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Beijing, not free trade more generally, is the reason America's factories declined.

POLITICS & IDEAS

Trump Misunderstands the 'China Shock'

When the history of this generation is written by the next, two dates in 2001 will stand out. Everyone knows the first: Sept. 11, which sparked nearly two decades of wars that squandered American blood, treasure and attention. The second is Dec. 11, the date that China entered the World Trade Organization on terms that proved disastrous for many American workers, companies and communities.

Between 2001 and 2007— before the financial crash and the Great Recession—the U.S. lost 3.4 million manufacturing jobs, almost 20% of the 17.2 million manufacturing jobs we had at the end of 2000. During the recession, another 2.2 million manufacturing jobs disappeared. In the ensuing 15 years, the economy regained barely one-fifth of the manufacturing employment lost during that first decade of the 21st century. This was the famous "China shock," which helped trigger the populist revolt that later brought Donald Trump to power.

Economists continue to debate the relative contributions of China versus productivity- enhancing technology in destroying so many manufacturing jobs. Technology certainly made a difference; manufacturing productivity increased significantly be-tween 2001 and 2010. But productivity increased almost as much between 1991 and 2000, when the number of manufacturing jobs was generally increasing. The major difference between these decades was China. *

Some would argue that the real difference came from the North American Free Trade Agreement, a historic treaty that reduced trade barriers and integrated the economies of Canada, Mexico and the U.S. This treaty took effect on Jan. 1, 1994. From then until the end of 2000, manufacturing jobs increased by about 300,000, from 16.9 million to 17.2 million. Although Nafta shifted some production away from the U.S., it also contributed to a period of growth in manufacturing that more than made up for the losses. Only after China entered the World Trade Organization did manufacturing jobs fall dramatically. ← *

Nor did Nafta lead to declines in factory workers' earnings. Between 1994 and 2000, manufacturing wages increased more quickly than inflation, generating real income gains.

The bottom line: Blaming our manufacturing ills on North American economic integration flies in the face of the facts. The Trump administration's assault on our northern and southern neighbors makes no sense. It is a self-inflicted wound that will yield few benefits at enormous cost—confusion, disrupted supply chains and loss of trust.

Our peaceful, mutually productive relations with our neighbors have been a source of geopolitical strength that Mr. Trump and his team of enablers have been doing their best to undermine. A question for them: What has changed since the president's first term, when he renegotiated Nafta and celebrated its

replacement, the U.S.-Mexico-Canada Agreement, as the "fairest, most balanced and beneficial trade agreement we have ever signed into law"? !

To be sure, we have real problems in manufacturing. Over the past decade, our manufacturing output has stagnated, as has the sector's productivity. And in some respects, our manufacturing sector's decline affects our national security. As we learned during the pandemic, the U.S. is highly dependent on other countries, including China, for drugs and other essential medical supplies. Nor can we hope to keep pace with China's rapidly growing navy without regaining our lost shipbuilding capacity. Further, as we've seen since Russia's invasion of Ukraine, our defense industrial base has weakened dangerously since the fall of the Soviet Union. But the remedy for these ills is a set of targeted policies, not a global trade war. The chainsaw isn't an appropriate tool for restructuring the international economic order any more than it is for reforming government.

Antagonizing our friends around the world is a poor strategy for solving the heart of our trade problem—our asymmetrical relationship with China. Xi Jinping suppresses purchasing power and social benefits for his country's citizens while subsidizing exports, allowing Chinese products to undercut those produced in other industrialized countries. China then uses the proceeds from artificially elevated export sales to direct investment to favored industries and new technologies while funding a massive military buildup.

In response to prior U.S. efforts to stem this flood, Chinese manufacturers have relocated significant production to countries such as Vietnam, whose cooperation the U.S. will need if it hopes to shut off this Chinese escape valve. Any way you look at it, imposing huge tariffs on every country with which the U.S. has a bilateral trade deficit makes no sense. We're left hoping that during the 90-day tariff "pause" business leaders can persuade Mr. Trump that his current course risks a punishing recession and weakening confidence in U.S. government debt.

By William A. Galston

