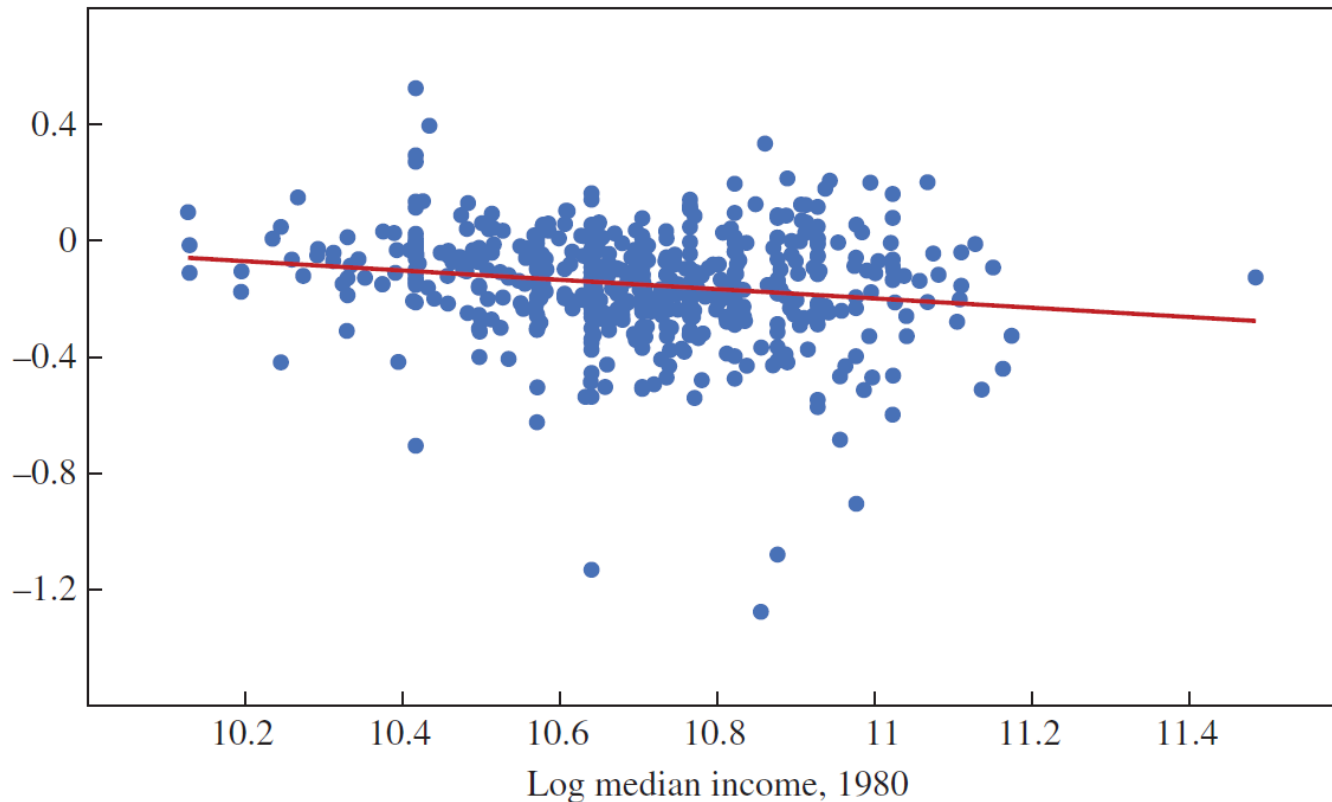
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Regional Economic Divides

Convergence in incomes across US cities has broken down

Figure 3. Median Income Growth, 1980–2010^a

Change in log median income, 1980–2010



Regional Economic Divides

Non-employment is high where labor productivity is low

Figure 2: Mean value added per worker

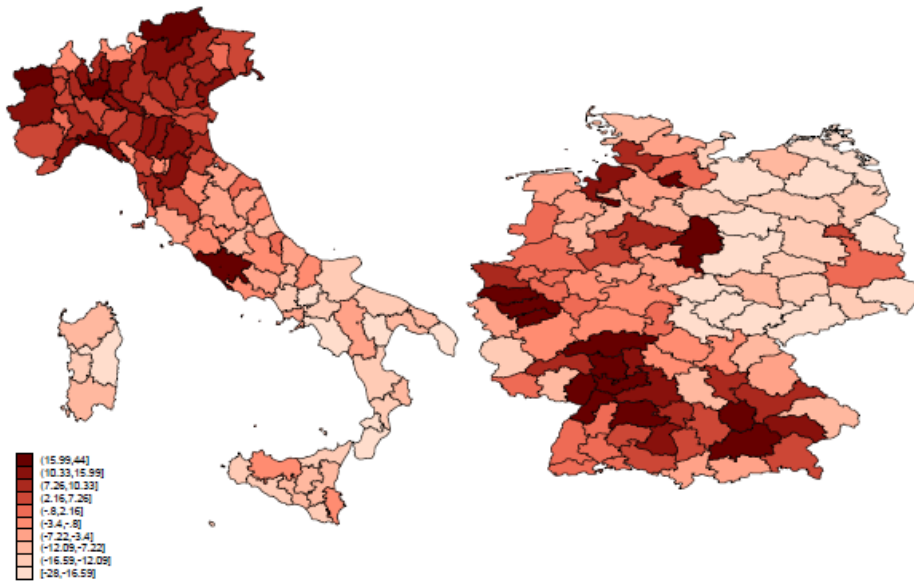
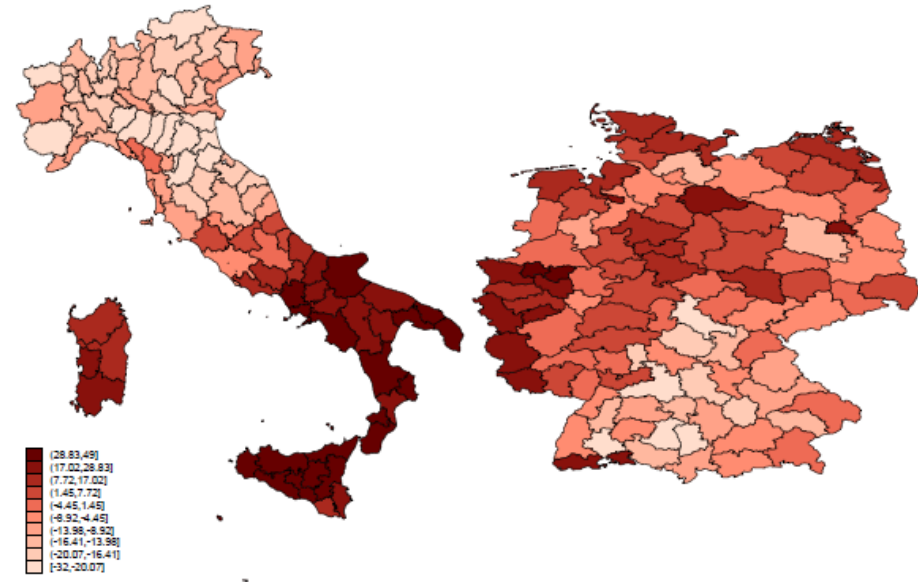


