Globalization and the Chinese syndrome: at the root of social discontent?

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The consensus crumbles

The economists who foresaw the backlash against globalisation

Jul 2nd 2016 | From the print edition
KEY FINDINGS

Respondents increasingly see globalisation as positive and important for economic growth - although they also think it increases social inequalities

- More than half of all respondents consider globalisation to be positive (54%) – an increase of six percentage points since autumn 2016 and a 17-point increase since spring 2005.

- More than six in ten (62%) agree globalisation is an opportunity for economic growth, and more than half (51%) agree globalisation represents a good opportunity for companies in their country thanks to the opening-up of markets.

- However, 38% agree globalisation represents a threat to employment and companies in their country and more than six in ten (63%) agree globalisation increases social inequalities.

- More than four in ten respondents (45%) agree that the European Union helps to protect European citizens from the negative effects of globalisation, and 55% agree the European Union enables European citizens to better benefit from the positive effects of globalisation (an increase of seven points since autumn 2014).
Introduction
Emerging markets
Political economy of globalization

Globalization

QA5.2 Could you please tell me for each of the following, whether the term brings to mind something very positive, fairly positive, fairly negative or very negative?

Globalisation (%)

QA11 Which one of the following two statements is closest to your opinion regarding globalisation?

Globalisation represents a good opportunity for (NATIONALITY) companies thanks to
Globalisation represents a threat to employment and companies
Don't know
Anything new, in the end?
Defining Globalization

Globalization is a process of greater integration and interdependence among countries, institutions, firms and individuals around the world.

Globalization has gone through alternate phases of expansion and contraction, associated with booming phases and international crises (war-recession).

The societal attitude towards globalization is among the main forces driving the process.
Determinants

The process of economic integration depends on forces that determine costs and the opportunity of:

1. exchanging goods and services

2. exchanging ideas / communicating

3. doing *face-to-face* activities

Technology, societal forces, culture/ideology and international politics have affected all of them, in different ways in different times.
De-globalization happened already: the inter-war period

Most of the industrial countries shown did not reach the level of trade prevailing in 1913 until the 1970s.
Globalization restarted: the post-post-WWII period

Fonte Dat: WTO
Globalization restarted

Economic globalization increased after WWII thanks to:

1. greater political integration
2. technological progress (lower transaction costs, more tradable products, greater information, faster labour mobility)

50-90 consumption - production *unbundling*

1. sectoral specialization, industrial agglomeration in North; intraindustry trade North-North; interindustry trade North-South

90-now production - production *unbundling*

1. slicing up of the value chain, offshore production (with MNC)
2. task-based specialization; intraindustry trade North-South & global production networks; North-to-South knowledge transfer
The Great Unbundlings
The Great Unbundlings

First GU

Second GU

FIGURE 1: Schematic Illustration of Globalization’s Two Unbundlings.

Introduction

Emerging markets

Political economy of globalization

Outline

1. Introduction
   - Globalization

2. Emerging markets
   - The great convergence
   - The China syndrome in the US
   - The China syndrome in Europe

3. Political economy of globalization
   - Rodrik’s political dilemma
   - Globalization and attitudes towards trade
   - Globalization and electoral outcomes
From developing to emerging markets

Some large developing economies switched their stance towards globalization.

Up to the 90s, the rule for dev’ing countries was: “don’t obey, don’t object” to the WTO deals and the “Washington consensus”.

Since the 90s, some dev’ing countries have opened up and tried to exploit the benefits offered by the technological breakthrough (ICT and transport).
The great convergence

Manufacturing & GDP shares shifted from G7 to a few developing countries

Shares of world manufacturing

- China, 3%
- Other 16
- G7, 47%
- RoW
- 1990, 65%

G7’s share of world GDP

- 1993, 67%
- 2014, 46%
- 1900, 46%
- 1820, 22%

i6: China, Korea, India, Poland, Indonesia, Thailand
China, the BRIIS and the great convergence

Given the dimension of the BRIICS, this has impacted on:

- the existing production matrices
- the distribution of activities, jobs, value added and income

The creation and the appropriation of value added is neither sectoral, nor national: manufacturing production is globalized and value added dispersed across nations according to local- and firm-level determinants.

