China Syndrome? Labour market effects of a greater trade openness in United States

Fabrizio Antenucci, Ph.D., Department of Economics, Roma Tre University

Abstract

According to the recent economic literature, international trade seems to have a significant influence on the US labour market, especially due to the import penetration of Chinese products. In particular, Chinese import would mainly have caused a strong employment contraction as well as a negative impact on the cumulated earnings of workers employed in the sectors most exposed to this competition (*China Syndrome*). Although it can be supposed that, in recent decades, international trade has had a negative impact on the labour market in the United States, and more generally in most developed countries, in this paper it is claimed that, from a theoretical point of view, import penetration does not represent an appropriate variable to detect the influence of international trade on the labour market.

To this regard, in the first section of this paper, it will be argued that in a neoclassical approach labour market effects of international trade should refer to the *Factor Content of Trade* and the Stolper-Samuelson theorem, and not to import penetration. It will be shown, however, how the analysis based on these indicators often cannot indentify a clear influence of international trade on the US manufacturing sector, sometimes giving rise to paradoxes. Such results would seem to be the sign of some possible criticalities in the theoretical assumptions of the Heckscher-Ohlin-Samuelson model.

In the light of these considerations, the second section proposes the evaluation of an alternative analysis tool, such as the trade openness index, which could exceed the limits of the *Factor Content of Trade* and the Stolper-Samuelson theorem within a neoclassical approach, but at the same time offer an alternative interpretation in a classical-Marxian framework. In particular, the free movement of goods, men and capital could result in the reduction of the bargaining power of those workers most exposed to international competition, affecting their remuneration negatively. In addition, the increasing fragmentation of production processes – revealed by the growing import of intermediate goods – could lead to a reduction in the demand for production workers. However, the expansion of international trade could favour

workers employed in complementary phases (nonproduction workers), both in terms of remuneration and employment.

In the third and last section, referring to specific occupational profiles, an econometric analysis – based on the specification of a fixed effect panel model – demonstrates the existence of a significant relationship between the trade openness index and the labour market (wages and employment), confirming the theoretical considerations previously formulated. Indeed, for the period 2002-2014, there is a negative influence of international trade on workers employed in production, transport and, in general, in those activities at the bottom of companies' pyramidal structure. Conversely, international trade seems to have a positive impact on wages and employment levels of managers and workers employed in the financial, R&D and computer science sectors.