BOSTON UNIVERSITY Global Development Policy Center

GEGI WORKING PAPER • 09/2020

Is China the Villain? Jobs, Wages and Building a Better U.S. Policy toward China

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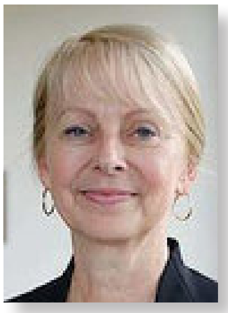

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SUMMARY

The COVID-19 pandemic has given rise to a blame game between the U.S. and China, disrupting the urgently needed international cooperation to control the spread of the disease and accelerate efforts to find and distribute affordable vaccines and treatments.

The current finger pointing has exacerbated bilateral tensions that were already flaring as a result of two intersecting forces. First, President Trump blames China (as well as Europe, Mexico, immigrants and others) for many U.S. problems that were made in the U.S., including the offshoring of jobs by U.S. firms and the botched handling of the pandemic. Second, the military-industrial complex and foreign policy hawks in the U.S. government have taken advantage of Trump's stance to hype alleged dangers from foreigners and thus justify aggressive international postures and huge military budgets.

This policy brief goes beyond these immediate triggers to probe deeper structural issues that affect the relationship between the two countries. The authors present trends in China that are well documented, but seldom discussed in U.S. discourse, including rapidly rising wages and investments in research, education and social protection. They further contrast these developments with a number

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of domestic policy failures in the U.S. that have created winners and losers and given rise to serious grievances that have been manipulated for political gains.

Looking ahead, the authors discuss the difficult recovery that all countries will face as they rebuild from the economic devastation caused by the pandemic. They argue economic recovery in the U.S. will require policymakers to discard the failed economic approaches that left the country so brittle in the face of the pandemic and instead engage in practical experimentation with policies that have worked in the past or in other countries. That in turn will mean abandoning nationalistic hubris in order to learn from positive experiences elsewhere, including China. Finally, the authors suggest ways that international cooperation could hasten recovery and the construction of a more equitable, robust and sustainable global economy, offering better support to working households and communities, both at home and abroad.

Coronavirus Politics

The tension between the US and China ratcheted up as a result of the coronavirus, as Trump and others asserted that China hid information from the world and allowed the virus to spread, or even claimed that the virus was a deliberate creation by China. In the fog of the early days of the pandemic, when little was known about the pathogen or its transmission to humans, these claims were credible enough to be widely repeated and entrenched in the public imagination. However, from the beginning, news reports by both western and Chinese media suggested that information was withheld by local health authorities in Wuhan from the central government, rather than a high-level failure.[1] A recent report by U.S. intelligence agencies confirms this view of events.[2] The delay in sounding the alarm for several days by local authorities in Wuhan, who lost their jobs as a result, was a highly consequential failure that contributed to the spread of the new virus. For perspective, however, it must be noted that authorities in some European countries and the U.S. also failed to recognize the severity of the disease as it started to spread in their own countries, allowing the pandemic to accelerate to punishing degree. By contrast, German health authorities took action as the earliest reports of a new pneumonia in Wuhan emerged on January 1, contributing to the country's relative success in containing the virus and limiting deaths.[3] Despite the initial delays, scientists have credited China for publishing the entire genome of the virus on international websites in record time, on January 10, 2020.[4] This has contributed to the record speed in development of vaccines and cures.

China had already been a favorite punching bag in several recent U.S. elections and 2020 promises to be an extreme version of this familiar cycle for the reasons noted above. Although the electoral moment will pass, the underlying tensions in the U.S.-China relationship have grown, creating economic instability and fanning nationalist sentiment in both countries. This will make economic recovery from the pandemic-induced recession even harder for the U.S. and global economies. On the current path, there is a risk that the antagonism could spiral out of control into a global economic contraction, destructive new cold war or even military confrontation.