This suggests the existence of placed-specific effects.
China: a big case in point

Figure 2: China’s Share of World Manufacturing Activity, 1990 - 2012

Source: World Development Indicators.

Fonte: Autor et al 2016
China: Graduation

Figure 3
China’s Top Export Products, 1994–2008

Source: Author’s calculations using (World Bank) World Development Indicators and UN Comtrade.
China: Graduation

A. Exports Minus Imports as a Share of GDP for China

B. Revealed Comparative Advantage for China

Source: World Development Indicators.
Source: Autor et al 2016
China: Graduation

Yet genuine sophistication should be import-adjusted domestic
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   - Globalization and electoral outcomes
China syndrome: stylized facts

**Figure 1. Import Penetration Ratio for US Imports from China (left scale), and Share of US Working-Age Population Employed in Manufacturing (right scale)**
China syndrome: the channels

Economic Impacts of Import Competition from China

- Closure of manufacturing plants (Bernard Jensen Schott 06), declines in employment (Acemoglu Autor Dorn Hanson Price 16; Pierce Schott 16) in more trade-exposed industries

- Lower employment and higher long-run unemployment, inequalities in more or less trade-exposed local labor markets (Autor Dorn Hanson 13)

- Lower lifetime incomes and greater job churning for workers in more trade-exposed industries (Autor Dorn Hanson Song 14)
TABLE 3—IMPORTS FROM CHINA AND CHANGE OF MANUFACTURING EMPLOYMENT IN CZs, 1990–2007: 2SLS ESTIMATES

Dependent variable: 10 x annual change in manufacturing emp/working-age pop (in % pts)

<table>
<thead>
<tr>
<th>I. 1990–2007 stacked first differences</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>-0.746***</td>
<td>-0.610***</td>
<td>-0.538***</td>
<td>-0.508***</td>
<td>-0.562***</td>
<td>-0.596***</td>
</tr>
<tr>
<td></td>
<td>(0.068)</td>
<td>(0.094)</td>
<td>(0.091)</td>
<td>(0.081)</td>
<td>(0.096)</td>
<td>(0.099)</td>
</tr>
<tr>
<td>Percentage of employment</td>
<td>-0.035</td>
<td>-0.052***</td>
<td>-0.061***</td>
<td>-0.056***</td>
<td>-0.040***</td>
<td></td>
</tr>
<tr>
<td>in manufacturing_{-1}</td>
<td>(0.022)</td>
<td>(0.020)</td>
<td>(0.017)</td>
<td>(0.016)</td>
<td>(0.013)</td>
<td></td>
</tr>
<tr>
<td>Percentage of college-educated</td>
<td>-0.008</td>
<td></td>
<td></td>
<td></td>
<td>0.013</td>
<td></td>
</tr>
<tr>
<td>population_{-1}</td>
<td>(0.016)</td>
<td></td>
<td></td>
<td></td>
<td>(0.012)</td>
<td></td>
</tr>
<tr>
<td>Percentage of foreign-born</td>
<td>-0.007</td>
<td></td>
<td></td>
<td></td>
<td>0.030***</td>
<td></td>
</tr>
<tr>
<td>population_{-1}</td>
<td>(0.008)</td>
<td></td>
<td></td>
<td></td>
<td>(0.011)</td>
<td></td>
</tr>
<tr>
<td>Percentage of employment</td>
<td>-0.054**</td>
<td></td>
<td></td>
<td>-0.006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>among women_{-1}</td>
<td>(0.025)</td>
<td></td>
<td></td>
<td>(0.024)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of employment in</td>
<td></td>
<td></td>
<td></td>
<td>-0.230***</td>
<td>-0.245***</td>
<td></td>
</tr>
<tr>
<td>routine occupations_{-1}</td>
<td></td>
<td></td>
<td></td>
<td>(0.063)</td>
<td>(0.064)</td>
<td></td>
</tr>
<tr>
<td>Average offshorability index</td>
<td>0.244</td>
<td>-0.039</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of occupations_{-1}</td>
<td>(0.252)</td>
<td>(0.237)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Census division dummies</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

