EconoFact Chats: U.S. and China: Trade and Trade Wars  
Gordon Hanson, Harvard Kennedy School  
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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 perceived effects of international trade on jobs in the United States, especially trade with China, has led to protectionist calls from both Democrats and Republicans. Candidate Trump promised to, in his words, ‘fix trade’ in order to ‘bring jobs back.’ As President, he followed through, imposing tariffs in 2018 and 2019. Did these policies in fact increase employment? Did the subsequent retaliatory tariffs by China and the European Union harm employment? And what was the political fallout from this trade war? To address these questions, I'm very pleased to welcome to EconoFact Chats Professor Gordon Hanson of the Kennedy School at Harvard University. Gordon co-directs the Reimagining the Economy project at the Kennedy School. He's widely recognized as a leading expert on the topic of the labor market consequences of globalization. Gordon, welcome to EconoFact Chats.

Gordon Hanson  
Thanks very much for having me on.

Michael Klein  
A lot of the political controversy with trade focuses on imports from China. What is the background on this? How much has trade with China increased over the last three decades? And what types of goods do we import from that country?

Gordon Hanson  
Go back to 1990, the world was really a very different place. China accounted for just over 1% of global exports of manufactured products. Over the next 15 years, China would just blow up, becoming the world's factory, reaching manufacturing exports which now total almost one-fifth of the world's total. During all of that, what happened was tremendous disruption for the global economy, the impacts of which depended on whether you were producing the manufactured goods that China was also producing, in which case this meant factory closures, job loss, and a lot of economic pain. Or if you were producing the stuff that China needed to purchase to make all those manufactured goods, the primary commodities such as steel and copper and aluminum and so forth. If you were producing that stuff, then China's growth was just, China's growth meant boom times.

Michael Klein  
So your work with David Autor and David Dorn on the ‘China Shock,’ which was published in 2016, got a huge amount of attention. And it's related to that growth in the Chinese economy that
you were talking about. Can you please explain what the ‘China Shock’ was and summarize what you found in that research?

**Gordon Hanson**
Sure. It's pretty wild, but if we go back to 1970, U.S. and China had, for a couple of years there, no recorded trade. China was an incredibly closed off economy at the end of; kind of, the better part of three decades of Maoist central planning. And it was backwards. It was rural, and it was not engaged in global trade and investment. Over the course of the next two decades, China just transformed. After Mao's death, it moved to be more market oriented, to be open to trade and investment. And as foreign companies came in, the productivity of Chinese manufacturing increased dramatically. China then also began to allow workers to leave the farms, move to cities, work in factories. And that led to one of the largest increases in manufacturing output that we've ever recorded. And at the end of that process, which was driven primarily by China's own reforms, opening up to the rest of the world, we then got what we call the China trade shock.

**Michael Klein**
So there were labor market effects of that. Can you describe what those were?

**Gordon Hanson**
Well, if you were a region that was producing apparel or shoes or furniture or simple electronics, almost overnight, you know, in the space of well less than a decade, there was this tremendous increase in global exports of those goods by Chinese factories, downward pressure on prices, and that meant that those American factories in towns that were producing that stuff closed. And factory closure led to job loss. And that job loss, rather than leading workers to producing new stuff, became endemic. So manufacturing job loss on one end, transformed into concentrated regional job loss on the other end.

**Michael Klein**
So you show in that work that trade with China had this adverse effect on local labor markets. A logical conclusion might be that the opposite should be true as well. Limiting trade with China should promote employment in those markets. And this was the thinking behind President Trump's move to raise tariffs – that is taxes on imports from China, but also tariffs on goods from the European Union. What in fact happened to tariffs in 2018 and 2019?

**Gordon Hanson**
Well, the U.S. had spent the better part of four decades lowering trade barriers with respect to the rest of the world, such that average tariffs on imports in the US were just a couple percent. And that included trade with China. In the space of two years, we increased tariffs on Chinese goods from 2% to 25% almost across the board, with some exceptions here and there. So it was a really dramatic increase in trade barriers. That increase in trade barriers, however, did not then turn around and help bring manufacturing jobs back to the places that had been producing those goods before the China shock.
Michael Klein
And your research, you and your co-authors show that there were differences across the country in terms of the targeting of import tariffs. And tariff protection was targeting certain states and localities. Which were those?