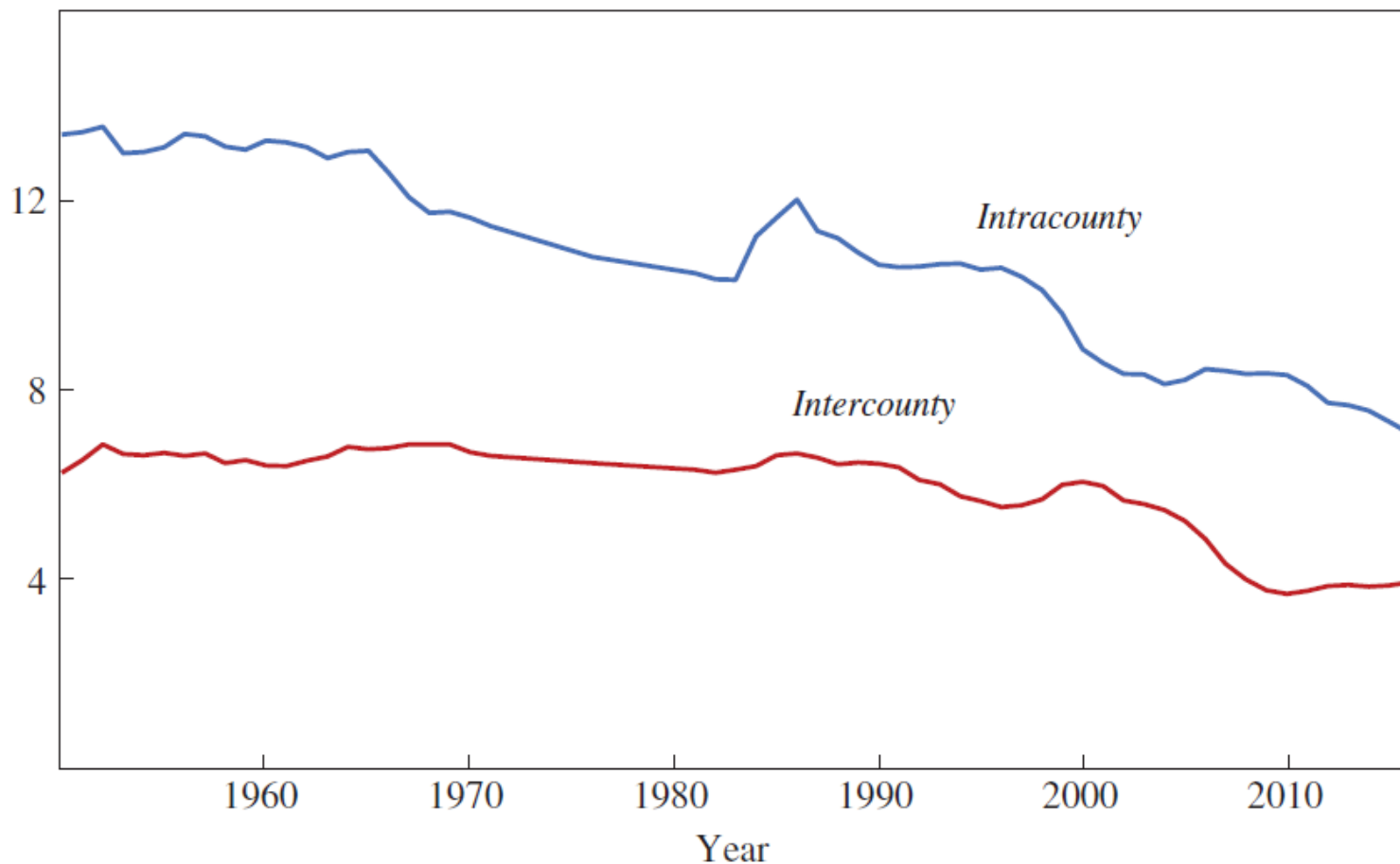
Figure 5: Non-employment rate



The Mobility of Labor across Regions Is Declining

Figure 1. The Decline in Migration Rates, 1950–2016^a

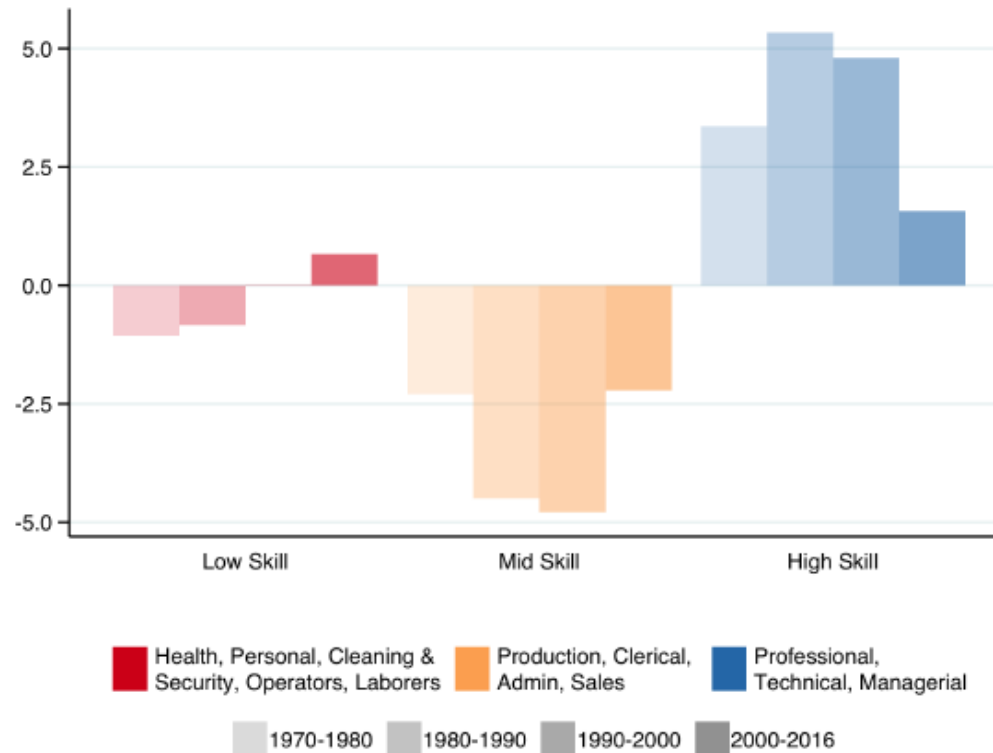
Percent



Automation Is Hollowing Out the Labor Force

Labor markets are losing middle-skill jobs

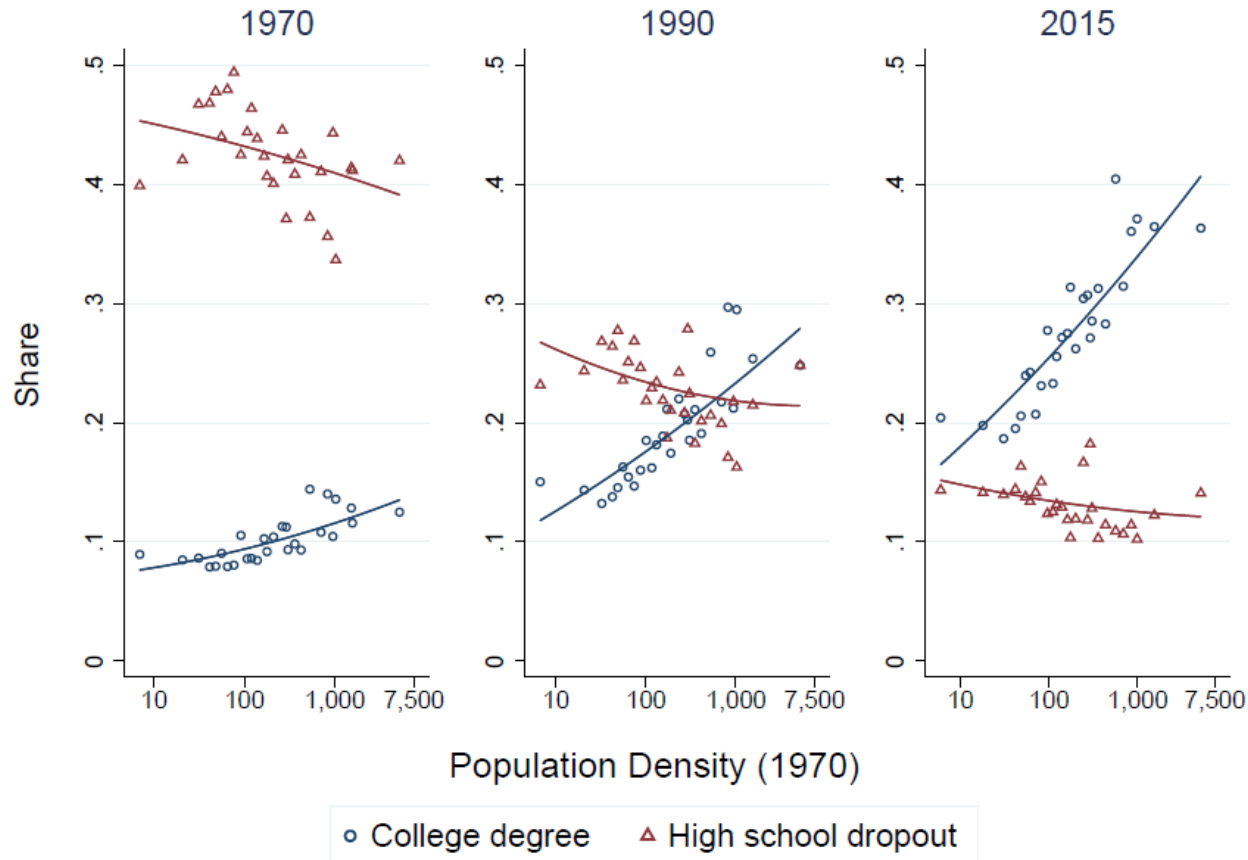
Figure 4: Changes in Occupational Employment Shares among Working Age Adults, 1970 - 2016



Rise of Superstar Cities

High-skilled are ever more concentrated in major cities

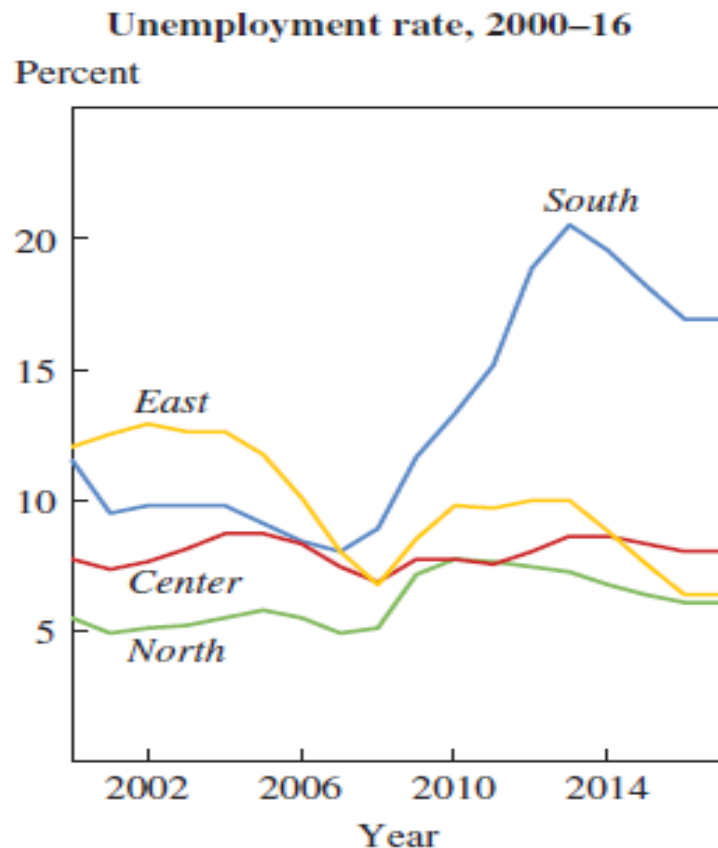
Figure 9: College Degree vs. High School Dropout Share of Working Age Adults, 1970 - 2015



