EconoFact: On Trade with China, and Sharing Vaccines

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Michael Klein:

I'm Michael Klein, executive editor of EconoFact, a non-partisan web-based publication of the Fletcher School at Tufts University. At EconoFact, we bring key facts and incisive analysis to the national debate on economic and social policies, publishing work from leading economists across the country. You can learn more about us and see our work at www.econofact.org.

Michael Klein:

The concept of a zero-sum game as applied widely and often inaccurately. For example, generations of economics, professors, myself included, have tried to disabuse students of the notion that in international trade, if one side in a transaction wins, the other side necessarily loses. This effort has become a bit more difficult with the rise of China, a country that has been portrayed as the chief competitor to the United States in the 21st century. We need to concede that even with the benefits of voluntary exchange, there are remaining issues around the ways in which China produces and sells its exports.

Michael Klein:

Another more recent example of the misuse of the zero-sum game has to do with the production and deployment of vaccines. Hoarding vaccines for your own citizens since one less inoculation abroad means one more at home ignores the consequences of the worldwide nature of the pandemic and the risk of its international transmission. To discuss both of these issues, the economic role of China and the international deployment of COVID-19 vaccines, I'm very pleased to welcome to EconoFact Chats, Chad Bown of the Peterson Institute for International Economics. Chad is widely recognized as an expert on international trade and he's one of the most cited economists in the popular press on this issue. Chad has also been writing on international considerations for vaccine production and deployment, for example, with two recent articles in foreign affairs. I'd also like to mention by way of introduction that Chad co-hosts a terrific podcast series, Trade Talks, with Soumaya Keynes of The Economist magazine. Chad, welcome to our podcast.

Chad Bown:

Thanks for having me.

Michael Klein:

Chad, the rise of China is one of the biggest economic stories of the past 30 years and perhaps of the post-World war II era. What was the significance for China and for the rest for its deeper integration into the world trading system?

Chad Bown:

I think that the story of China's integration is just as you said. It's probably one of the most important phenomenon in globalization of the last 30, 40 years. So starting in the late 1970s, China essentially went from an economy that was for the most part, autarkic, basically just relying on itself for whatever it wanted to consume, it had to produce itself. It began at that stage, a process of opening up to the world. In the intervening decades, it has done so successfully, but primarily the main result of that I think is one of tremendous human accomplishment. They have lifted hundreds and hundreds of millions of people out of poverty and become part of a global economy. So it's a huge success story. Obviously, along the way, the rest of the world accommodating sort of letting China in has led to major adjustments as China has taken over some things and become a big player in certain things. So it's been, I think, a huge success for the Chinese people and a huge success for the world, but it hasn't come without its adjustment costs elsewhere as well.

Michael Klein:

Well, along with being a big exporter, China with a billion people and a rising standard of living, is an important importer as well. In fact, how important is the Chinese market for goods and services from the rest of the world and maybe in particular, from the United States?

Chad Bown:

I think that's an often overlooked point. For many countries around the world, China is their top or their second or third top trading partner. That includes for those own country's exports. For the United States, I think China is now our third largest export market after Canada and Mexico. It's a really, really important market for American farmers, soybeans and lots of other crops, include China as the top destination, sending tens of billions of dollars worth of exports each year. As a growing economy, it's getting richer. It has a growing middle class. It's increasingly able to afford the types of sophisticated manufactured products and services that American companies are well known to export. So it's not only an important market, but also as an emerging economy that's still growing, it's an increasingly important market, I think, not only for the United States, but for lots of countries around the world.

Michael Klein:

Going back, Chad, to the zero-sum game formulation that I mentioned in the introduction, and as you mentioned, even if trade helps in the aggregate, some people can be hurt by the disruptions of the introduction of a major player in the world stage. People have called this the China shock and it's been blamed for destroying jobs and the community centered on manufacturing industries in places in the United that had to contend with low wage competition from China. What's your view of the role of China in the decline of manufacturing employment in the United States?

Chad Bown:

I think China has played an important role, a significant role, but probably in terms of the public discourse, an overstated role. So people lose their jobs United States in anywhere for one of a number of reasons. What this China shock, "evidence," that's come out of the economic research literature has shown kind of for the first time over the last eight or 10 years that international trade plays perhaps a larger role than we had thought, or then perhaps it had played in earlier generations of research. So kind of identifying that amongst economists was, was very, very important. But what they've also identified is it's sort of only one of a number of factors and probably not the most important one of all of those factors. Other factors include things like automation and computerization and robots and kind of new technologies that have made it less necessary to have especially low skilled labor in the United States that produce certain types of things.