II. 2SLS first stage estimates

| (Δ imports from China to OTH)/worker  | 0.792*** | 0.664*** | 0.652*** | 0.635*** | 0.638*** | 0.631*** |
|                                       | (0.079)  | (0.086)  | (0.090)  | (0.090)  | (0.087)  | (0.087)  |
| R^2                                   | 0.54     | 0.57     | 0.58     | 0.58     | 0.58     | 0.58     |
China syndrome: estimations

This implies that:

- rising Chinese import exposure reduced US manufacturing employment per population by 0.68 % points in the first decade (1990-2000) and 1.10 % points in the second decade (2000-2007)

- rising exposure to Chinese import competition explains 33% of the US manufacturing employment decline between 1990 and 2000 and 55% of the decline between 2000 and 2007

Possibly slightly overstated to the extent that part of the import surge is demand (i.e. income) driven: for the two periods a decline of, respectively, 16% and 26% is more likely, equivalent to 540,000 and 982,000 workers.
### China syndrome: estimations

**Limited mobility: local effects cut across sectors and emp. status**

**Table 5—Imports from China and Employment Status of Working-Age Population within CZs, 1990–2007: 2SLS Estimates**

*Dependent variables: Ten-year equivalent changes in log population counts and population shares by employment status*

<table>
<thead>
<tr>
<th></th>
<th>Mfg emp (1)</th>
<th>Non-mfg emp (2)</th>
<th>Unemp (3)</th>
<th>NILF (4)</th>
<th>SSDI receipt (5)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A. 100 × log change in population counts</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>−4.231***</td>
<td>−0.274</td>
<td>4.921***</td>
<td>2.058*</td>
<td>1.466***</td>
</tr>
<tr>
<td></td>
<td>(1.047)</td>
<td>(0.651)</td>
<td>(1.128)</td>
<td>(1.080)</td>
<td>(0.557)</td>
</tr>
<tr>
<td><strong>Panel B. Change in population shares</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>All education levels</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>−0.596***</td>
<td>−0.178</td>
<td>0.221***</td>
<td>0.553***</td>
<td>0.076***</td>
</tr>
<tr>
<td></td>
<td>(0.099)</td>
<td>(0.137)</td>
<td>(0.058)</td>
<td>(0.150)</td>
<td>(0.028)</td>
</tr>
<tr>
<td><strong>College education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>−0.592***</td>
<td>0.168</td>
<td>0.119***</td>
<td>0.304***</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>(0.125)</td>
<td>(0.122)</td>
<td>(0.039)</td>
<td>(0.113)</td>
<td></td>
</tr>
<tr>
<td><strong>No college education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>−0.581***</td>
<td>−0.531***</td>
<td>0.282***</td>
<td>0.831***</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>(0.095)</td>
<td>(0.203)</td>
<td>(0.085)</td>
<td>(0.211)</td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** N = 1,444 (722 CZs × two time periods). All statistics are based on working age individuals (age 16 to 64). The effect of import exposure on the overall employment/population ratio can be computed as the sum of the coefficients for manufacturing and nonmanufacturing employment; this effect is highly statistically significant (p ≤ 0.01) in the full sample and in all reported subsamples. All regressions include the full vector of control variables from column 6 of Table 3. Robust standard errors in parentheses are clustered on state. Models are weighted by start of period CZ share of national population.

***Significant at the 1 percent level.
China syndrome: estimations

Wage effects are underestimated due to changes in LF composition ... yet:

<table>
<thead>
<tr>
<th>Table 6—Imports from China and Wage Changes within CZs, 1990–2007: 2SLS Estimates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent variable: Ten-year equivalent change in average log weekly wage (in log pts)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel A. All education levels</th>
<th>All workers</th>
<th>Males</th>
<th>Females</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>-0.759***</td>
<td>-0.892***</td>
<td>-0.614***</td>
<td></td>
</tr>
<tr>
<td>(0.253)</td>
<td>(0.294)</td>
<td>(0.237)</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>0.56</td>
<td>0.44</td>
<td>0.69</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel B. College education</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.757**</td>
<td>-0.991***</td>
<td>-0.525*</td>
</tr>
<tr>
<td>(0.308)</td>
<td>(0.374)</td>
<td>(0.279)</td>
</tr>
<tr>
<td>R²</td>
<td>0.52</td>
<td>0.39</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Panel C. No college education</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-0.814***</td>
<td>-0.703***</td>
<td>-1.116***</td>
</tr>
<tr>
<td>(0.236)</td>
<td>(0.250)</td>
<td>(0.278)</td>
</tr>
<tr>
<td>R²</td>
<td>0.52</td>
<td>0.45</td>
</tr>
</tbody>
</table>