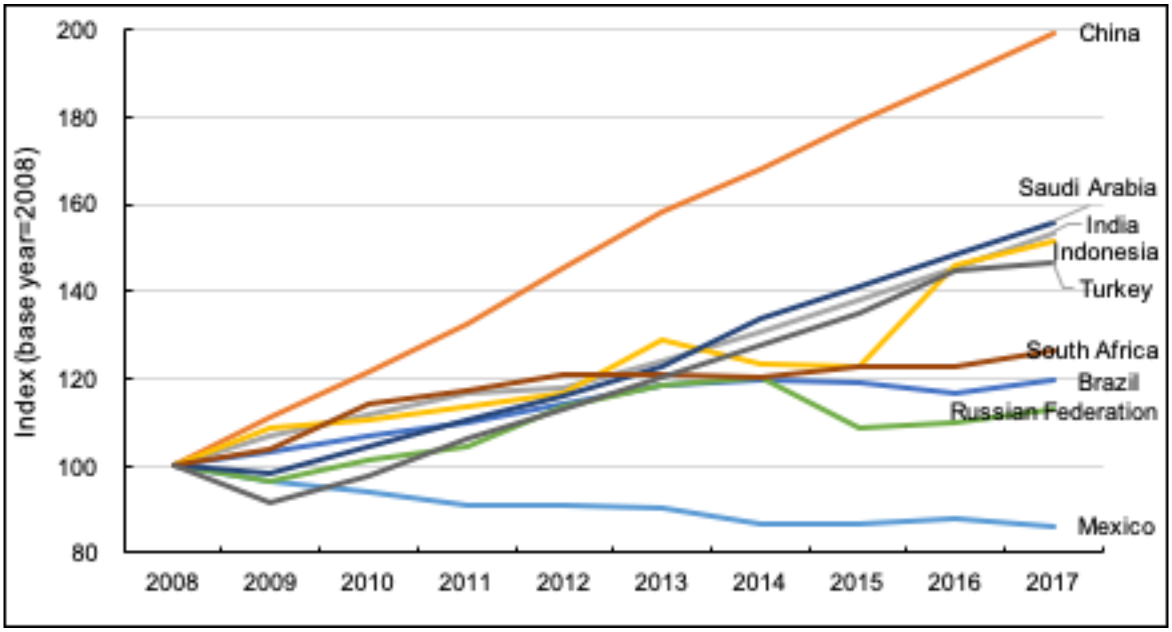
Wages, Jobs and Offshoring

Whipping up anti-foreign sentiment, xenophobia and racism is a familiar playbook for political figures with nothing positive to offer their electorates. However, some of Trump’s tactics find a receptive base in parts of the U.S. working class for reasons that need to be understood and addressed. A shift in U.S. economic policies beginning in the 1980s favored offshoring by U.S. firms, based on trade and investment agreements that protected their foreign operations and guaranteed access to the U.S. market for their overseas production. This coincided with China’s decision to join the global economy in the 1990s. As U.S. and other foreign corporations searched for cheap labor, they found it in developing countries like Mexico and particularly in China, because of the huge size of its labor force. U.S. corporations shifted jobs to the lowest labor cost locations; and for the jobs that remained, the bargaining power over wages shifted to employers who could threaten to move jobs offshore.[5] The result was an increasingly well-documented loss of employment and wage stagnation for large sections of the U.S. working class.[6] In hard-hit communities, this has translated into serious social and health setbacks that persist for years.[7]

These patterns have now been weaponized in U.S. politics as an anti-China narrative. But that narrative fails to acknowledge the role of U.S. trade and investment policies in facilitating the offshoring of jobs and the decisive role of U.S. and other multinational corporations in driving down U.S. wages. It also ignores more recent developments in China. Perhaps most notably, the Chinese government embarked on an ambitious and persistent policy to raise wages beginning in 2003. After years of double-digit wage increases, labor costs in China are now higher than those in Mexico and comparable to those in some eastern European countries. Sixty percent of Chinese workers were in the broadly-defined middle class by 2015.[8] The figure below shows the evolution of real wages in the largest emerging economies (those in the G20) over ten of those years.