Chad Bown:

Also, there's the role of changing demand. Americans want to consume less of certain types of products and more of other types, and that can cause shifts in manufacturing and employment as well. I guess the sort of last point I would make on this and when it comes to the China shock is what the counter factual is that that people have in mind. So yes, China was becoming a larger part of the global economy during this time period and a lot of manufacturing moves to China, but it's not as if China was the only country to be doing. You also had Mexico, Vietnam, lots of other emerging economies coming online at the same time.

If all this manufacturing hadn't moved to China, it might've just ended up somewhere else outside of the United States anyway. So I don't think we should overstate necessarily the role of China in this.

Chad Bown:

I guess the last point I would make on this too, is even when you speak to and listen to the economists that have done the underlying research here, the one thing that they'll be the first ones to point out and reiterate is what the right policy response to this. So yes, there have been losses to American jobs in manufacturing and communities that have suffered, but the right policy response to that isn't necessarily, let's stop trading with China or with the world. Let's do more to help those types of communities adjust, so whether that's worker retraining education, making healthcare, pensions more portable, to make it easier for people to be able to move. I think those are the types of domestic policies that are needed and have been lacking in the United States to deal with the kinds of shocks that have arisen, including that from China.

Michael Klein:

I think that point about if not China, maybe Mexico or Vietnam is a really good point and one that's really overlooked. Also, your answer very much aligns with the answer that Paul Krugman gave me in a podcast that we did a few weeks ago about globalization being one thing, but maybe not by any means the most important. But nonetheless, there are real concerns about China in the world market. One of these has to do with labor and environmental standards, or rather the lack of them in China. An extreme example of course, is the allegation that Chinese firms use forced labor, but even beyond this are concerns about the working conditions for Chinese employees who are in the manufacturing sector.

Chad Bown:

So I think when we think about the labor issue with a country like China, there's maybe three different types of concerns that one might have, some of which we need to be worried about and others that we don't. So one is that China has relatively lower wage workers, but that's for economic reasons. They have less education, they have less access to the machineries and the equipment needed to be able to produce goods. As a result, they're paid less. That's not something that we should necessarily be worried about. It's also something that's been changing over time. As Chinese workers have attained more skills and more education, their wages have been growing. The ones that we probably need to worry about are like the following. If at the same time, some of the result of the low wages is because of wage suppression, the inability of workers to be able to unionize, collectively bargain, represent themselves because the Chinese communist party or the government more generally is oppressing them, then that is a separate concern and that's something that we need to be worried about.

Chad Bown:

Then finally, I guess the last one that may be somewhat specific to the current Chinese context and debate is concerns over forced labor. Some of those that are arising in one particular region of the country, the Shenzhen region where China has reportedly adopted a number of very strict policies toward the minority Muslim population, the Uighur population there where it's forced them into retraining programs, detention facilities, reeducation programs, and then after that, forced them essentially into certain types of work that they might not have voluntarily themselves chosen to go into. As a response, the United States starting essentially last year began to impose import bans on certain products coming in from that region; cotton products, products that are made using tomatoes, that were reportedly produced using this type of forced labor. So I think this is a concern and governments are kind of waking up to this concern and beginning to implement policies to try to address it.

Michael Klein:

A second concern, Chad, has to do with the appropriation of intellectual, either covertly or through rules that the Chinese government has put in place that force companies to share technology in, for example, joint ventures, if they want access to the Chinese market. What do you think about this concern?

Chad Bown:

So this is definitely one of the big concerns at the last US administration had and was forming the basis for all the tariffs that they imposed on China and ultimately, the trade war. I think stepping back from that, this is kind of a longer standing issue in development economics. If you think about China not as a strategic competitor or something like that, but just think about it as an emerging economy in the following way, China's worried about getting access to not only foreign technology, but also helping its citizens learn how to use that so that they can become more productive, so that their economy continued to grow, so that their workers can earn higher wages. It's really worried about what has become known as the middle income trap. It had a very creative set of policies in place to help transfer this technology, so the ideas of foreign companies.