Gordon Hanson
Well, the places that purportedly would have benefited from that trade protection were the ones that were producing those sorts of manufactured goods now in much less quantities than before China's rise. And they are predominantly the industrial regions of the Midwest and the Northern Southeast, places that became part of America's industrial heartland over the course of the 20th century.

Michael Klein
So you've alluded to this. Your new research with David Autor, David Dorn, and Anne Beck shows that these tariffs did not raise employment, in fact, just the opposite. Can you describe what you found?

Gordon Hanson
Well, in the places that were producing manufacturing goods, that then should have enjoyed increases in trade protection and possibly a boost to employment, what we saw were effectively zero employment impacts. So slapping tariffs on Chinese goods did not bring jobs back that had been lost to Chinese imports a decade or two decades previously. China then retaliated, putting tariffs on U.S. exports of goods to China. U.S. doesn't export a lot in the way of manufacturing. What we primarily export when it comes to goods is agriculture and mineral products. And there were substantial decreases in U.S. exports of those goods to China, and that did lead to job losses in places that had been producing those primary products. Now, there was some recovery from those job losses that came from subsidies that the U.S. government provided to regions that were hurt by China's retaliation. So as we net across the impacts of U.S. import tariffs, China's retaliatory tariffs, and those subsidies, what we get is pretty much a null effect.

Michael Klein
A null effect but at the cost to the U.S. taxpayer of subsidizing farmers and also of higher prices for goods, right?

Gordon Hanson
Absolutely. So, on net, what we get is a decrease in aggregate income because we're shelling out money for those tariffs, and we're shelling out money to make farmers whole.

Michael Klein
So Gordon, why would it be the case that the tariffs didn't raise employment? Why wouldn't it be symmetrical to greater trade with China, lowering employment, less trade, raising employment?

Gordon Hanson
Three reasons, and we see evidence of the first two. The third is a little bit harder to assess. Reason one is that we just put tariffs on imports from China and we did hit some other countries too, but primarily we were blocking imports from the Chinese mainland. And what that meant
was, well, we could import similar goods from Vietnam or Mexico, or other places and China actually expanded its footprint in those countries. So, there was trade diversion, which lessened the bite of the tariffs in the first place. Second reason is that when you think about the jobs that were lost in manufacturing as a consequence of the China trade shock, they were in 20th century factories that were much more labor-intensive than the factories of today. So, we did see, kind of modest increase in sales in industries that were benefiting from these tariffs, but that would have meant very little change in employment because of that increase in labor intensity. And then the third reason is that there was just a lot of uncertainty about the longevity of these tariffs. This is Donald Trump deciding from one day to the next that he wants to launch a trade war with China and business didn't know whether these tariffs were going to last for a year, two, three, four. Now, those tariffs have endured. We still haven't seen a return of those jobs. So that third reason about uncertainty seemed possible at the time. It seems less of a factor as time goes forward.

Michael Klein
On the second point, Gordon, we have a memo, one of our first memos, at EconoFact actually, by David Deming about the decrease in manufacturing employment, and how that's linked to automation. So, I guess the second point, that these companies weren't as labor-intensive, that's related to the rise in automation as well, right?

Gordon Hanson
It is. And that's something that's been going on for a long time. And what that means is, as the U.S. thinks about how to bring manufacturing jobs back, something the Biden administration says it wants to do, that Trump has promised he'll do, and has been promising to do, it gets harder with each successive year because technology moves in a direction that makes manufacturing production ever more intensive in capital.

Michael Klein
I'd like to ask another point along these lines as well. One of our most read memos is by Kadie Russ and Lydia Cox. And it shows that for every job in steel production in this country, there are about 80 jobs that use steel as an input. So, an increase in the price of steel has adverse effects on steel-using industries. Was that part of the problem with jobs not coming back as well?