China Has Lifted Wages and Increased Domestic Demand

Average real wage index for emerging G20 countries, 2008-17



Source: ILO Global Wage Report 2018/19[9]

What is striking is not only the dramatic increase in Chinese wages but the decline of wages in Mexico. Mexico pursued a policy of wage repression from the 1980s until 2018. As a result, Chinese manufacturing wages, which were about half the level of Mexican wages in 2003, were about 40 percent higher than Mexican manufacturing wages by 2018.

In addition to dramatically raising wages, China has also been building out its social security system of pensions and health insurance, although much remains to be done. It pursued these wage and social policies for its own reasons: to raise its citizens' living standards and to expand domestic consumption demand. The result of this determined policy shift is evident in the fact that domestic consumption has been the largest source of China's overall GDP growth for the last several years. By raising wages in a country with such a huge population, China has increased not only domestic demand but global demand as well, which creates export opportunities for other countries. China is the third top destination for U.S. exports, after Canada and Mexico, despite the disruptions caused by Trump's tariff wars. Exports to China currently support about a million U.S. jobs.[10]

It is essential to acknowledge that low wages in China, Mexico and other countries in the 1990s and early 2000's contributed to job and wage loss in the U.S., giving rise to grievances that are now manipulated politically. But an honest reckoning must start with the role of U.S. policy makers—who prioritized the interests of investors and employers over those of working households in U.S. trade, investment and foreign policy—and the decisions by U.S. corporations to pursue maximum profits regardless of the damage done to workers and communities at home. Blaming China ignores the fact that at a time when the U.S. government and U.S. corporations were breaking down the post-war social contract with American workers, the Chinese government was beginning to construct a new social contract with its own people.

Like the United States in the post-war and some earlier eras, China's strategy since the 1980s has been to invest heavily—at more than 40 percent of GDP in some decades—in infrastructure, industry, research and innovation. These investments led to productivity growth that supported the wage increases discussed above. Even before China joined the WTO, U.S. and other multinational corporations flocked to invest in China despite strong conditions on the Chinese side, more than willing to trade their technology for access to the fastest-growing market and largest labor force in world history. China used the desire of foreign investors and producers to access its enormous market and labor force as leverage to develop its own productive capacity, to catch up with the global technological frontier, to create jobs for its huge population and to eliminate extreme poverty. Alongside the joint ventures and other technology-sharing arrangements that China required of investors, the country also invested heavily in its own research and development institutions, technology parks and higher education through public budgets and national development banks. China also kept a tight rein on its financial markets to ensure that credit and investment were steered into the domestic economy rather than seeking maximum profits abroad.

Blame Game

So, is China the villain? The U.S. and other nations have used industrial policy, subsidies, tariffs and other strategies similar to those of China to build their industries and global market share. But once they thought their own corporations would forever have the upper hand, they started to push through more restrictive rules in the WTO and bilateral trade deals to deny such policies to developing and emerging economies. On the domestic front, the U.S. government pursued an almost opposite economic policy course to that of China beginning in the 1980s, cutting back government investment in infrastructure, research and innovation. It deregulated financial markets, allowing financial firms to maximize profits anywhere without consideration of domestic interests in jobs and incomes. It severely weakened protections for labor, leading to wage stagnation in the U.S. while China was raising wages dramatically. The Trump administration has given firms even broader scope to continue driving down wages and making jobs more insecure and precarious than ever, through deregulation and anti-labor appointments to agencies that are supposed to protect workers and wages. Some firms profit as a result, but the broader U.S. economy and working households are harmed.

Now China is doubling down on a new round of investment and innovation. As Trump denies the science of climate change and western companies use investor rights under trade deals to stamp down attempts to reduce the use of fossil fuels, China accepts the inconvenient truth of climate change, caps the use of fossil fuels and invests in renewable technologies that have become the envy of the world. As the U.S. puts vaccine development against the coronavirus in the hands of private firms racing for maximum profit, China has coordinated its own vaccine development process and has publicly stated that its COVID-19 vaccines would be a global public good.[11] The U.S. recently announced that it will not participate in the Covid-19 Vaccines Global Access (Covax) Facility, a coordinated global effort to speed development and manufacture of such vaccines, secure doses for all countries and distribute them to the most high-risk segment of each population.[12]

