



GLOBALISATION OUTLOOK

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SUMMARY

- The entry of China into the world trading system was a stochastic shock that led to a precipitous decline in US manufacturing employment
- Previous trade agreements entered into by the US did not have the same destabilizing effect
- It is the entry of China with its large manufacturing base and lack of reciprocal access NOT trade in general that has led to destabilisation
- The G20 meeting in Buenos Aires calls for reform of the WTO
- APEC summit in Papua New Guinea fails to agree a joint statement as China objects to commitment to fight ‘unfair trade practices’.
- New German analysis suggests that regions most exposed to import substitution have highest rates of voting for AfD – largely at the expense of the SPD
- Macro-statistics fail to reflect people’s lived experiences undermining faith in ‘experts’ and institutions

MANUFACTURING JOBS AND TRADE - WHY CHINA IS THE PROBLEM

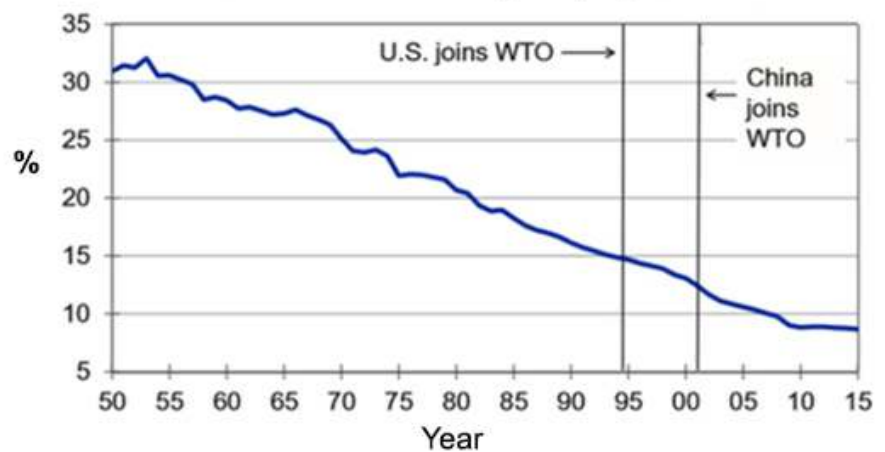
It's an endless debate.

What has driven the decline in manufacturing jobs?

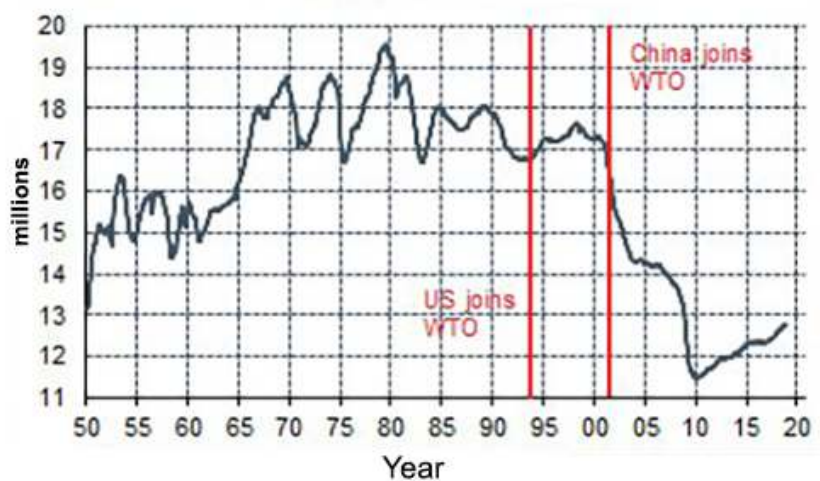
Critics of globalization argue that it has destroyed manufacturing jobs in developed countries. Those who defend the current system argue that the decline in manufacturing jobs is due to other factors - mainly automation and a shift in developed economies from manufacturing to services.

The two charts below suggest that both may be at least partially right. This may be a case of 'and/also' rather than 'either/or'.

US: % Share of Manufacturing Employment



US: Manufacturing Employment - Absolute Numbers



International trade in general has not had any material negative impact on US manufacturing employment

Relative decline in US manufacturing employment has been a long-standing trend in as shown by the top chart. This probably reflects the shift to a service economy leading to a rise in service jobs relative to manufacturing jobs.

However, the entry of China into the WTO caused a precipitous decline in absolute manufacturing employment the likes of which has never been seen before.