Notes: N = 1,444 (722 CZs × two time periods). All regressions include the full vector of control variables from column 6 of Table 3. Robust standard errors in parentheses are clustered on state. Models are weighted by start of period CZ share of national population.

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.
### Table 7—Comparing Employment and Wage Changes in Manufacturing and outside Manufacturing, 1990–2007: 2SLS Estimates

**Dependent variables: Ten-year equivalent changes in log workers and average log weekly wages**

<table>
<thead>
<tr>
<th></th>
<th>I. Manufacturing sector</th>
<th>II. Nonmanufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>All workers (1)</td>
<td>College (2)</td>
</tr>
<tr>
<td>Panel A. Log change in number of workers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>$-4.231^{***}$</td>
<td>$-3.992^{***}$</td>
</tr>
<tr>
<td></td>
<td>(1.047)</td>
<td>(1.181)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.31</td>
<td>0.30</td>
</tr>
<tr>
<td>Panel B. Change in average log wage</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>0.150</td>
<td>0.458</td>
</tr>
<tr>
<td></td>
<td>(0.482)</td>
<td>(0.340)</td>
</tr>
<tr>
<td>$R^2$</td>
<td>0.22</td>
<td>0.21</td>
</tr>
</tbody>
</table>

*Notes: N = 1,444 (722 CZs × two time periods). All regressions include the full vector of control variables from column 6 of Table 3. Robust standard errors in parentheses are clustered on state. Models are weighted by start of period CZ share of national population.

***Significant at the 1 percent level.

**Significant at the 5 percent level.

*Significant at the 10 percent level.
### China syndrome: local social security estimations

**Table 8—Imports from China and Change of Government Transfer Receipts in CZs, 1990–2007: 2SLS Estimates**

*Dep var*: Ten-year equivalent log and dollar change of annual transfer receipts per capita (in log pts and US$)

<table>
<thead>
<tr>
<th></th>
<th>Total individual transfers (1)</th>
<th>TAA benefits (2)</th>
<th>Unemployment benefits (3)</th>
<th>SSA retirement benefits (4)</th>
<th>SSA disability benefits (5)</th>
<th>Medical benefits (6)</th>
<th>Federal income assist (7)</th>
<th>Edu/training assist (8)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Panel A. Log change of transfer receipts per capita</strong></td>
<td>1.01***</td>
<td>14.41*</td>
<td>3.46*</td>
<td>0.72*</td>
<td>1.96***</td>
<td>0.54</td>
<td>3.04***</td>
<td>2.78**</td>
</tr>
<tr>
<td>(Δ imports from China to US)/worker</td>
<td>(0.33)</td>
<td>(7.59)</td>
<td>(1.87)</td>
<td>(0.38)</td>
<td>(0.69)</td>
<td>(0.49)</td>
<td>(0.96)</td>
<td>(1.32)</td>
</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.57</td>
<td>0.28</td>
<td>0.48</td>
<td>0.36</td>
<td>0.32</td>
<td>0.27</td>
<td>0.54</td>
<td>0.33</td>
</tr>
</tbody>
</table>

|                  |                               |                  |                           |                           |                           |                      |                          |                         |
| **Panel B. Dollar change of transfer receipts per capita** | 57.73***                        | 0.23             | 3.42                      | 10.00*                     | 8.40***                   | 18.27                | 7.20***                  | 3.71***                 |
| (Δ imports from China to US)/worker                 | (18.41)                         | (0.17)            | (2.26)                    | (5.45)                     | (2.21)                    | (11.84)              | (2.35)                   | (1.44)                  |
| **R²**                                              | 0.75                            | 0.28             | 0.41                      | 0.47                       | 0.63                      | 0.66                 | 0.53                     | 0.37                    |