Gordon Hanson
It could be. Imports from China are not just goods that consumers buy at the grocery store or at a department store. They're goods that U.S. manufacturing industries use as inputs to make stuff that they then sell either at home or abroad. We tried to get at this channel, this supply chain channel. It was hard to do. So, what we got were results that look kind of noisy. Other research has documented more of a link there. That it looks like manufacturing costs for American producers did rise as a consequence of those tariffs, and that increase in input prices, did ding their production somewhat.

Michael Klein
So, you mentioned retaliatory tariffs. Can you explain what you mean by that and what the effects of these were? You alluded to it a little bit. Maybe you could expand on that?
Gordon Hanson
So, when you have a trade war, one country starts by saying, I'm going to make it more expensive for you to ship your goods to my consumers. And we do that by applying import tariffs at the border. Retaliatory tariffs are then your opponent in the trade war doing the same thing. So, saying, I'm going to make it more costly for you to send your goods to us. So, in the U.S. case, that was primarily tariffs on imports of Chinese goods. And in China's case, it was primarily tariffs on imports of agricultural products coming from U.S. farms.

Michael Klein
So, these retaliatory tariffs, as you mentioned, led to problems in the agricultural sector, which the Trump administration addressed by subsidizing farmers. Can you describe what the employment effects of this were, and how expensive were these to the taxpayer?

Gordon Hanson
Well, as U.S. farmers saw this increase in tariffs in the Chinese market, you might have thought, well, they could have just sent their goods elsewhere, diverted trade to other countries. And it didn't happen, which is something of a surprise, which suggests to us that the Chinese market is pretty special for American producers. What that meant was those tariffs led one for one to decreases in production and then employment in those farm growing regions. The Trump administration tried to figure out where those farmers were likely to be. And they did this really fast with data that was incomplete about who was actually going to be hurt by those tariffs. And they came up with a formula, which sent subsidies to counties that the Trump administration estimated would have been the most adversely affected. That targeting, as we document in our paper, was pretty imperfect. So, there were lots of places that were hurt by China's retaliatory tariffs that didn't get subsidies and places that weren't all that hurt that did.

Michael Klein
So, I'd like to shift gears a little bit now. Another fascinating part of this research project that you've been involved in is that you looked at the political effects of the imposition of tariffs. I would have thought as an economist that a lack of job growth would translate into little political support for President Trump and the Republicans who supported the tariffs. But I guess that's why I'm an economist and not a political scientist. Can you describe what you found?

Gordon Hanson
We looked at voting patterns in places that our framework indicated would have benefited from Trump's tariffs, and places that our framework would have indicated would have been hurt by China's retaliatory tariffs. And what we saw was an uptick in support for non-democratic electoral candidates. So, this would be Republicans running for Congress, or votes for Donald Trump for President in 2020. And lo and behold, places that should have benefited from those tariffs increase their political support for Donald Trump, and in voting against democratic candidates for office. So, the political salesmanship of Trump's trade war seemed to work even if as economic statecraft it wasn't that effective.
**Michael Klein**
So, in summary, there wasn't much of an effect on jobs, but there was an effect on votes.

**Gordon Hanson**
There was an effect on votes. It wasn't huge. So, what we detect is about a 0.7 percentage point swing as a consequence of these actions in total. Now, 0.7 percentage points in a closely contested election could matter. We have no indication that these tariffs were a deciding factor, but they did seem to help Trump and the Republican Party electorally in 2020.

**Michael Klein**
Did you find a similar effect of the subsidies?

**Gordon Hanson**
So, what the results I'm just quoting for you kind of combine the positive effects of Trump's import tariffs, the negative effects of China's retaliatory tariffs, and the positive effects of Trump subsidies, on voting patterns. That is, on net you put those three things together and it looks like a net positive.

**Michael Klein**
So, I already declared I'm an economist, not a political scientist, but that's true of you too, Gordon. But do you have an opinion why these political effects occurred in the absence of economic effects?