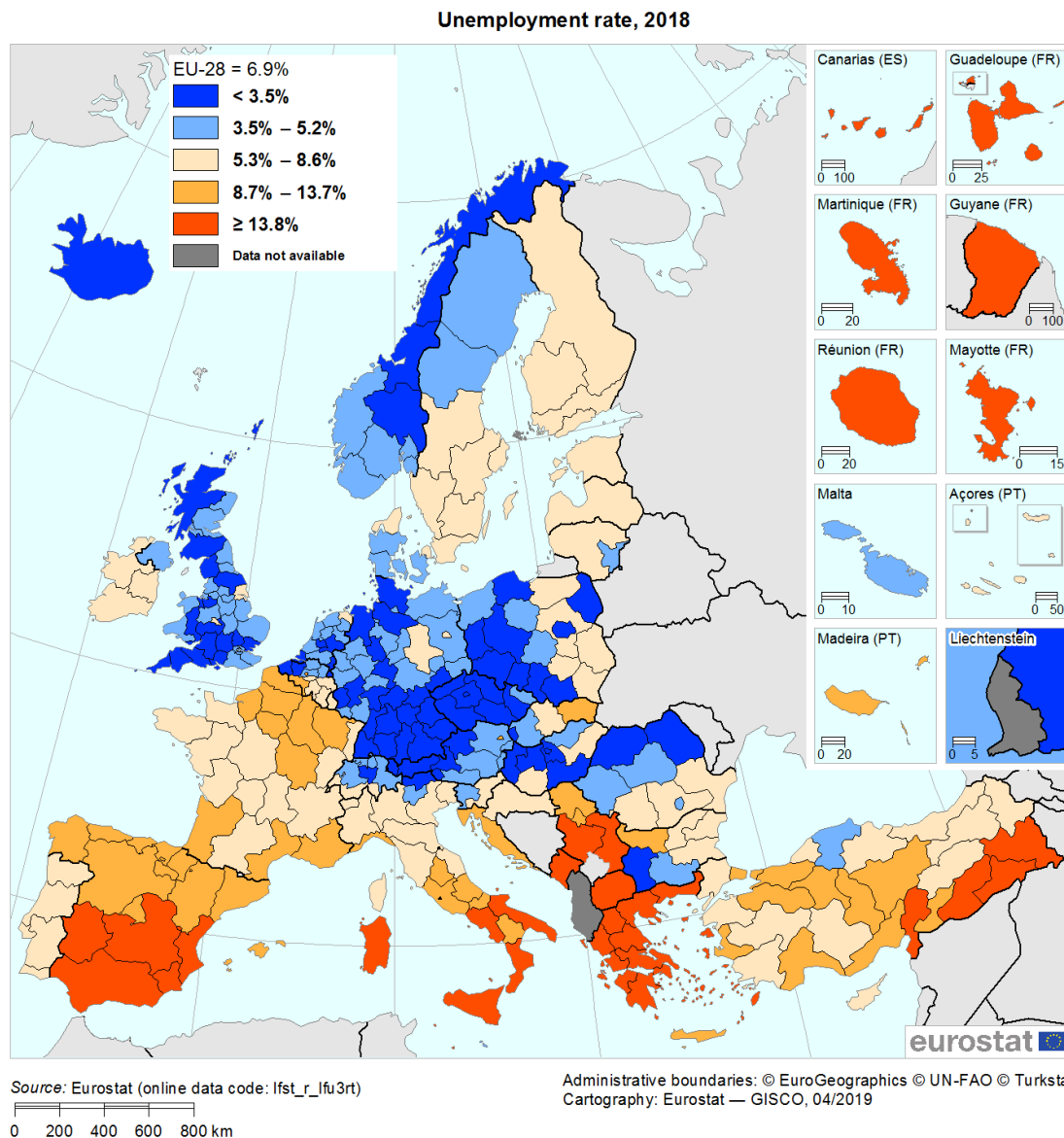
Slow, Uneven Recovery from Global Financial Crisis

Post crisis, unemployment in the EU has remained elevated

Figure 1. Regional Unemployment across Europe



Persistent Pockets of High Unemployment

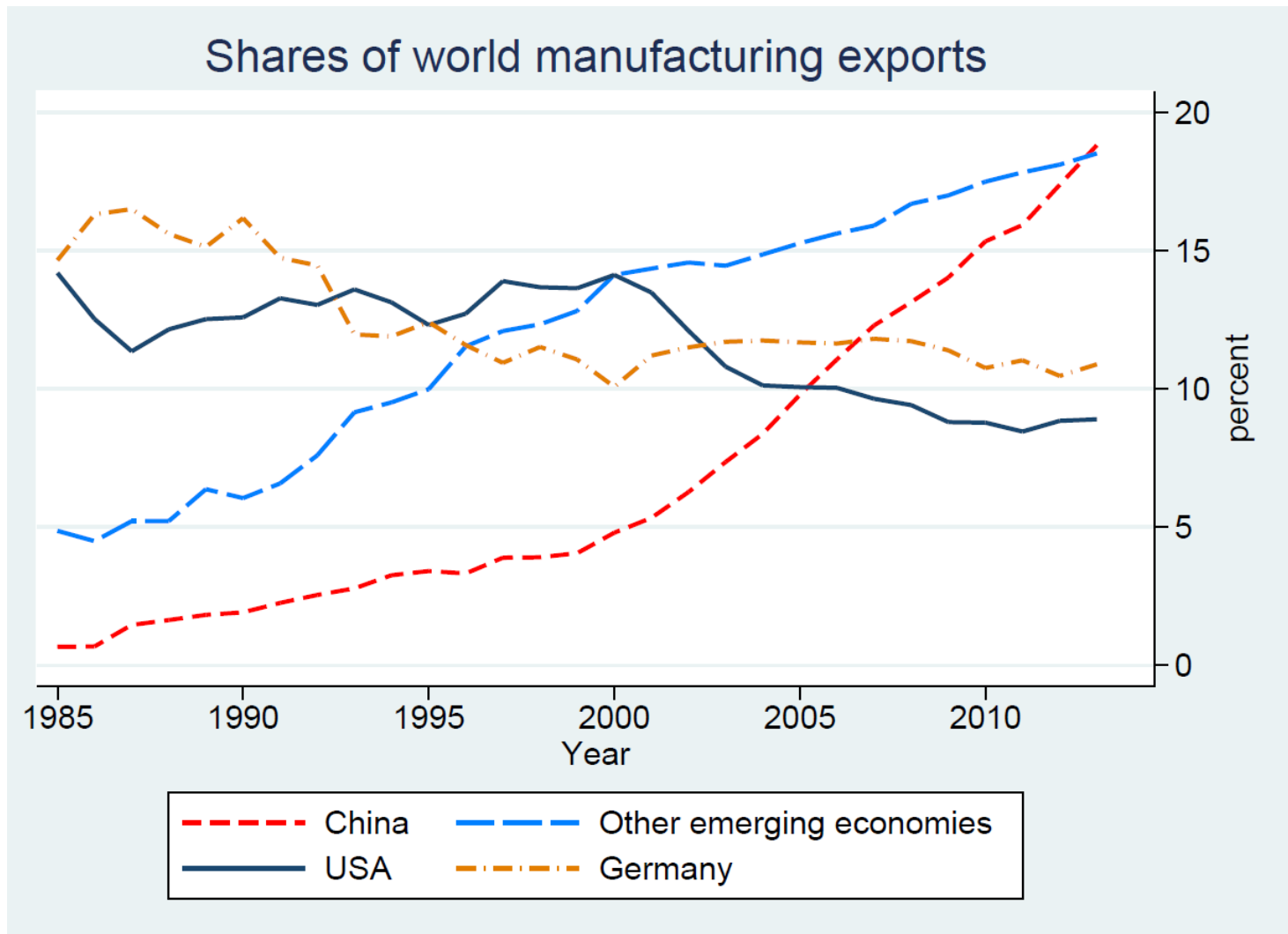


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Economic Impacts of Globalization

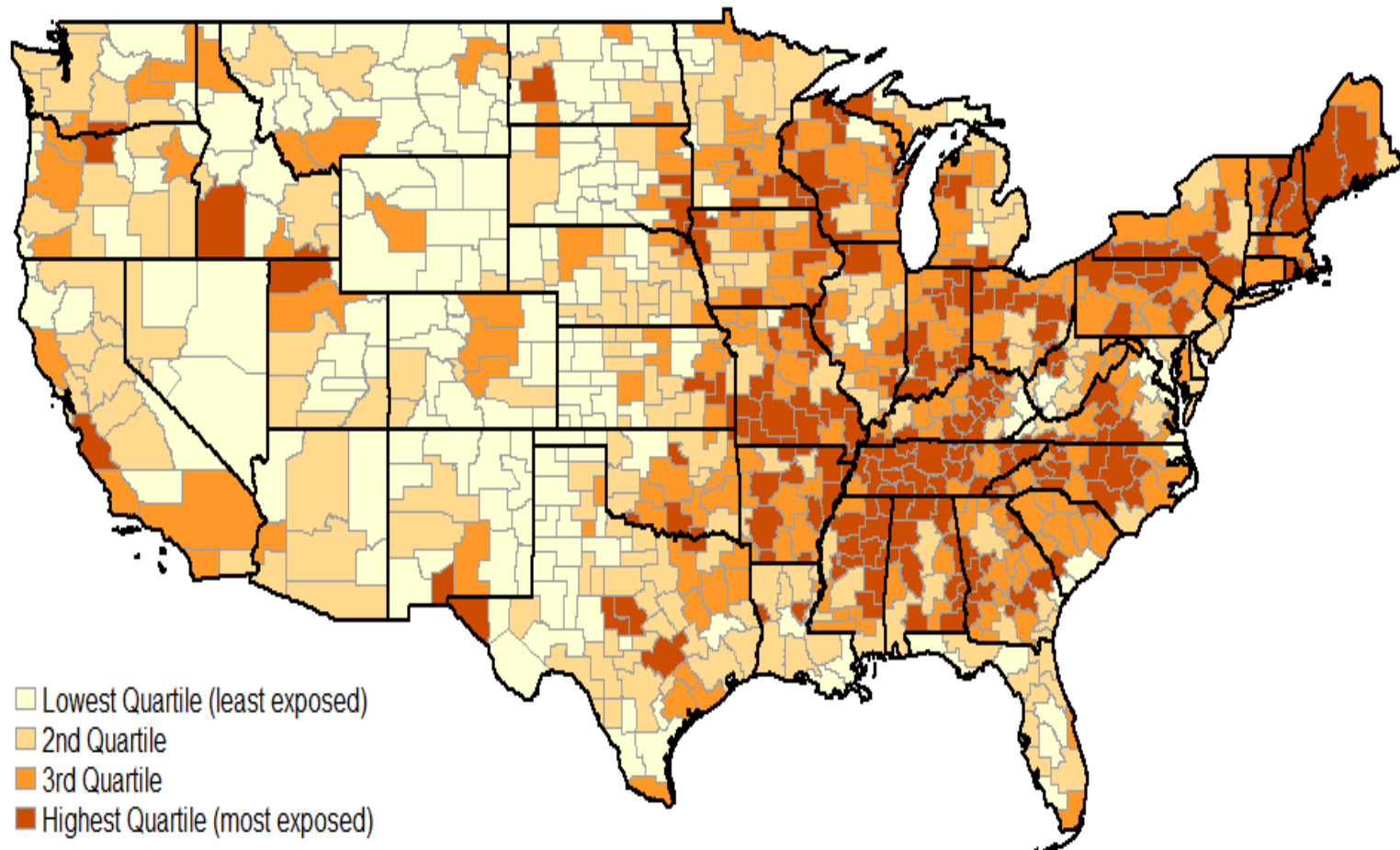
The China trade shock was large, sudden, ...