**Notes**: N = 1,444 (722 CZs × two time periods), except N = 1,436 in column 2, panel A. Results for TAA benefits in column 2 are based on state-level data that is allocated to CZs in proportion to unemployment benefits. Unemployment benefits in column 3 include state benefits and federal unemployment benefits for civilian federal employees, railroad employees, and veterans. Medical benefits in column 6 consist mainly of Medicare and Medicaid. Federal income assistance in column 7 comprises the SSI, AFDC/TANF, and SNAP programs while education and training assistance in column 8 includes such benefits as interest payments on guaranteed student loans, Pell grants, and Job Corps benefits. The transfer categories displayed in columns 2 to 8 account for over 85 percent of total individual transfer receipts. All regressions include the full vector of control variables from column 6 of Table 3. Robust standard errors in parentheses are clustered on state. Models are weighted by start of period CZ share of national population.

***Significant at the 1 percent level.
**Significant at the 5 percent level.
*Significant at the 10 percent level.
Figure 7: Imports from China and Induced Government Transfer Receipts in Commuting Zones, 1990 - 2007
Wrapping up: the China syndrome in the US

**Mirror image**

**United States**

**Manufacturing trade**
- Chinese import penetration*, %
- Trade deficit with China, $bn

**Manufacturing employment, m**
- 1990-2015

**Government programmes**
- Additional payments to workers displaced by Chinese imports, % of total, estimate
- 1990-2007
- Medical benefits
- Other income assistance
- Social Security
- Disability payments
- Unemployment & TAA†

Sources: BEA; BLS; UN; “The China Shock”, by Autor, Dorn, and Hanson (2016)
*% of total US demand  †Trade Adjustment Assistance

Economist.com

Aprile 2016
Global trend and localised problems

Not all areas are affected to the same extent

B. Quartiles of Exposure Conditional on Manufacturing Employment Share

Fonte: Autor et al 2016
Global trend and localised problems

Autor et al. (2016) show that adjustment in local labor markets is remarkably slow for almost a decade after the China trade shock commences:

- wages and labor-force participation rates are depressed for long
- unemployment rates remain elevated for long

This suggests that the economists’ conclusion “let the market work through the adjustment” may not be more than a leitmotiv.
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3. **Political economy of globalization**
   - Rodrik’s political dilemma
   - Globalization and attitudes towards trade
   - Globalization and electoral outcomes
Is France different? Malgouyres 2017

### TABLE 2: Direct Impact of Chinese Import Competition on Manufacturing

<table>
<thead>
<tr>
<th></th>
<th>(1) OLS: Jobs b/se</th>
<th>(2) IV b/se</th>
<th>(3) IV b/se</th>
<th>(4) IV b/se</th>
<th>(5) IV b/se</th>
<th>(6) IV: Hrs b/se</th>
<th>(7) IV: Emp. Earnings b/se</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1.242)</td>
<td>(1.618)</td>
<td>(1.782)</td>
<td>(1.789)</td>
<td>(1.667)</td>
<td>(1.621)</td>
<td>(1.885)</td>
</tr>
<tr>
<td>% employment in mfg</td>
<td>-0.151***</td>
<td>-0.205***</td>
<td>-0.097</td>
<td>-0.095</td>
<td>0.040</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.059)</td>
<td></td>
<td>(0.067)</td>
<td>(0.072)</td>
<td></td>
<td>(0.076)</td>
<td></td>
</tr>
<tr>
<td>% college</td>
<td>-0.653***</td>
<td>-0.368**</td>
<td>-0.405***</td>
<td>-0.442***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.174)</td>
<td></td>
<td>(0.143)</td>
<td>(0.148)</td>
<td></td>
<td>(0.157)</td>
<td></td>
</tr>
<tr>
<td>% production workers</td>
<td>-0.362***</td>
<td>-0.181</td>
<td>-0.189*</td>
<td>-0.208</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.111)</td>
<td></td>
<td>(0.114)</td>
<td>(0.115)</td>
<td></td>
<td>(0.127)</td>
<td></td>
</tr>
<tr>
<td>% women</td>
<td>-1.462**</td>
<td>-1.948***</td>
<td>-2.106***</td>
<td>-2.345***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.650)</td>
<td></td>
<td>(0.506)</td>
<td>(0.596)</td>
<td></td>
<td>(0.687)</td>
<td></td>
</tr>
<tr>
<td>% foreigners</td>
<td>-0.465**</td>
<td>-0.496**</td>
<td>-0.498**</td>
<td>-0.543**</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(0.213)</td>
<td></td>
<td>(0.193)</td>
<td>(0.211)</td>
<td></td>
<td>(0.231)</td>
<td></td>
</tr>
<tr>
<td>KP stat</td>
<td>48.66</td>
<td>31.09</td>
<td>31.72</td>
<td>32.51</td>
<td>32.51</td>
<td>32.51</td>
<td></td>
</tr>
<tr>
<td>Region fixed-effect</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td>√</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Notes:** $N = 696$. Baseline sample is a balanced panel of 348 employment zones. Outcomes variables are expressed in percentage change over six-year period. All specifications include period fixed-effect and log of initial total employment. Robust standard errors are clustered at the employment zone level. *$P < 0.10$, **$P < 0.05$, ***$P < 0.01$. 34
Caveat