Based on these charts, we reach the following conclusions:

- Shift to a service economy has led to a relative decline in manufacturing jobs in the US but no decline in absolute numbers.
- Automation has happened progressively for many decades. There seems to be little evidence that the progress of automation has led to a decline in absolute numbers of manufacturing jobs. Presumably, jobs lost to automation were replaced by overall manufacturing growth.
- While NAFTA (1994) could have had a small impact on manufacturing jobs, this was minimal and showed some recovery.
- The US-Canada Free Trade Agreement (1988) which NAFTA replaced, did not materially impact US manufacturing employment.
- Any increase in international trade following US accession to the WTO did not have a material negative impact on US manufacturing employment.
- The accession of China to the WTO led to a precipitous fall in US manufacturing employment.

There is little evidence that automation has reduced overall manufacturing jobs

China, not international trade in general, is what has destroyed US manufacturing jobs

China is the problem NOT international trade in general.

The access of China to the WTO has delivered a stochastic shock never previously seen.

We assume that this is due to a number of factors:

- The entry of a manufacturing base the size of China's into the world trading system was unprecedented
- There was, and still remains, no reciprocal access to the Chinese market – a factor that could, maybe, have offset some of the impact

It is worth pointing out that it is, of course, impossible to prove or disprove the counterfactuals. In other words, it is not possible to evaluate whether US manufacturing jobs would have increased further (rather than simply failed to decline) had trade not been liberalized.

REFORM OF THE WTO SYSTEM MAY YET START IN EARNEST

At RADIX we have long argued that reform of the WTO is long overdue. Our stance was met by significant resistance from many who argued either for the status quo or that only minor tweaks were necessary. And from those who have taken the stance that anything that President Trump pushes for must necessarily be wrong and is to be resisted.

G20 leaders agree ‘necessary reforms of the WTO to improve its functioning’

We therefore support the communique from the G20 meeting in Buenos Aires that place WTO reform on the agenda.

G20 Leaders’ Declaration

Buenos Aires, 2018

Paragraph 27

“International trade and investment are important engines of growth, productivity, innovation, job creation and development. We recognize the contribution that the multilateral trading system has made to that end. The system is currently falling short of its objectives and there is room for improvement. We therefore support the necessary reform of the WTO to improve its functioning. We will review progress at our next Summit.”

Full communique can be found [here](#)

Agreement at the G20 provides a welcome change from the failure of the November Asia-Pacific Economic Cooperation (APEC) summit in Papua, New Guinea to agree a final statement for the first time in the organisation’s 29-year history.

China objects to commitment to fight ‘unfair trade practices’

It has been reported that agreement could not be reached because China would not agree to one particular sentence:

“We agreed to fight protectionism including all unfair trade practices.”

Tellingly, Chinese officials felt that such a sentence singled out China.

There were reports that Chinese officials forced their way into the office of New Guinea’s foreign minister demanding a meeting and had to be escorted out. China dismissed these reports as ‘malicious rumours’.

We are not optimistic that the US-China truce on trade will hold

WILL THE US CHINA TRUCE HOLD?

Another positive outcome of the G20 meeting was an agreement by the US to withhold for 90 days its planned increase in tariffs on Chinese imports from 10% to 25% (originally planned for January 1st) in return for a commitment that China will increase its imports of US goods.

This is a welcome truce in the growing trade war between the world's two largest economies.

We are not optimistic that the truce will hold for reasons that we have outlined in our previous newsletters – mainly that the Chinese model of political economy is not easily compatible with an international trading system predicated on open markets with a level playing field.

EXPOSURE TO INTERNATIONAL TRADE DRIVES POPULISM - MAYBE

A recently published paper from Bertelsmann Stiftung suggests that, in Germany, there is a strong correlation between regions exposed to the effects of international trade and voting patterns.

By looking at data from the 2013 and 2017 German federal elections, the author concludes:

Higher exposure to import penetration is correlated with a higher share of votes for the AfD

“Measuring Chinese import penetration on an electoral district level and running a set of linear regression models, the author finds that districts, which were more heavily exposed to import penetration show an increased propensity to support the anti-globalization oriented, right-wing populist AfD party. This was true, both when measuring for a district's relative level of import penetration at the time of an election, as well as, when considering the net change of import penetration in a district over the years leading up to an election.”

Full paper can be found [here](#)

The author finds that the SPD was the party most negatively affected by this shift in voting patterns.

The author and Bertelsmann Stiftung are both at pains to point out that this is a preliminary study that should not be taken to be a definitive work. The author also makes the leap so often made by economists that correlation is the same as causation. No doubt there are very many variables that affect people's voting patterns – and most of them are unmeasurable.