The China Trade Shock

... regionally concentrated in the US, ...

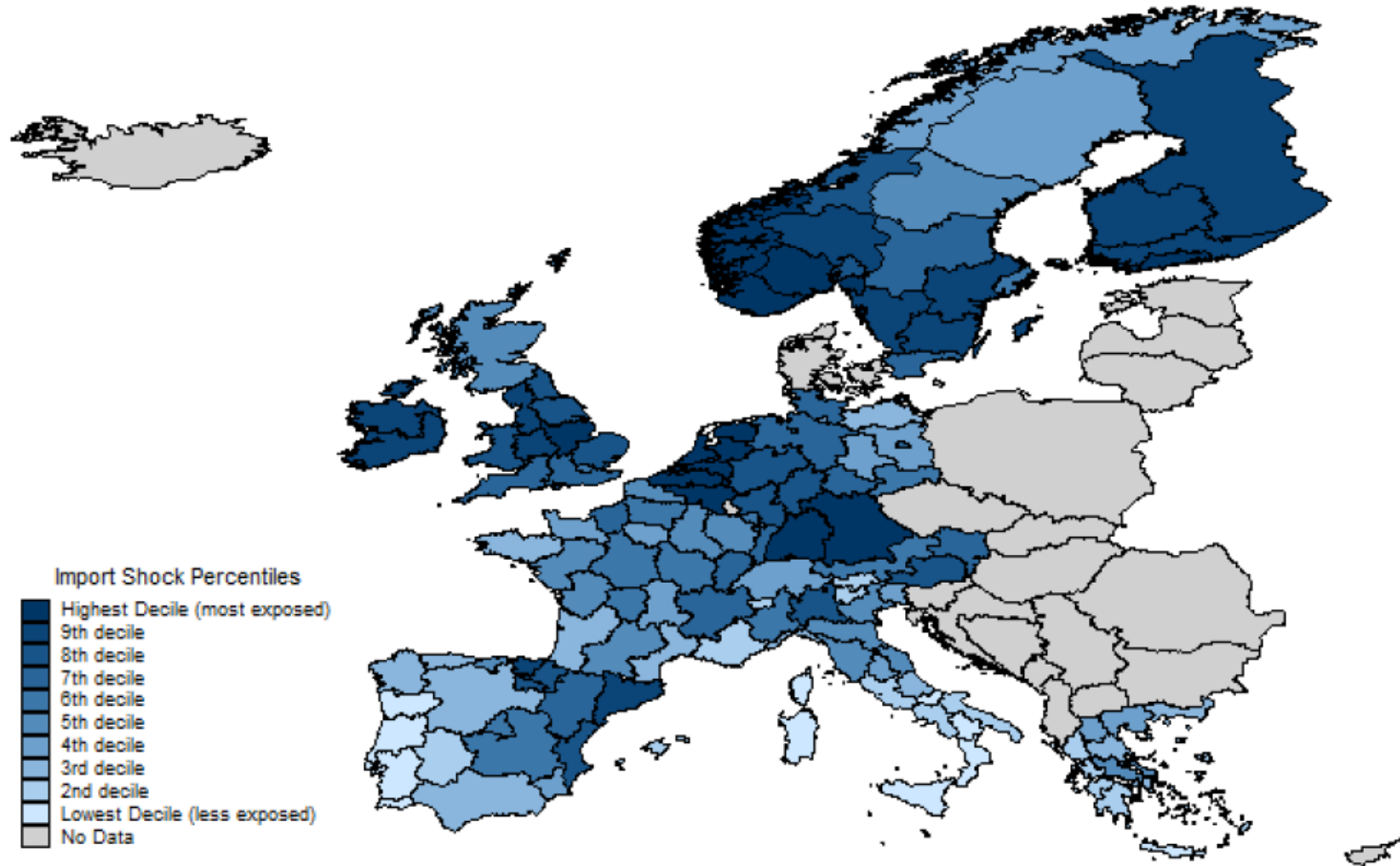
Trade Exposure by Commuting Zone, 1990-2007



The China Trade Shock

... and regionally concentrated in the EU

Deciles of Import Shock from China

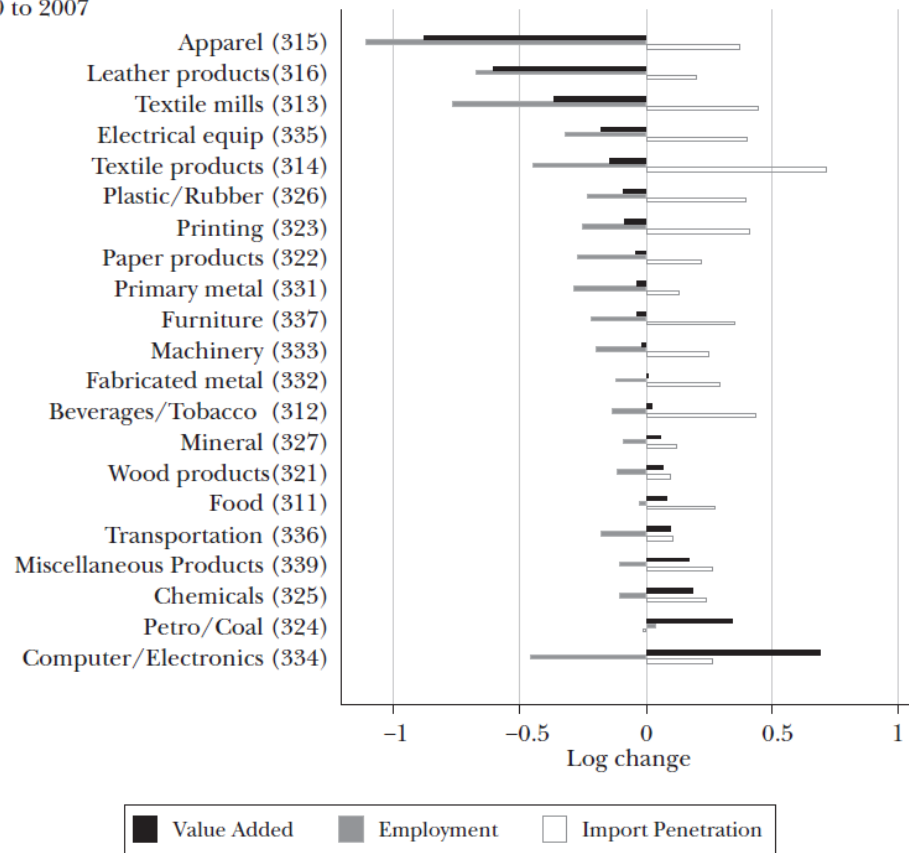


The China Trade Shock: Job Loss

Job loss was highest in labor-intensive manufacturing

Change in Real Value Added, Employment, and Import Penetration Across Manufacturing Industries