These slides do not suggest that free trade is bad!

One should consider also the positive impact on consumption through lower prices and the gains in productivity generated by the slicing up of the value chain and their offshoring.

Yet the impact is highly heterogeneous and quite unpredictable.

It also depends on local policies, business practices, institutional strength, social capital, and the like.

This is why understanding the mechanism and the political economy of trade is so important.
Outline

1. Introduction
   - Globalization

2. Emerging markets
   - The great convergence
   - The China syndrome in the US
   - The China syndrome in Europe

3. Political economy of globalization
   - Rodrik’s political dilemma
   - Globalization and attitudes towards trade
   - Globalization and electoral outcomes
Socio-political consequences in the US

Autor et al (2016) find that China syndrome and similar globalization-related threats have political effects:

- change in political preferences (anti-trade)
- policy change by incumbent politicians (e.g. Congressional representatives from trade-exposed districts vote more against trade agreements)
- electoral platforms and electoral results (more anti-trade platforms; anti-incumbent voting but no major reshuffling; polarization effects)

Let’s read this through the theoretical framework offered by Dani Rodrik.
Rodrik’s dilemma

MIRRORING Obstfeld and Taylor (1998)’s open-economy trilemma, Rodrik (2007)’s political trilemma of the world economy helps to explain why, in democratic contexts in which international integration is on the rise, nationalists become increasingly vocal.

Rodrik’s trilemma indicates how nation states (territorial-jurisdictional entities with independent powers of making and administering the law) and democratic political systems (political institutions representative and responsive to mobilized groups) are not compatible, if taken together, with integrated national economies.
Rodrik’s dilemma

Globalization and its discontent

From an economic point of view, globalization is associated with:

- free trade of goods (and services): too much competition?
- free movement of people: too much migration?
- national sovereignty in competition: erosion of preferences?

Some ‘populist’, ‘sovranist’ and ‘nationalist’ parties claim these forces are excessive and embrace a narrative juxtaposing the people and some political/economic elite (e.g. established parties, European technocracy, greedy MNEs, international finance, ...).
Globalization and its discontent

Rodrik does not claim that isolationism should be preferred. On the contrary he cannot exclude that a single global market under a global political umbrella is the best solution.

Yet, Rodrik argues that to diversification of conditions and preferences across countries make political unification and global solidarity impossible.

“We must acknowledge and accept the restraints on globalization that a divided global polity entails. The scope of workable global regulation limits the scope of desirable globalization. Hyper-globalization cannot be achieved, and we should not pretend that it can.”
Aside: antagonism towards the EU

The antagonism towards the EU can be interpreted similarly:

- Free trade is a fundamental ingredient of the EU
- Intergovernamental and supranational decision-making are associated with a “democratic deficit”
- Economic governance problems were exacerbated during the Euro crisis

The EU is a suitable scapegoat and is depicted as an ‘external enemy’ in the populist-nationalist narrative.