**Gordon Hanson**
Well, Trump was providing a narrative for which there was already audience. And that narrative was, much of America's industrial heartland had been hurt by globalization. And our research suggests that that's in fact true. And he said, I'm going to do something about it. And I'm going to do something that seems on paper at least, to be effective, to be fighting for the American worker. And that is to keep Chinese goods out. So, I think as a campaign device, as a strategy for convincing people that he's going to stand up against the rest of the world sending its imports to the United States, the Trump trade war was pretty effective. With time, I think people will learn that we haven't seen recovery in those places, and the support he might have gathered at one moment in time will weaken. But that didn't matter in 2020. The message was recently enough given that it had an electoral payoff.

**Michael Klein**
So, it didn't matter in 2020. Does it matter in 2024? President Biden recently directed increases on the tariff on Chinese electric vehicles, lithium-ion batteries, battery parts, and graphite, which is used in the batteries. Do you think that the political and economic effects you found for the tariffs that were put in place in 2018 and 2019 will also arise with these policies by a democratic president?

**Gordon Hanson**
I'm not sure. I think I'd be skeptical that they will. And the reason for that is, as of now, U.S. imports very little in the way of electric vehicles from China. So, the threat of imports of cheap Chinese electric vehicles is something that is still off in the future. And as a consequence, may
not be as concrete in the minds of voters from places that have begun to produce EVs. The fact that we're dealing with possible future scenarios may dent some of the political gains to the Biden administration from these actions.

Michael Klein
So, is this a little bit like the idea of loss aversion that you saw when jobs went away that affected you a lot, but the idea that there were jobs that are being created, but they weren't there before, might not matter as much?

Gordon Hanson
Yeah, I think that's a good way of looking at this.

Michael Klein
So, Gordon, finally, I'd like to ask you a broader question. Your research and that of others, along with the perceptions of unfair trade practices has fueled a move away from free trade. As I mentioned in the introduction, Donald Trump ran on a policy of what he called ‘fixing trade.’ And now President Biden favors what he calls ‘managed trade’ or ‘friend sourcing.’ But economists tend to support free trade. Do the economic arguments for free trade still stand up to scrutiny?

Gordon Hanson
They do. As a long run goal, free trade is something that will kind of increase the size of the global economic pie and would make the U.S., as a whole, better off. The question is how you get there and how you compensate the people whose lives might be disrupted by moving toward a world with freer trade. We've known for, since the time of David Ricardo kind of created the concept of comparative advantage 200 years ago, that globalization creates winners and losers. We are really bad at compensating the losers from globalization, either in the aftermath of the China trade shock, the aftermath of the North American Free Trade Agreement, or other big changes in global trade policy. As a consequence, I think the American public is skeptical about the promises that our leadership makes about the benefits of free trade, because we see the losers, their losses are real, and we've done little to make their lives whole in the aftermath of the pain that they've suffered.

Michael Klein
Do you think trade has become a scapegoat? Because, as I mentioned earlier, there are also these issues of automation, for example, or even just changing tastes. So is trade because it's with the other something that's convenient for politicians to point to, whereas they wouldn't say, well, we should destroy all the computers?

Gordon Hanson
So, trade is a convenient target, in part because changes in trade policy tend to be big, discrete things. We sign the North American Free Trade Agreement. China joins the WTO, and then we see goods start to enter the country in a big way. When it comes to technological change, it's a lot harder to pinpoint. We can say, you know, AI is having this moment, Chat GPT is everywhere, but dating when automation started to cause job loss is a tricky thing. That makes it easier to target imports, easier to target foreign trade in rhetoric about recrafting U.S. economic policy
than it is in terms of coming up with a coherent agenda regarding redressing the adverse consequences of technological change.

Michael Klein
So, these are really important questions, Gordon, and I very much appreciate the research that you've done to help illuminate answers to these, and also very much appreciate you coming on to the podcast today to talk with me about these issues. So, thanks for joining me.

Gordon Hanson
Thank you, Michael. It's been a real pleasure.

Michael Klein
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