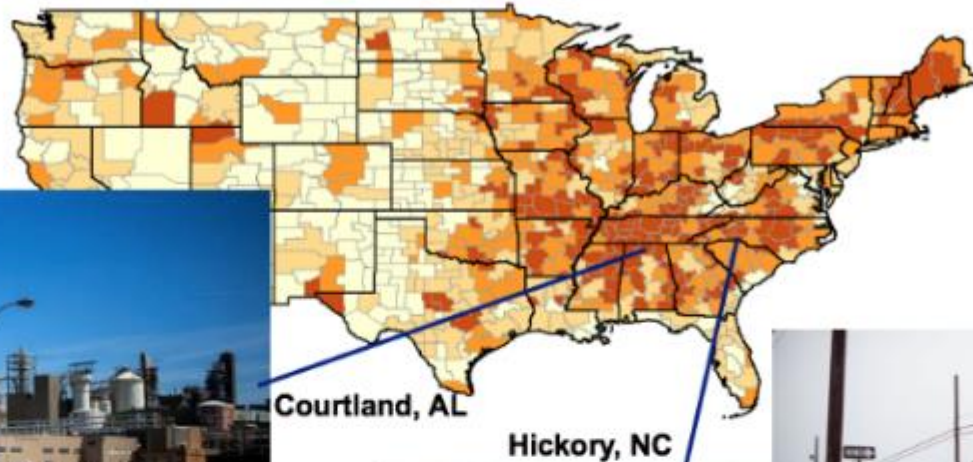
B: 2000 to 2007



The China Trade Shock: Plant Closures

Much of job loss from the China shock was due to plant closures

Trade Exposure by Commuting Zone, 1990-2007



Courtland, AL

Hickory, NC



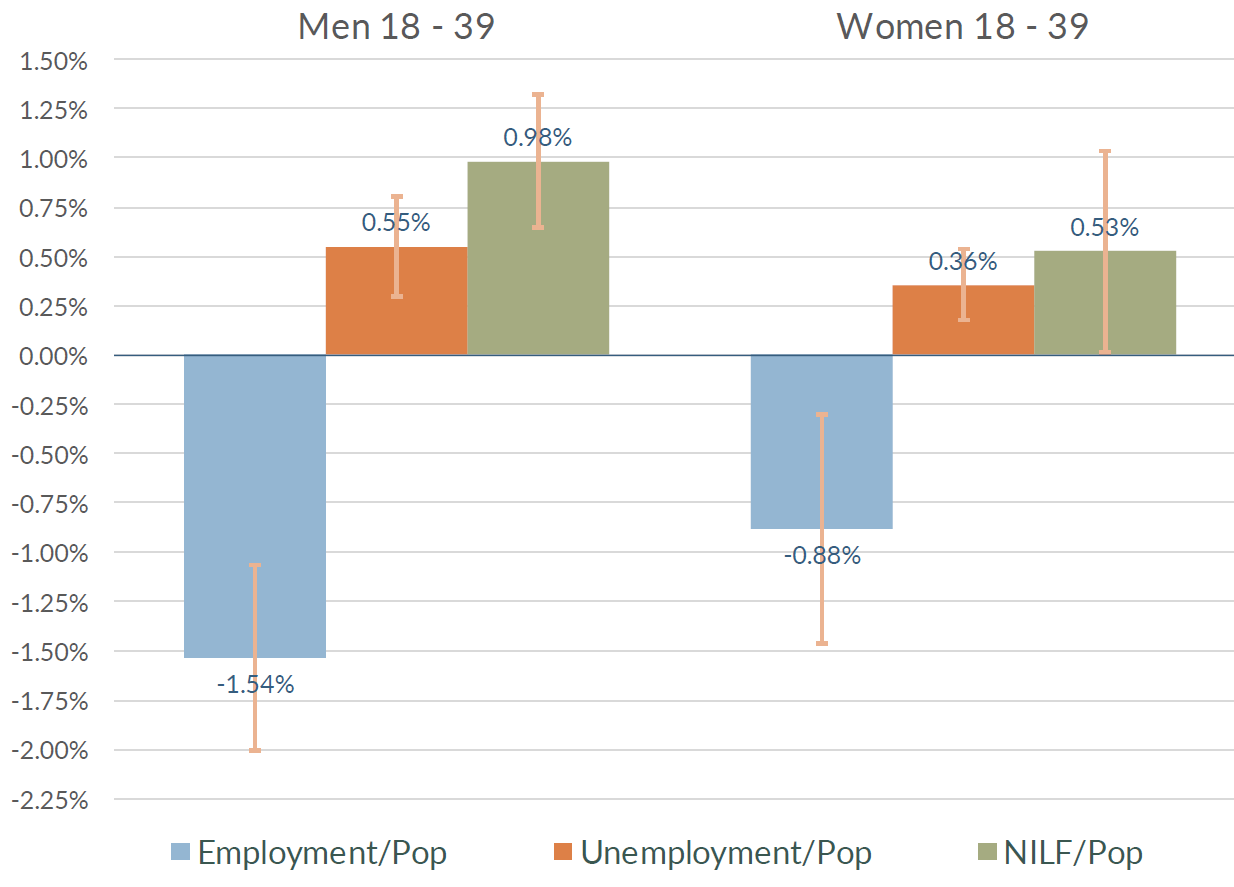
The New York Times



THE WALL STREET JOURNAL

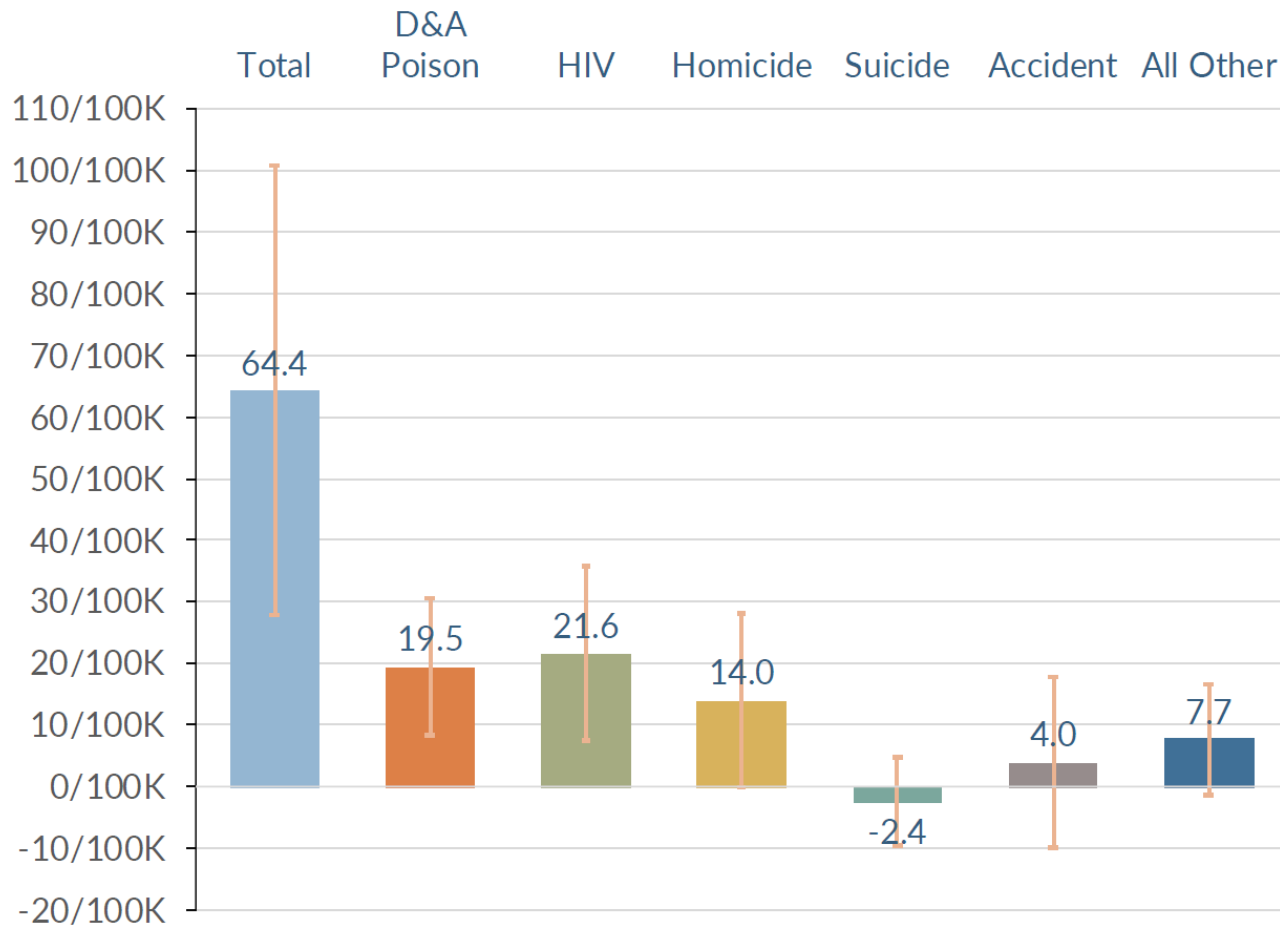
The China Trade Shock: Strongest Impacts on Men

Men suffered greater job loss and declines in employment rates



The China Trade Shock: Social Dislocation

Men saw larger increases in mortality due to socially destructive behavior



Impacts of Import Competition from China

- **In more trade-exposed industries:**
 - More closures of manufacturing plants, larger declines in employment
 - Lower lifetime incomes, greater job churning for workers
- **In more trade-exposed regions:**
 - Persistently lower employment, higher labor-force exit, higher long-run unemployment, greater uptake of government benefits
 - Greater social dislocation in terms of more crime, drug fatalities, male idleness, single motherhood, child poverty

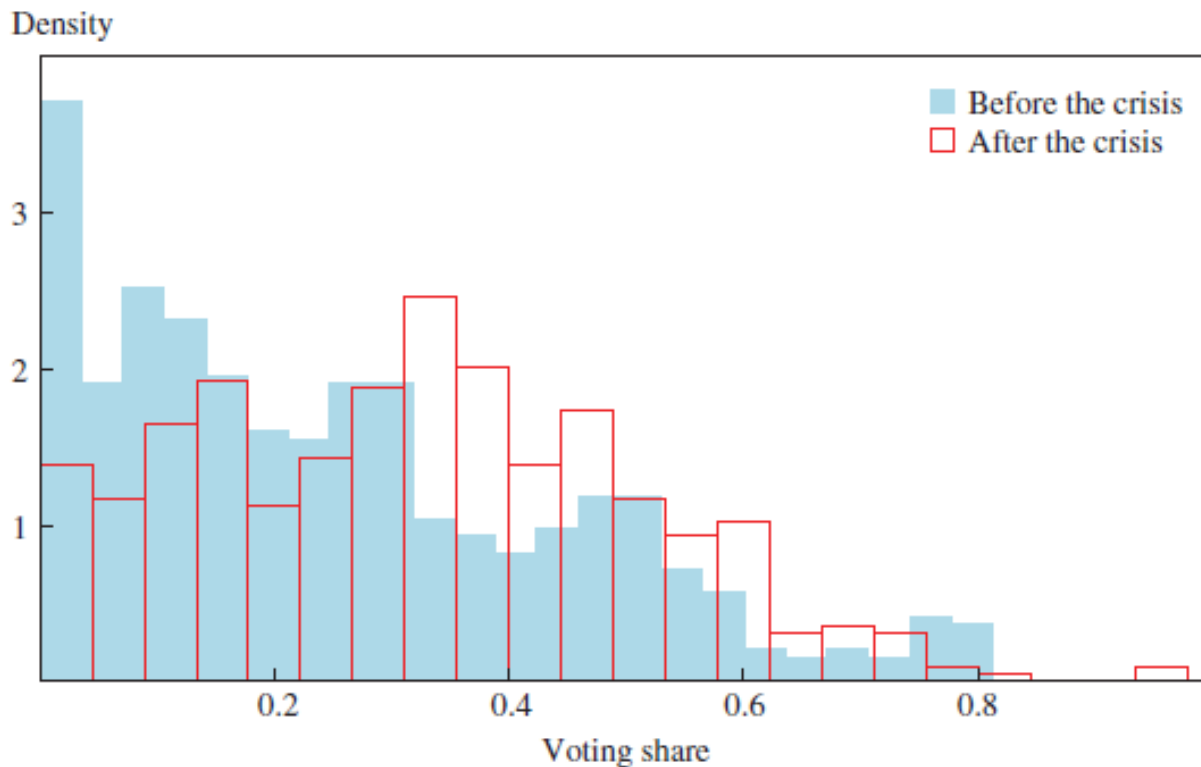
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Support for Anti-EU Parties

Votes for Euro-skeptic parties has increased since the crisis

Figure 2. The Distribution of Voting for Antiestablishment Parties before and after the Crisis^a



