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Cato Institute researcher: 'China Shock' was not a disaster for U.S.

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The “China Shock” — the decade following China’s formal entry into the world trading system marked by its admission to the World Trade Organization in 2001 — has been decried by Republicans and Democrats alike as a disaster for American manufacturing and for the U.S. job market.

But Cato Institute researcher Scott Lincicome thinks the conventional wisdom is wrong. He spoke with Washington Times’ reporter Anna Dollar about his findings.

What got you interested in researching the ‘China Shock’?

‘As an international trade lawyer and a policy [advisor], the China Shock literature was pretty groundbreaking and pretty shocking for my profession and for the industry, in the sense that it gathered a lot of mainstream media attention, even before the rise of Trump when trade policy became super-cool. That, in itself, was pretty startling. ... It also challenged a lot of mainstream assumptions about trade, mobilization and jobs, in the sense of there being a standard view in the literature that trade does actually affect the total number of jobs but also the types of jobs.

What was the most surprising thing to you from your research?

I think the most surprising thing was the numerous academic analysis that have come out since the China Shock was completed that showed clear economic benefits for the country from that import competition. ... The fact is, there were several studies that said, ‘Look! Yes, there was disruption, but at the end of the day, we came out better. The country came out better — even in manufacturing.’ And while that is, of course, cold comfort for the people who stuck to their jobs, it’s a pretty critical part of the China Shock narrative.

Why do you think so many in the U.S. get the story wrong?

I think there are three reasons. The first is that trade in general is an issue that is difficult to grasp and, quite frankly, not on the top of the mind of the vast majority of the American public. The simple narratives, like ‘Chinese imports destroy jobs’, resonate and it makes sense. And that’s about the level at which most Americans are going to dig ...

The second reason is that protectionism and the anti-trade narrative really lend themselves to a lot of political demagoguery. Beating up on foreigners is a classic political maneuver going back to the founding of the country. Then, it’s especially [powerful] when you can point to specific

individuals and specific communities that have been hurt, disrupted. Whereas, on the flip side, the free trade side of that is far more difficult to identify and simply not as powerful. It's hard to say, 'Everybody got \$250 dollars every year for the rest of their lives' — and that's just the tangible benefits. ... You can't point to the increased competition and encouragement to innovation. Look at the better jobs that were produced a thousand miles away ...

Lastly, [the anti-trade narrative] resonates because it is China. It is undeniable that China particularly, in the last two years, has engaged in a ton of really bad behavior. Whether it is human rights abuses, foreign policy adventurism, global health transgressions, you get the idea. That, I think, amplifies it even more.

How important do you think it is for people in the U.S. to be familiar with this story?

I think it's important in the sense that as long as the China Shock and [preferred trade status] are a narrative are used to justify other policies, I think it's quite important for us to have an accurate account of events to record. The fact is, the China shock itself ended about a decade ago by almost all accounts, but [Sen. Josh Hawley, Missouri Republican] just a few weeks ago was on the Senate floor citing the exact argument as a reason to withdraw the United States from the World Trade Organization. As long as this narrative is the basis for policy proposals, it's important to know the facts.

What does your research suggest for U.S. trade and China policy going forward for a President Trump or a President Biden?

Quite frankly, I don't know if it will resonate with either, unfortunately.

The fact is that the political narrative right now is such that both campaigns appear quite willing to engage in economic nationalism and economic populism regardless of the facts, data, or historical record. Biden is not going to be a free-trader, at least on the campaign trail. And Trump is Trump ...

I am not hopeful that either presidential campaign or administration in 2021 is going to suddenly have a revelation regarding the nuances of the China Shock. I think that is particularly going to be the case because, as we noted, China's behavior has been extremely worthy of intense criticism. My only hope is that somewhere is someone who reads it and can at least temper the actual policy proposals, if not the rhetoric.