

# The Dream Of New U.S. Manufacturing Jobs

WASHINGTON – We know that President Donald Trump pledged to renegotiate (supposedly unfair) trade agreements worldwide with the goal of re-balancing the U.S. trade accounts, while forcing companies to move lost U.S. jobs back to America.

## Millions of jobs

His narrative –accepted as truthful by millions of U.S. voters– is that America lost millions of jobs in the last couple of decades, while buying from China and Japan (among others) goods worth hundreds of billions, with no reciprocity, because incompetent U.S. trade negotiators (Democrats and Republicans) were so ineffective (in fact so stupid) that they allowed this disaster to happen.

## Brand new trade deals

According to the White House, the remedy is quite simple. You reopen old deals, get better terms through tough negotiations, and you force the offending countries (Mexico, Japan, China, South Korea, among others) to sell less to America, buy more from America, and spit back all the U.S. jobs that moved to their countries on account of badly conceived trade negotiations led by incompetent and unpatriotic Washington trade representatives.

## Not that simple

If it were indeed so simple. The problem is that jobs are not akin to cash that can indeed be moved from one country to another in a matter of minutes. Regarding the loss of U.S. jobs, the fact is that in the last 20 to 30 years millions of U.S. manufacturing jobs moved to China because of China's extremely low labor costs. At the time, this was a most

compelling reason.

## **Cheap labor**

American and other Western companies, always seeking new ways to keep costs and therefore prices down, chose China as their base of manufacturing operations because China's labor costs at the time were very low. Therefore, making industrial products in China –especially goods that required labor intensive operations– was comparatively quite cheap.

In a fiercely competitive global economy, all companies seek and want to take advantage of low production costs which allow them to sell at lower prices, this way undercutting their competitors.

All this happened in large measure because (after China joined the World Trade Organization, WTO, in 2001) the rest of the world accepted China as a member in good standing of the international economic and trading system.

No one seriously wanted to penalize made in China products because of the harsh working conditions in Chinese factories and China's rock bottom wages. Was that a bad decision? Possibly. Still, be that as it may, the long term consequences of that decision, for all practical purposes, are irreversible.

## **Trade war and no new jobs**

A trade war with China, while the notion seems appealing to many, would cause a huge global crisis (you can expect retaliations and counter retaliations). And it would not produce the effect that President Trump would like to obtain: millions of jobs, now held by Chinese workers, "returning" to America, while America enjoys enhanced prosperity, and a positive trade balance.

***And why is this impossible? In large measure this is due to***

*the cumulative impact of China's role as a global manufacturing hub. This enviable position led to the creation, over time, of complex supply chains that link Chinese factories, (and therefore Chinese workers), with a web of suppliers and vendors, within China and/or other countries in the region (Taiwan, Vietnam, Thailand, South Korea, and others). These sophisticated supply chains provide the components and semi-finished products that are finally assembled and completed in China. The finished goods are eventually shipped to the United States and other countries.*

This being the case, it is simply impossible, even if we assumed the unanimous will to do so, to yank the jobs now with any Chinese factory which performs the final assembly of industrial products and move them to America.

### **You cannot recreate complex supply chains at will**

And here is why. For this "operation" to be successful, one would have to move and/or recreate –from scratch– in America the entire supply chain that now supports that particular Chinese factory. And this would require the creation, here in America –again, from scratch– of fine tuned business relationships between the lead manufacturer and a brand new network of U.S. suppliers and vendors based on their proven ability to perform at the level required (quality, standards, specifications, delivery time) and at costs low enough to guarantee the competitiveness of the made in America finished product.

### **No U.S. companies operating in many sectors**

If this were not enough, given the lack of meaningful industrial activity in many of the manufacturing sectors that moved to China or elsewhere decades ago, many of the needed suppliers that would be part of the brand new U.S. based supply chain simply do not exist anymore. They went out of business. How about that. No companies making the necessary

components, no supply chain.

## **Impossible**

From all of the above, you can see that the idea of transplanting complex networks of companies, working in harmony with one another, from China to the U.S. is an impossibility.

Again, let me stress that those supply chains were not improvised in China a couple of weeks ago. They were created over decades of tests, trials and error. The notion that the entire web of complex business relationships now at the core of Chinese manufacturing can simply be dismantled and transported to the U.S. is a childish fantasy.

## **An additional problem: automation**

And if this were not enough, you have to consider automation, a relatively recent development which did not play a significant role at the time of the jobs migration incentivised by low Chinese labor costs.

Keep in mind that automation has nothing to do with unfair trade practices. But it has the practical effect of killing U.S. factory jobs that used to be performed by humans. This is an unstoppable trend. Yes, the robots do many and in the future most of the jobs that factory workers used to do.

In a relatively short time, tomorrow's modern factory will probably be completely automated, with only a few highly specialized IT experts and engineers in charge of supervising the robots, and the overall production schedule.

Which is to say that, even if we assume that some manufacturing activities would "return" to America and/or new ones are created on U.S. soil, not much will change in terms of net new employment in manufacturing. In a best case scenario, maybe some factories will come back. But most of

the workers who used to be employed in that sector will be replaced by automation.

### **We are in a new era**

Keep in mind that now we are in a new era; an era in which humans will do less and less factory work. As robots now and in the future will do most of the work, labor costs will become less and less of an issue in determining the location of new industrial plants. Still, as tomorrow's factories will be even more automated, it is hard to see net gains in manufacturing jobs in America, or in the rest of the high cost western world, for that matter.

### **No jobs coming back**

In conclusion, here is the thing. The creation of complex supply chains created by Chinese companies to support China-based production over many decades cannot be dismantled and quickly reassembled at will here in America.

Furthermore, from now on automation is and will be the new manufacturing jobs killer. While automation, at least in some areas, may result in creating new forms of employment in new sectors that we cannot even think about today, the old factory jobs we used to know at some point will become extinct.

### **Can we do anything to reduce the trade deficit with China?**

That, said, what about the chronic trade imbalance with China? Very hard to do this. And this is in large measure due to the fact that millions of American consumers love to buy cheap consumer goods. And China, for the moment at least, is still the low-cost producer.

However, what can and should change in this enormously large bilateral trade relationship is the unfair treatment of foreign companies trying to establish themselves in China, or trying to sell their products and services to China.

## **Unfair treatment**

There is plenty of evidence indicating that U.S. exporters are penalized in a variety of ways. For instance, the Chinese use their own competition laws as an effective non tariff barrier against foreign companies. Chinese authorities selectively target U.S. and foreign companies accusing them of anti-competitive behavior, forcing them to pay fines and to license their technologies to Chinese entities, this way undermining their ability to work in China and their overall competitiveness.

## **Demand better terms**

This is an area where the Trump administration has legitimate ground to complain and demand better terms from China. Still, even if successful, this effort would lead at best to the narrowing of the trade imbalance gap, not to its disappearance.

As for the millions of new manufacturing jobs coming back to America on account of broad new trade agreements, well, dream on. This is just not going to happen.