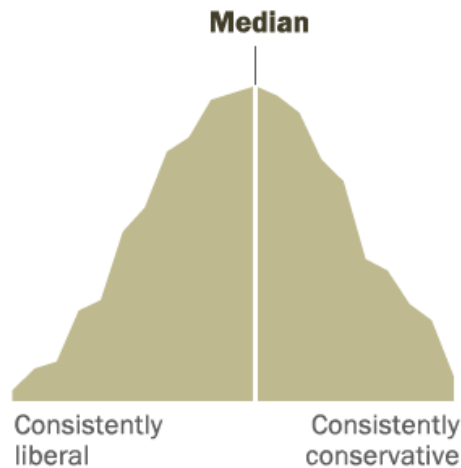
Globalization and Political Expression

In US, whites are more likely to express right-wing political views

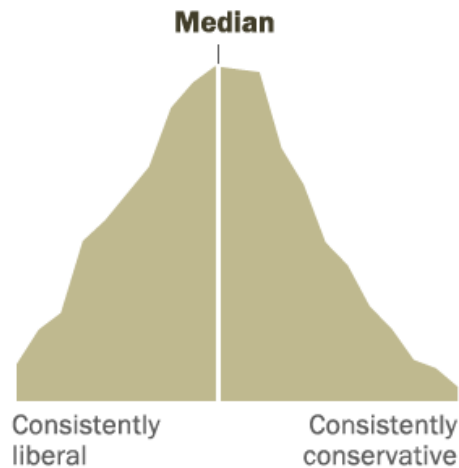
A declining share of Americans holds a mix of liberal and conservative views

Distribution of the public on a 10-item scale of political values

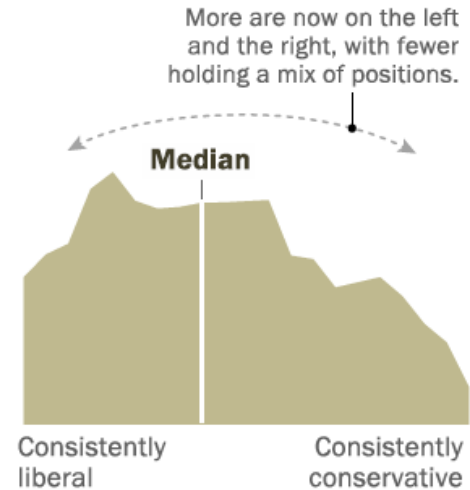
1994



2004



2017



Notes: Ideological consistency based on a scale of 10 political values questions (see methodology).

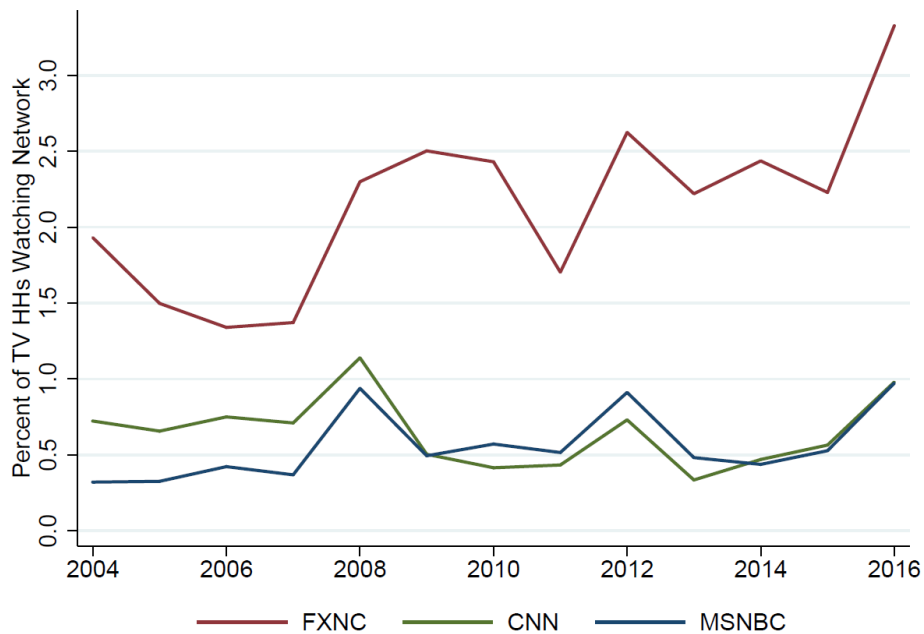
Source: Survey conducted June 8-18, 2017.