Chad Bown:

The story is essentially they would have relatively high tariff barriers in certain products, meaning it was difficult to export those, say, from the United States or Europe or Japan into the Chinese market. If you wanted to sell them to China's 1.4 billion consumers, you would have to set up a physical plant located in China. But in order to do that, China might want you to form a joint venture with a local partner and sometimes that partner was a state-owned enterprise. The concern was that over time, the partner would either learn how to make the good by themselves or otherwise appropriate the technology. So maybe four or five years later, they don't need the original Western company. They don't need the American or the Japanese or German company. They can just do it themselves. So then you would be ultimately losing your technology. This was part of, I think, one of the sets of circumstances, which ultimately led the last US administration to impose all of those tariffs during the trade war.

Michael Klein:

A third concern and the last one I'll mention today, Chad, is that companies in China are unfairly aided by their government subsidies. This includes not only direct subsidies, but also indirectly through cheap finance through government run banks and cheap energy by government run energy providers. What about this concern?

Chad Bown:

So this is another really, really big one, and this gets to the issue of some of the incompatibilities potentially between market economies like what we have in the United States, Europe again, Japan, more sort of Western economies and the Chinese system where you have state-owned enterprises, which may not be forced to operate under the same sort of profit maximizing conditions say. So why might this matter? There's a number of different reasons, but one is suppose there's a negative economic shock experienced by the whole world and you would expect all firms in countries around the world to have to respond to that equally; cutting back their production, laying off some workers, so that everybody has to bear a brunt of the costs.

Chad Bown:

Well, if under the Chinese system, they're state-owned enterprise, these are private firms, they're less at risk of going bankrupt. They can rely on the Chinese government to subsidize them, that they don't have to necessarily lay off workers. They can kind of keep employing people and they don't absorb necessarily their fair share of these bad economic shocks. So there's this, I think, this question out there in the trading system now, which is when you have a major player like China that is a non-market economy, is it still feasible to have the same kind of trading rules that we've had running the system for the last 70 plus years in place? Or do you need new rules? This is one of the debates that I think is taking place right now as we think about how to accommodate China and China's system in with the more established players out there in the trading system.

Michael Klein:

So let's shift gears a little bit at this point. The zero-sum game analogy, as I said, is not really necessarily so good for thinking about China, but also, as I mentioned it, maybe it's not such a good way to think about the production and deployment of vaccines. Today, there seems to be a need for cooperation among countries in fighting COVID-19. The rapid discovery of vaccines is truly remarkable and it's a Testament to human ingenuity and recent advances in science. The key challenge that remains is that the vaccines, while having been developed, need to be produced and deployed. You've written, as I mentioned, some articles in foreign affairs about this. What are some of the key issues?

Chad Bown:

So I think the first one is just to highlight the exact point that you led with, which is this one that nobody is safe until everybody's safe. This is a global pandemic and it's not as if we can wall ourselves off and say, "Okay. China, you go live on this part of the planet. We'll live in this part of the planet and we don't have to interact with each other." No, these viruses can spread. So we have to deal with the health consequences everywhere through cooperation. Now, when it comes to the process of getting vaccines out to the world, which seems to be the main way in which we're going to get ourselves out of this pandemic, it's really, really tricky because vaccines are unlike any other pharmaceutical product in that they're extraordinarily challenging to develop in the first place.

Chad Bown:

So it's amazing that scientists were able to invent them so quickly, but even once they done so, what makes them unique is that they're not like a recipe that you can kind of just write down the chemical compound and hand it to somebody and say, "Look, now everything that needs to be known. You can go off and make this yourself." Now, there's only a handful of countries in the entire world with the technical capacity, the regulatory environment, and then all of the inputs necessary to be able to manufacture these things. What that means then ultimately is the only way the world is going to get out of the crisis is through international trade. Now, luckily the United States is one of the countries that has developed and is manufacturing these vaccines. China is as well.

Chad Bown:

One of the concerns with the Chinese vaccines is we're a little less clear about their data, about their efficacy, about how they perform under certain conditions. So there may be more hesitancy around the world for some folks to take up those particular vaccines. But the point is they're two of the very few countries around the world that are ultimately going to be the ones on which we're reliant for manufacturing, but then that also means they kind of can't hoard these things themselves. Right now here in the United States, we're not actually exporting the vaccines that we manufacture. We're all desperate for them. I understand that, but we're keeping them ourselves. I think ultimately to get out of this as the pandemic continues and you have more variants of the virus that are coming online, we're going to have to figure out how to vaccinate the world sooner rather than later.