Support for international trade can no longer be taken for granted

Nevertheless, even in an economy's like Germany's where international trade now accounts for some 85% of GDP and has been widely seen as a source of prosperity, one empathises with the author's statement that:

"the perception of trade and globalization as an economic growth panacea is by no means guaranteed anymore"

LIES, LIES AND STATISTICS

Which brings us to the final section of this newsletter where we talk about some of the points made in William Davies' recent book: *"Nervous States: How Feeling Took Over The World"*.

While we are not convinced that feeling has 'taken over' the world because, in our view, feelings have always been the primary drivers of human decision making (all that has happened is that we are finally moving on from the fictitious 'rational man' or 'homo economicus' that has seduced us for far too long), we would like here to focus on one particular point made by the author.

That point relates to experts and the use of statistics.

Davies points out that the bandying about of macro statistics that do not reflect the lived experience of many people have turned much of the population against experts and the statistics they feed everyone.

To give one example, we keep getting told that GDP is rising and that is a cause for celebration. But all many people see are stagnant wages and falling living standards. The macro-statistic hides wide variations.

The figure from the Financial Times on the next page highlights what we mean. If one looks at the case of Spain, a significant rise in GDP since 2009 has been accompanied by stagnant or falling wages. This can be explained by the fact that much of the rise in GDP has been driven by the success of export oriented multinational companies whose success is, in part, driven by holding down wages.

The same can be said of the 'success' of international trade as the route to widespread prosperity. As we point out in our book, while increased trade has probably driven economic growth as measured by GDP, the benefits have been highly unequal. For many in the rust belt, trade is seen as having destroyed lives and communities.

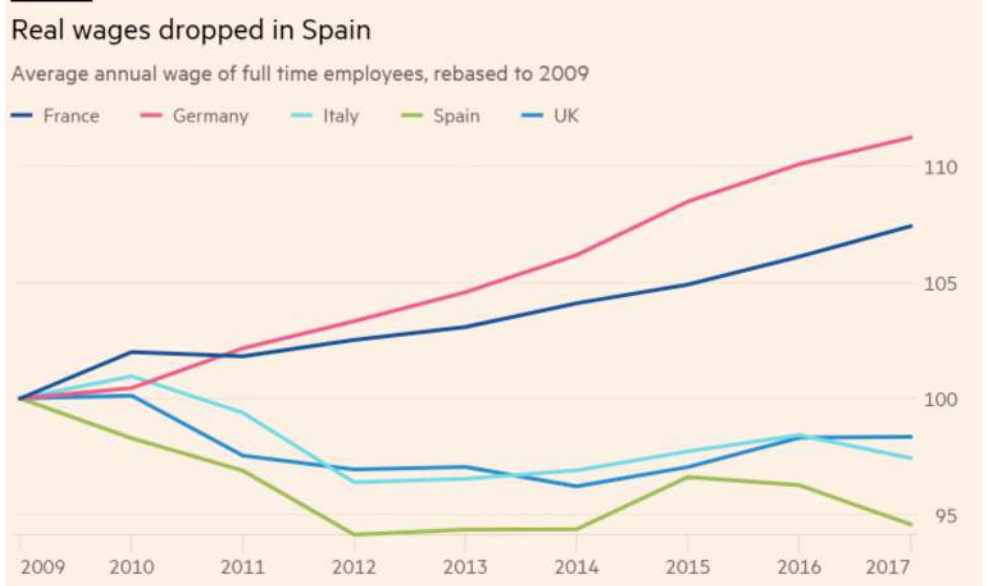
It is time that we moved away from average macro-statistics to much more granular evaluations of the impact of policy at community level. Failure to do so will continue to undermine voters' faith in our institutions with potentially dire consequences for our democracies.

Macro-statistics do not reflect people's lived experience undermining faith in 'experts' and institutions

Our democracies will be undermined if we fail to get beyond macro-statistics to more granular evaluations of the effects of policy



Sources: Refinitiv (formerly Thomson Reuters), Ameco, @valentinariomei © FT



In Spain wages started dropping in 2009, in 2008 in most other countries
Source: OECD © FT

About Radix

Radix is a cross-party think tank for the radical centre of contemporary politics. Its aim is to re-imagine the way government, institutions and societies function based on open-source, participative citizenship. To kick-start the thinking that is needed for politics to embrace technology, innovation, social and cultural change.

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