Be careful though: the EU is a system of strong political co-determination to handle economic integration. It is flawed in terms of design and it lacks of political support now. Yet it is the right kind of solution to be IN the Rodrik’s triangle.
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   - Globalization and electoral outcomes
Attitudes towards trade: economic insights

Trade theory helps to understand workers’ preferences about trade. Openness implies changes and economic insecurity (Guiso et al. 2017). How?

- With frictionless labor mobility, countries relatively well endowed of skilled-labour tend to specialize in products using intensively skilled labour: skilled workers support trade openness whereas unskilled ones oppose it - factors endowments model

- With limited labor mobility, individual attitudes towards trade can be determined by workers’ sector of employment rather than their factor ‘type’ - specific-factors model

- Occupational exposure (≠ sectoral exposure) to globalization is associated with wage effects through the reallocation of workers away from higher-wage manufactures into other sectors and occupations (Ebenstein et al 2016) - mix
Attitudes towards trade: economic insights

Scheve and Slaughter 2001 find that *home ownership* in counties with a manufacturing mix concentrated in comparative-disadvantage industries is correlated with support for trade barriers - *place-sector*

Mayda and Rodrik (2005) claim that the individual’s pro-trade attitudes has to do with relative economic status - *behavioural*

Notably, *technology* and *migration* is crucial to determine the effect of trade-induced shocks but is another source of shock as well: disentangling them is quite hard.
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Analyzing outcomes from the 2002 and 2010 congressional elections, Author et al (2016) detect an ideological realignment that is centered in trade-exposed local labor markets.

Congressional districts exposed to greater import competition disproportionately removed moderate representatives from office in the 2000s, in favour of liberal Democrats or conservative Republicans.

Trade-exposed locations with a majority white population are disproportionately likely to replace moderate legislators with conservative Republicans, whereas locations with a majority non-white population tend to replace moderates with liberal Democrats.
Far right ascent in France

Malgouyres 2017 finds that over the period 1995-2012, exposure to low-wage country import competition had a positive but limited impact on the local vote share of the National Front during presidential elections. Yet this effect has increased over the time.

Table 3: IV: First-Difference with Departement-Year FE, $\Delta TPW$

<table>
<thead>
<tr>
<th></th>
<th>(1) OLS b/se</th>
<th>(2) IV b/se</th>
<th>(3) IV b/se</th>
<th>(4) IV b/se</th>
<th>(5) IV b/se</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\Delta TPW$</td>
<td>0.660*** (0.074)</td>
<td>0.945*** (0.113)</td>
<td>0.401*** (0.082)</td>
<td>0.351*** (0.082)</td>
<td>0.340*** (0.082)</td>
</tr>
<tr>
<td>Region-Year FE</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Demographic structure $^a$</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>College Share 1990</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Working Class Share 1990 $^b$</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Cragg-Donald Stat</td>
<td>7594.5</td>
<td>7097.4</td>
<td>7015.4</td>
<td>6588.1</td>
<td></td>
</tr>
<tr>
<td>KP stat</td>
<td>365.4</td>
<td>343.8</td>
<td>343.1</td>
<td>324</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>10140</td>
<td>10140</td>
<td>10140</td>
<td>10140</td>
<td>10140</td>
</tr>
</tbody>
</table>

Notes: The sample consists of 3380 cantons, observed over 3 periods: 1995-2002-2007-2012. Robust clustered standard errors are reported between brackets. Corsica is excluded from the sample. $\Delta TPW$ is expressed in thousands of dollar. $^a$: Demographic controls include the age-sex distribution for 7 different categories (0-15 year old, 16-24, ..., 74-90, 90 and more), population and population-squared. Regression are weighted by 1990 Census population. $^b$: $^*p<.10$ $^**p<.05$, $^***p<.01$
The Trade Origins of Economic Nationalism in Western Europe.

For each district, the median voter score (= is the ideology of the median voter) and the center of gravity (average of the policy positions of the competing parties, including extremes) for Nationalism and Nationalist Autarchy, and the vote share for radical-right parties.
Our analysis for Italy

Within a research project with Mauro Caselli and Silvio Traverso at the School of International Studies, we produced a similar analysis of the impact of globalization (trade and immigration) on the electoral outcomes in the general elections in Italy (1994-2008).