PEW RESEARCH CENTER

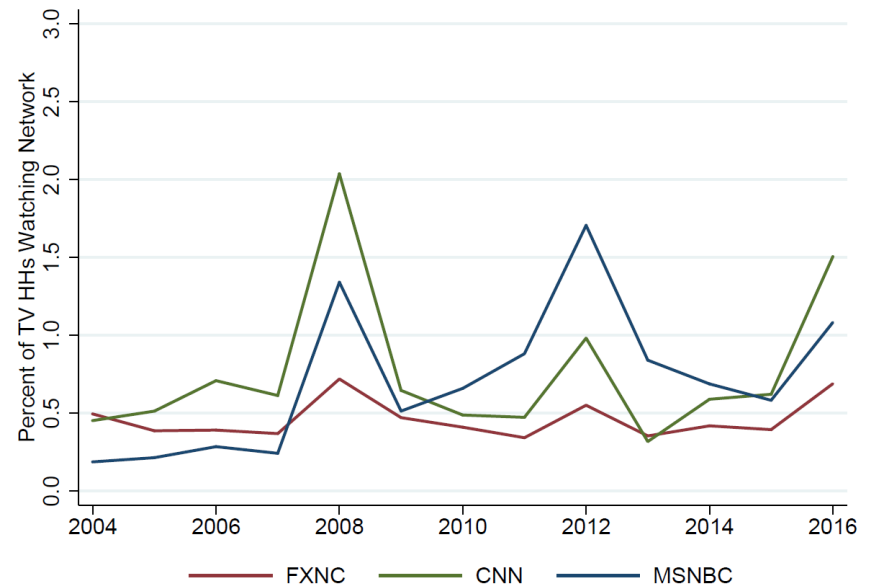
Globalization and Political Expression

Among whites, conservative FOX News has gained market share

(A) White Households

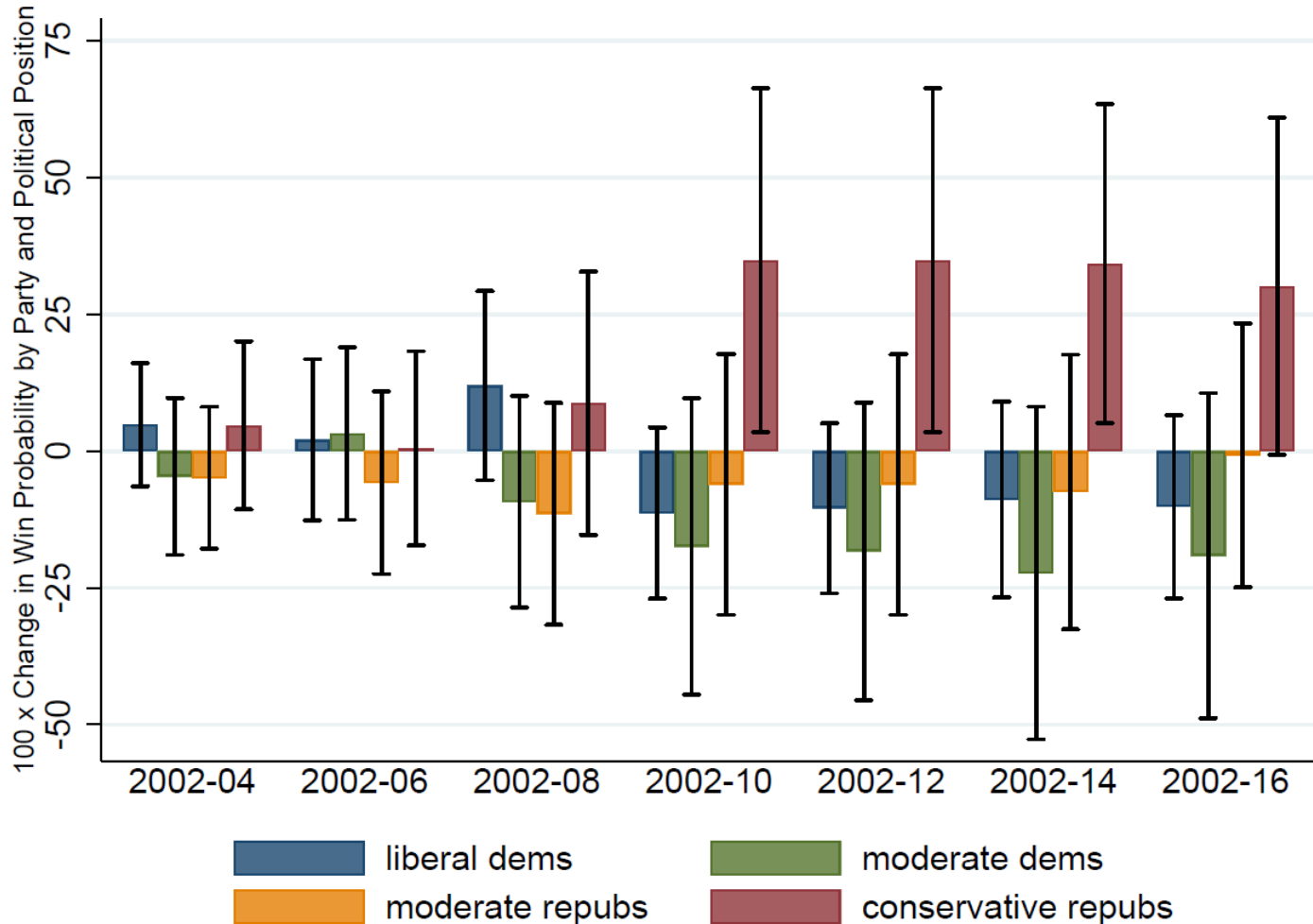


(B) Non-White Households



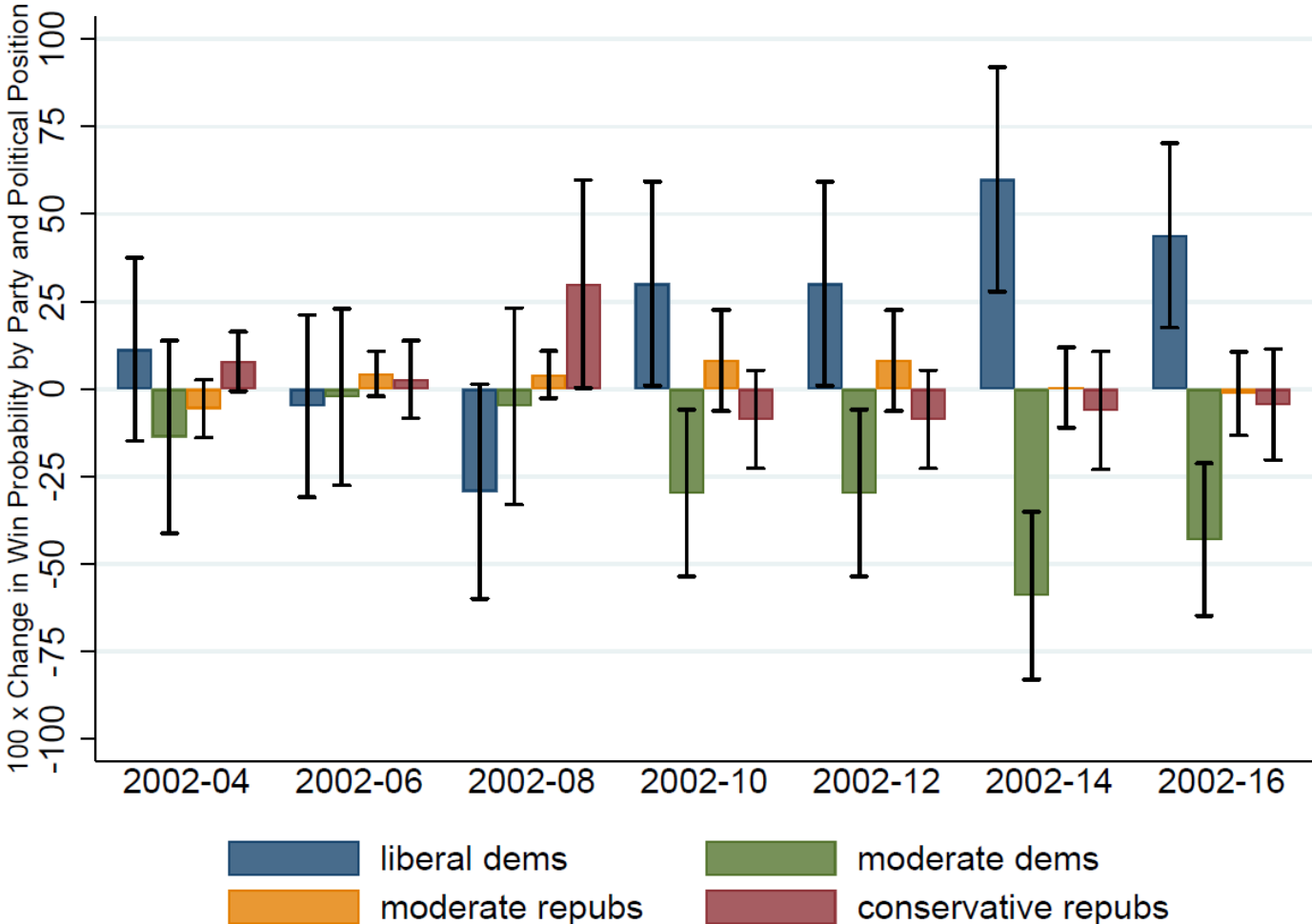
Globalization and Election Outcomes

Majority white areas have become more likely to elect a conservative Republican



Globalization and Election Outcomes

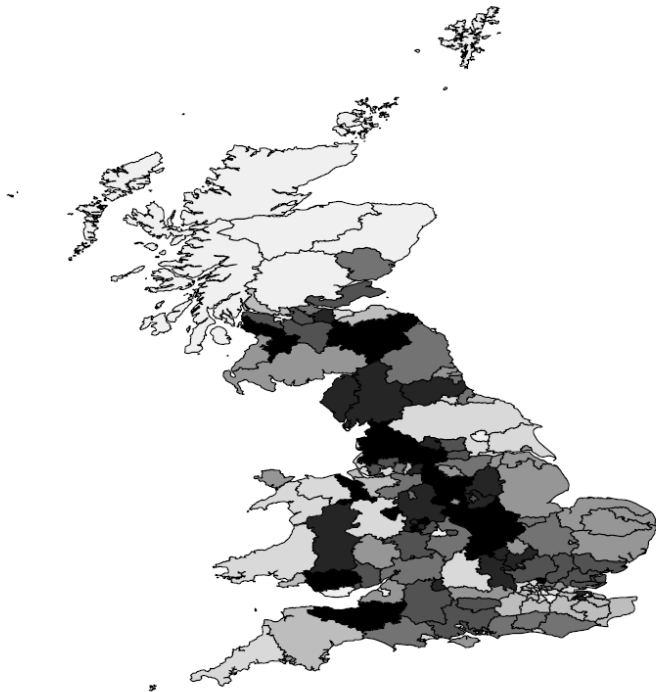
Majority non-white areas have become more likely to elect a liberal Democrat



The Brexit Vote

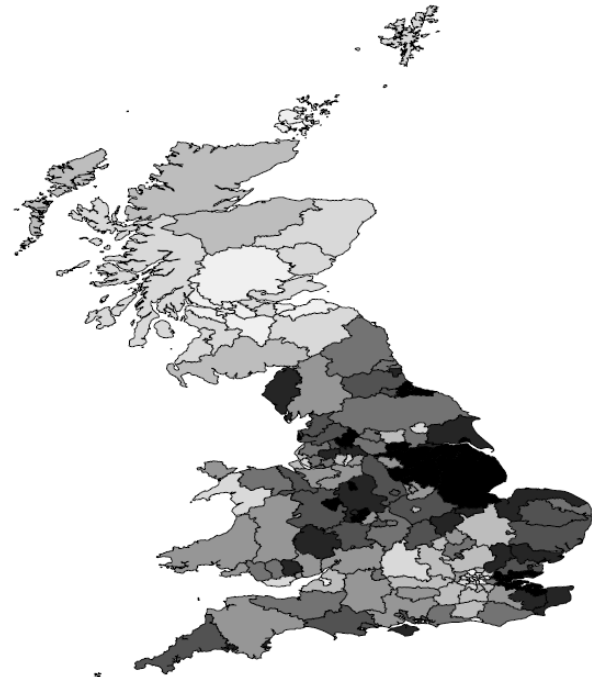
In the UK, support for Brexit was stronger in regions that were more exposed to the China trade shock

Figure 2: Strength of the import shock across NUTS-3 regions.



Note: Darker shades correspond to stronger import shock.

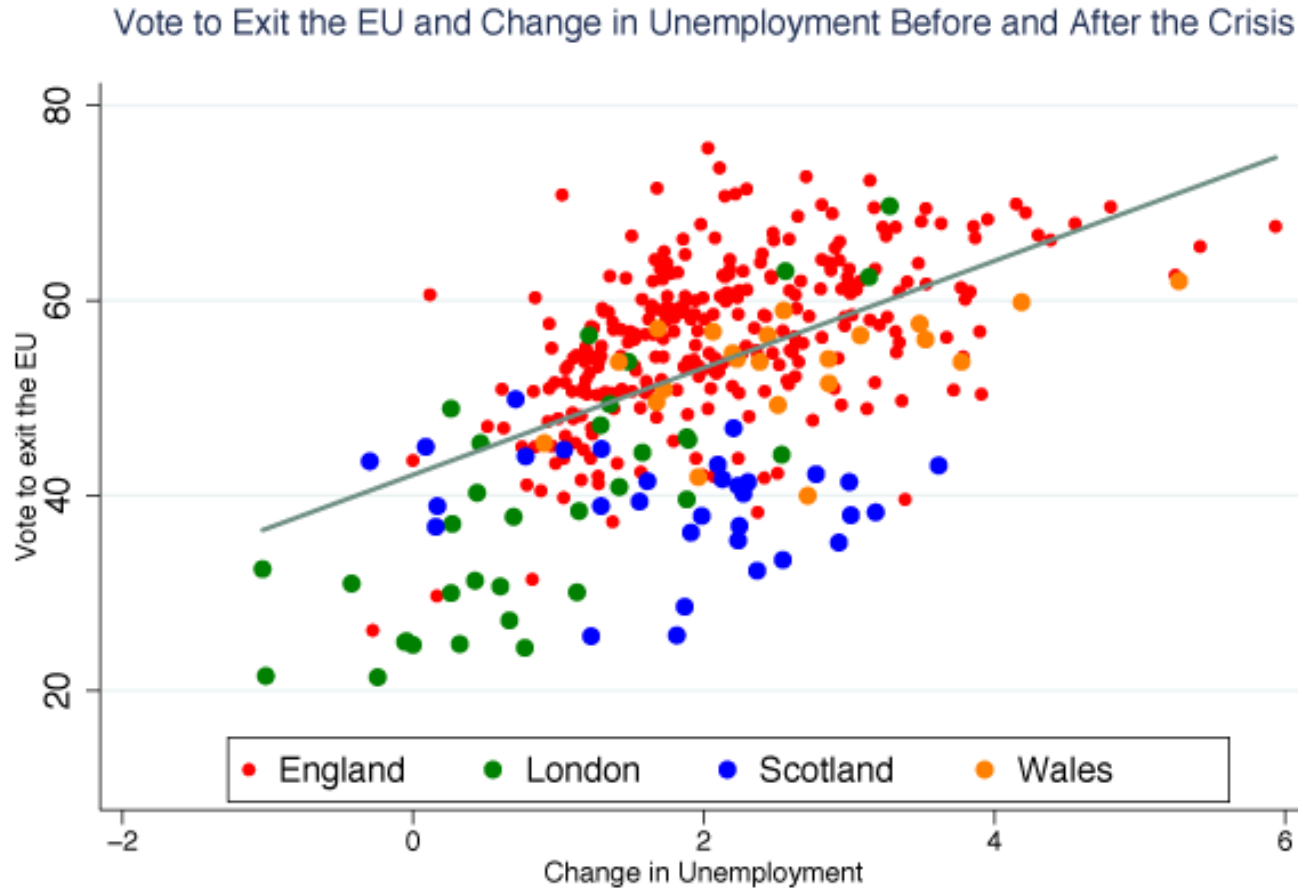
Figure 3: Vote share of the Leave option across NUTS-3 regions.



