

Get a fresh start.



Choose your FT trial

Opinion **US manufacturing**

The 'China shock' has not been as bad as Donald Trump thinks

Growth in service sector jobs belies the president's vision of American 'carnage'

GILLIAN TETT



While so-called manufacturing jobs have shrivelled, this does not capture what has happened to 'manufacturing firms' © Bloomberg

Gillian Tett AN HOUR AGO

If you were to ask most ordinary American voters what has happened to their country's manufacturers in recent years, they might howl with horror or mutter about "carnage".

After all, [Donald Trump](#) swept to power alleging that Chinese competitors have "killed" American factories and jobs. Hence the simmering US-China trade war, and this week's [high-stake talks](#) in Beijing.

But if you want a more accurate picture of what Chinese competition has done to US industry, it is worth looking at some material presented at last weekend's American Economics Association's convention in Atlanta.

In recent years, an army of economists has analysed the issue that sparks Mr Trump's ire: the impact of Chinese competition on America. And while this number-crunching supports the

Feedback

from manufacturing to services.

Let us start with the place where the facts back Mr Trump. Yes, in recent decades, the US has seen traditional manufacturing jobs shrivel dramatically. Moreover, studies by economists such as [David Autor](#) show this decline was most stark in regions and industries exposed to Chinese competition.

Sometimes this was because American factories closed their doors, or moved overseas. But, as the economists Teresa Fort, Justin Pierce and Peter Schott [told the AEA](#), US companies have also replaced human workers with robots at home, often to cut costs because of overseas competition (and, as they stress, it is often hard to disentangle precisely whether it is robots or trade displacing most jobs).

This process often inflicts enormous local pain, or the economic “carnage” that Mr Trump talks about. A second paper co-authored by Prof Autor and presented to the AEA shows that this shock is correlated with a collapse in marriage rates (because it is mostly the men, not women, who lose work, making them less attractive partners). Other research also shows correlations with rising opioid addiction and child poverty rates.

Worse still, the impact of a “China shock” is magnified across the economy by house prices, as the economists Robert Feenstra, Hong Ma and Yuan Xu told the AEA.

This all makes for grim reading. But there is also a big caveat — more accurately, a silver lining to this cloud — that Mr Trump has hitherto ignored: while so-called manufacturing jobs have shrivelled, this does not capture what has happened to “manufacturing firms”.

Calculations from Profs Fort, Pierce and Schott show that between 1977 and 2012, the number of “manufacturing firm workers” employed in “manufacturing plants” halved from just under 20m to nearer 10m. However, the employees in “non-manufacturing plants” that were owned by “manufacturing firms” rose from 13m to 23m, primarily due to an explosion in service sector jobs such as design and IT.

As a result, by 2012 the US’s “manufacturing” companies employed slightly more workers than in 1977. Moreover, that was not because of business churn: 75 per cent of the “manufacturing” job losses in this period occurred at companies which remained in business, and it was the incumbents which opened most of the non-manufacturing plants.

In plain English, this means that as Chinese competition hit, America’s “manufacturing” groups quietly re-engineered themselves. Yes, they might call themselves “manufacturers”, and be defined that way in the data. But they increasingly hire service-sector workers, as their output soars. This week’s announcement from [Apple](#) that it is shifting its focus from hardware to services is symptomatic of a significant trend.

That will not comfort old-style “manufacturing” workers. Research by Nicholas Bloom, Kyle Handley, Andre Kurman and Philip Luck shows that in parts of America, vanishing manufacturing jobs have been replaced by new service work. Not so, however, in the poorer regions of the American south and midwest. Hence the pockets of economic pain — and voter fury — that Mr Trump has played on.

But for the US as a whole, the moral is clear: if the president is to help the workers in American “manufacturing” companies, he should spend less time raging about widgets, and more time talking about services. That may not make for a good photo opportunity, but it reflects the real future of American “manufacturing” growth.

gillian.tett@ft.com

Get alerts on US manufacturing when a new story is published

Get alerts

[Copyright](#) The Financial Times Limited 2019. All rights reserved.

Latest on US manufacturing

Follow the topics in this article

Gillian Tett

US manufacturing

US-China trade dispute

Donald Trump

Feedback