Michael Klein:

So you're arguing against what some people call vaccine nationalism where you're prioritizing one's own citizens and putting them at the head of the line for vaccination. You're doing this by describing that we're all in this together. What are some insights from economics and perhaps international trade in particular that help us understand this issue, vaccination and its production and deployment and the general worldwide health concerns about it?

Chad Bown:

So another particularly kind of quirky element of vaccine manufacturing, that's interesting is it involves supply chains. So it's a very fragmented industry. As I've researched this, what I've learned is kind of people have in mind the big, global, giant pharmaceutical company, right? Just kind of doing everything start to finish and they're the big behemoth out there in the world. That's not really how this world works. You have these biotechs that are the ones that have invented the vaccine. With the exception of Pfizer, say, which itself didn't invent the vaccine that they're manufacturing, they have a licensing agreement with BioNTech, this German biotech firm for their vaccine. Basically, all the rest of them, these biotechs have been partnered with smaller contract manufacturers to be able to do the manufacturing, to do the last step of the manufacturing, which is to put the vaccine ultimately into vials and to have it for distribution. This is called the fill and finish stage.

Chad Bown:

So much like many industries around the world, you don't have these kind of big vertically integrated firms anymore. You have lots and lots of players in a supply chain. Outside of, say, the United States, a lot of this is going to be happening across borders. So you might have one firm that's in charge of developing, say, and manufacturing the antigen, but then it goes to a different country where it's going to be needed to put it into the vials and you're going to have to get those vials and the needles and the syringes from a third country. So all of this to say is globalization and cross border supply chains, I think, are going to be part and parcel for how it is that ultimately we're going to scale up manufacturing to be able to get us out of the pandemic at least on the health side.

Michael Klein:

One solution that people are considering, in fact, trying to put into place is cooperative agreements that are enforceable, COVAX, for example. What is COVAX and how does it work? And is it in fact working the way people have been hoping that it would work?

Chad Bown:

So COVAX is an arrangement that began very early on in the pandemic between the World Health Organization. So you can think about them as kind of setting the regulatory environment for the public health side, "This is what we need to be able to qualify for having an acceptable vaccine." These are kind of the scientific hurdles that you have to go through. Yes, we have this in the United States through the FDA. Yes, you have it in Europe, but this is kind of the global oversee your regulator for that. You have CEPI, which is an organization that tried to help facilitate both the development of vaccines initially, and then their manufacturer. So it worked with universities and researchers and some of these smaller biotech firms, and then some of the ultimate manufacturers in kind of a matchmaking process to come up with a diverse portfolio of vaccines.

Chad Bown:

Again, remember back a year ago at this time, we had no idea if any of these vaccine candidates, and there were 100, 200 that have kind of been trying to make it along the way and we now have four or five or six or so that are accepted or very close. So many of them failed. They developed a portfolio of potential vaccines, hoping some of them would succeed. Some of them did succeed and they're helping now to try to facilitate the manufacturing. Then you have the third leg, his organization called Gavi, The Vaccine Alliance, and they're really trying to work on the distribution, getting an equitable distribution and funding, especially for poor countries around the world that wouldn't otherwise given their own resources, be able to... They certainly can't produce it themselves, but probably buy all the vaccines that they would need for their as well.

Chad Bown:

So they have worked together to try to come up with this cooperative system of matching the ideas with the producers, with the regulators and on the demand side with all of the countries that are going to need these things, but they've kind of run into some problems because while the framework is there, they haven't actually been given the vaccines. So in many respects, the countries in which these things are being manufactured, the United States or the European countries, because we're largely keeping them for ourselves, we're not turning them over to this global effort, this global body that might allow them to be allocated around the world to help put out the pandemic everywhere. So while it's a great idea in theory and it's waiting to be taken up, the big players in the world community really haven't grabbed it with both hands yet.

Michael Klein:

Chad, thanks for drawing these parallels between issues in international trade and issues having to do with vaccine production and deployment. One clear parallel is both of these are using lots of acronyms. So that is something that I guess came naturally to you as a trade economist as you started to study vaccines.

Chad Bown:

Absolutely. If you want to go into the area of international anything when it comes to policy, get used to the acronyms, I guess, is the story.

Michael Klein:

I'll say TYVM, thank you very much for joining me today. It was a really interesting and informative conversation.

Chad Bown:

Thanks for having me.

Michael Klein:

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