A significant part of the current tension between the U.S. and China stems from these fundamental contrasts between the U.S. market-led, profit-maximizing approach and China's state-led development approach. Today, many of the policies that could correct some of the most serious problems facing the U.S. (rising inequality by class, region and race, huge wealth concentration, climate change) require a more government-led approach rather than the small-government, free market fundamentalism of the last four decades. Progressive candidates and the public should be thoughtful and careful about how they wish to align on U.S. policy toward China, because many of the objectives that Trump seeks are antithetical to the interests of American workers and communities. His administration's trade template seeks to constrain governments' intervention in the economy and foster convergence toward lowest-common-denominator regulations for the benefit of U.S. firms abroad. These policies are not in the public interest in the U.S. and not in the public interest elsewhere.

Time for a global wage increase?

China's dramatic wage increases also created space for other emerging and developing countries to raise wages without sacrificing their competitiveness. In Mexico, the new government of Andrés Manuel López Obrador reversed his predecessors' policy of wage repression and dramatically raised the country's minimum wages in 2019 as one of its first acts in office, including by doubling minimum wages in the region along the U.S. border. It increased all minimum wages a further 20 percent in January 2020. China's actions also opened policy space for lower-income countries and some chose to use it. For example, in the apparel sector, Cambodia and Vietnam followed China's lead and sharply raised minimum wages, while Bangladesh continues to pursue an extremely low-wage strategy.

These examples show that even in a tightly integrated global economy there is obvious room for domestic policy choices regarding wages and social issues. A coordinated effort to raise wages across the globe could build on what the Chinese, Mexicans and others have already done and help with the global economic recovery from the effects of the coronavirus pandemic. A good place to start would be at the G20, the group of the 20 largest global economies. An agreement to raise wages across those enormous countries could shift the entire global economy onto a recovery path based on increased incomes for hundreds of millions of working households, putting the world on a more stable and equitable footing going forward. Raising wages for workers serves as a reminder that trade need not be a zero-sum game, contrary to the Trump approach. Workers in one country don't need to lose for others to win. Lifting the floor under wages for all workers can create better quality jobs both at home and abroad.

Of course, this would require a radical change by Trump and the Republicans in the Senate, who have stubbornly maintained the extremely low U.S. minimum wage of $7.25 per hour. They refuse to take up the bill passed by Democrats in the House of Representatives to raise the minimum wage to $15 per hour.[13]

Calm and Pragmatic Policy Experimentation

Policy toward China, as toward other countries, should focus on legitimate goals and cooperation to address common challenges such as climate change and pandemic response. It should address legitimate complaints, such as theft of intellectual property, which occurs in China and other countries (including the U.S., as shown by recent cases in the tech and auto industries), rather than turning them into a cudgel that justifies nationalistic hostility. It should be consistent in calling out serious violations of human rights, which occur in China and many countries, as well as in the U.S. itself. It should not start from a preconceived notion that government intervention in the economy is inherently bad or wrong. China's policies to fund research and development, build infrastructure, support job-rich domestic sectors and direct finance to economic activity that benefits the country as a whole stand in contrast to the failure by the Trump administration to do any of these things.

The period of reconstruction after the pandemic should be used to reopen discussion of fundamental, long-needed corrections to economic and social policy. The discussion should not be hijacked by the proponents of the failed market fundamentalist approach that left the U.S. so vulnerable and brittle to the pandemic and its economic consequences. Nor can thinking people allow it to be hijacked by foreign policy hawks who try to whip up an us-versus-them approach and increasingly seem willing to risk military confrontation with a nuclear-armed power. Instead, the period ahead should be one of calm and pragmatic policy experimentation in the U.S., with a goal to build a more equitable economy. Learning from the wage policy choices of other countries, discussed above, is one example. It is not difficult to think of other useful examples from China and elsewhere of industrial policy, infrastructure policy and certainly now public health policy that can inform U.S. debates.

Finally, an international cooperation approach is essential to deal with the inherently cross-border challenges of pandemics and climate change and to build a more balanced, stable and sustainable global economy.

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