Note: Darker shades correspond to stronger support for the Leave option.

The Brexit Vote

Brexit was also more popular in areas harder hit by the crisis

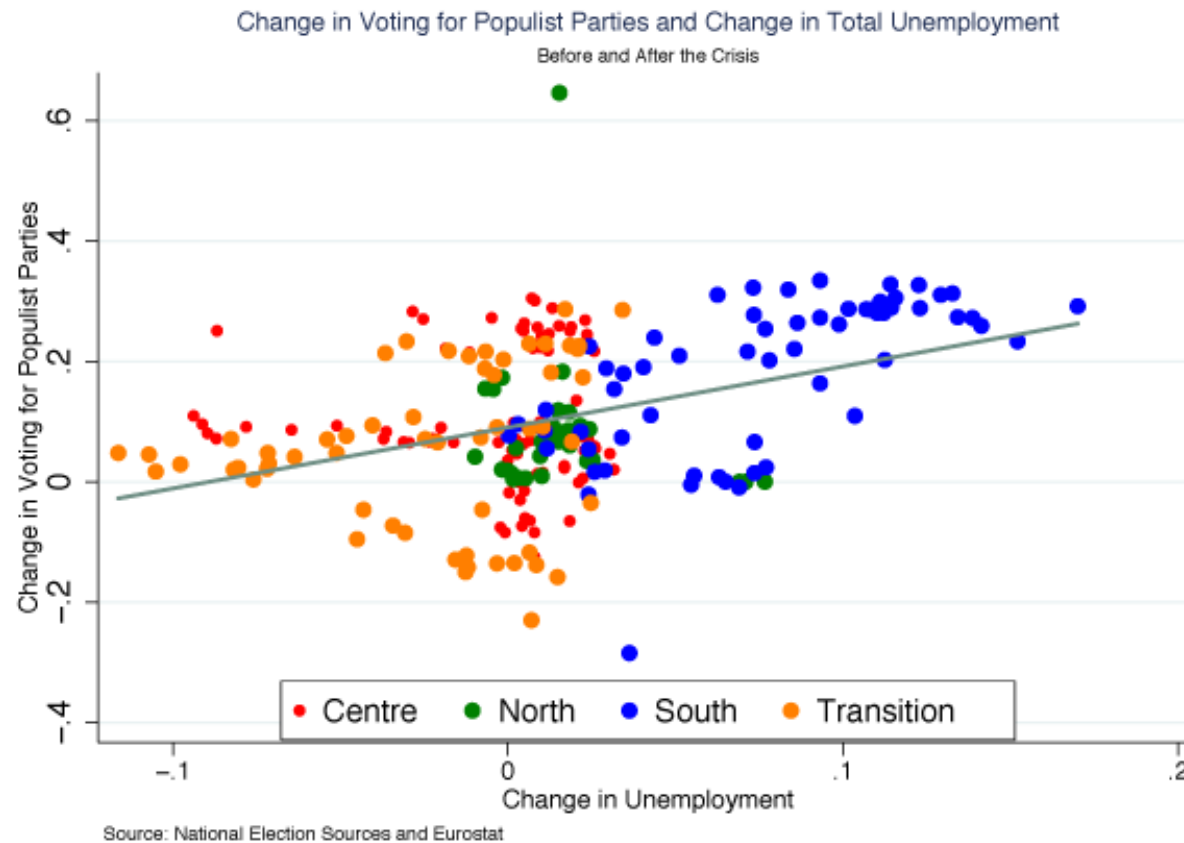


Source: ONS

Source: Algan et al. (2017)

Support for Populist Parties in Europe

Populists have done better in higher unemployment areas



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Policy Options

- **What has been tried?**

1. Redistribute income from richer regions to poorer regions (EU)
2. Assist workers who lose jobs due to import competition (US)
3. Use import tariffs to protect domestic manufacturing (US)
4. Use tax incentives to attract superstar firms (US)
5. Target incentives for job creation in depressed labor markets

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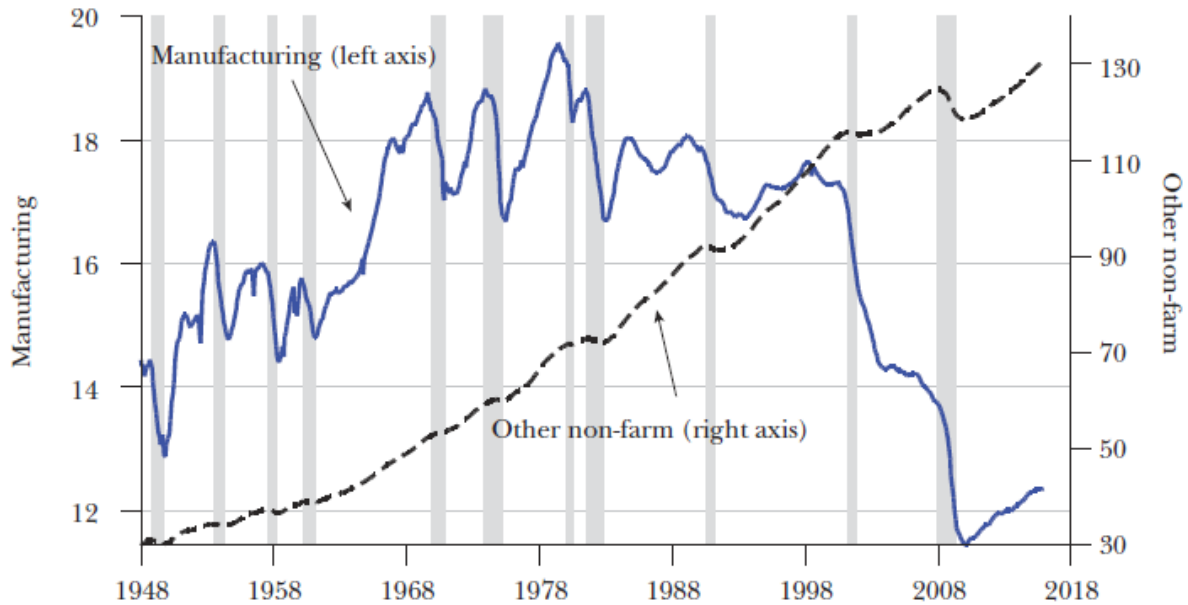
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Tariffs Won't Reverse Manufacturing Job Losses

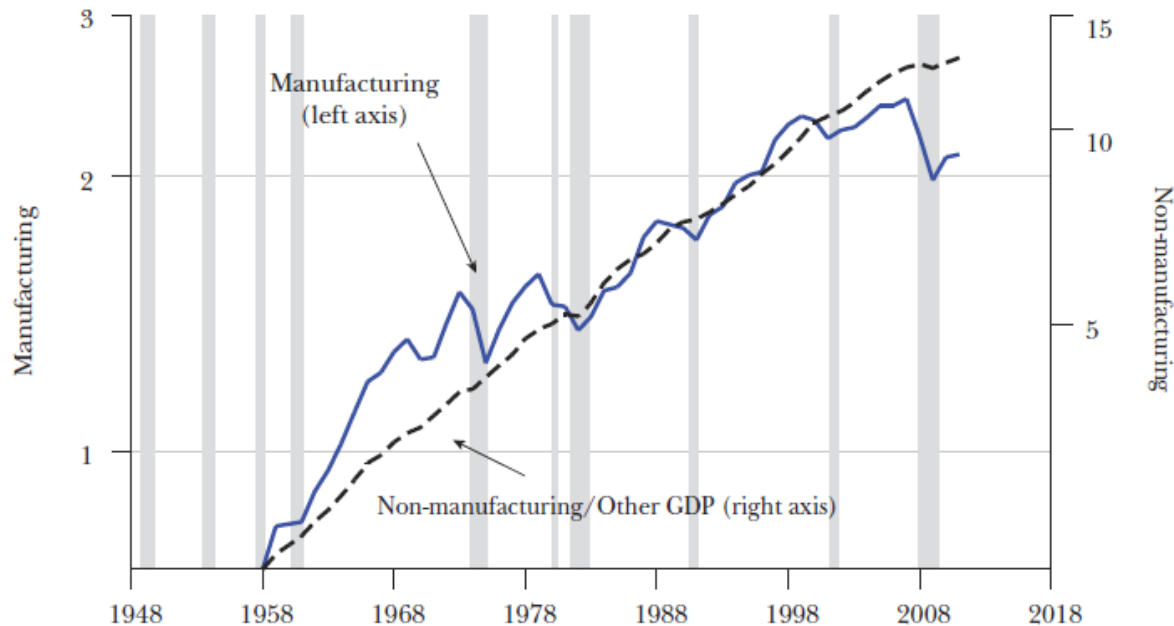
Employment:

Manufacturing (falling),
Non-Manufacturing (rising)



Value Added:

Manufacturing (rising, falling),
Non-Manufacturing (rising)



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5. **Target incentives for job creation in depressed labor markets**
 - **Yields larger gains in employment and earnings for poor workers vis-à-vis (4)**

Conclusion: Political Consequences of Job Loss

- **Rise of right-wing populism and ethno-nationalism**
 - Coincident with widening societal gaps in economic opportunity
- **Trade-induced job loss: visible + politically actionable**
 - Targets manufacturing towns, worsens economic and social outcomes
- **Greater economic hardship strengthens tribalism**
 - Greater competition for public resources
 - Greater receptiveness to politicians peddling populism
 - Greater political divisions between in-groups and out-groups

Conclusion: Addressing Regional Disparities

- **Be skeptical of those selling elixirs**
 - Closing borders will not create jobs in lagging regions
- **Reward work**
 - Having a job strengthens dignity and family, not just earnings
- **Target incentive programs on distressed areas**
 - Tax incentives to big firms (eg, Amazon) have low societal returns
- **Remove impediments to labor mobility**
 - Large regional wage gaps indicate a misallocation of resources
- **Let business, government, civil society experiment**
 - Given scarcity of tools, let policy be responsive to local conditions