[Spoiler!] We find that both immigration and import competition from China contributed positively to the electoral outcomes of far-right parties, whereas only immigration intensity increased the vote shares of right-wing and traditionalist/authoritarian/nationalist parties. Electoral turnout responded negatively to an increased presence of migrants.

Focus on local labor markets: this unit of analysis corresponds to an area within which people commute and change occupation.

Risks of ecological fallacy are limited if internal migration is low.
Our analysis for Italy

Main features:

- the intensity of import competition from China and the presence of immigrants are used to capture exposure to globalization.
- we look at parties’ political positions (CHES): far right, right and traditionalist/authoritarian/nationalist positions
- we employ an estimation strategy that accounts for endogeneity and time-invariant unobserved effects across local labor markets.
Globalization in Italy: aggregate trends

Source: UN Comtrade.
A spatial representation. Change 01-08: China
A spatial representation. Change 01-08: immigrants
A spatial representation. Change 01-08: turnout
A spatial representation. Change 01-08: far-right
Parties’ classification

Right-wing parties
- Northern League
- Italian Social Movement
- National Alliance
- Brothers of Italy
- Future and Freedom
- Social Alternative - A. Mussolini
- Missinian Refoundation
- The Right
- New Force
- Pound-House
- Tricolor Blaze
- I Love Italy
- SOS Italy
- National Project

Mainstream parties
- Go Italy
- People of Freedom
- Party of the Democrats of the Left
- Democrats of the Left
- Olive Tree
Local exposure to China: shift-share approach

Imports from China per worker as a proxy of local exposition to China

\[ IPW_{it}^{chn} = \frac{1}{L_{it}} \sum_s \eta_{is} IMP_{st}^{chn} \]

where

- subscripts \( i, s \) and \( t \) indicate LMA, sector (NACE 3-dig) and year respectively
- \( L_{it} \) is the total employment in LMA \( i \) in year \( t \)
- \( IMP_{st}^{chn} \) is the value (in 2010 USD) of imports from China of goods belonging to the sector \( s \) in year \( t \)
- \( \eta_{is} \) measures the weight of LMA \( i \) in country-level employment for sector \( s \) \( (\eta_{is} = \frac{L_{is0}}{L_{s0}}) \)
Presence of immigrants

The intensity of the local presence of immigrants is captured by

$$IMM_{it}^{shr} = \frac{Immigrants_{it}}{Residents_{it}}$$

that is the share of foreign citizens residing in the LMA $i$ at period $t$. 
Endogeneity issues & IV approach

If both the dependent variable and the regressors are correlated with unobserved shocks, OLS will produce biased estimates.

- Domestic demand shocks may affect electoral outcomes and $IPW^{chn}$ simultaneously.

The potential endogeneity of $IPW^{chn}$ is addressed following Autor et al. (2013). Our instrument is defined as:

$$IPW_{it}^{chn} = \frac{1}{L_{it}} \sum_s \eta_{is}IMP_{st}^{chn}$$

where $IMP_{st}^{chn}$ represents the average of the sectoral imports from China of eight high-income countries not part of EU.
Endogeneity issues & IV approach

The endogeneity of local $IMM^{shr}$ may stem from two sources:

- The attitude toward foreign residents of local communities may change overtime, some becoming more 'open' and other more hostile: migrants may choose to settle down where the environment is less confrontational (reverse causality).

- An exogenous factor, such as an increase in local public spending, may change electoral outcomes and attract more foreign residents (omitted variable).

We tackle this issue by instrumenting $\Delta IMM_{it}^{shr}$ with the level of the share of immigrants at the beginning of each period and $IMM_{it}^{shr}$ with its five-year lag.
Econometric models

We analyze the impact of globalization on Italian electoral outcomes by means of two different econometric models.

2. A fixed effects model for the years 2001, 2006 and 2008

We focus on the pre-crisis period to estimate the long-lasting and cumulating effects of globalization rather than the contingent rise of anti-establishment sentiment triggered by the European debt crisis.
Econometric models

Model 1. Mixed first differences

\[ \Delta y_{it} = \alpha_1 \Delta IPW_{it}^{chn} + \alpha_2 \Delta IMM_{it}^{shr} + x'_{i,t-7}\gamma + \tau'_{t}\delta + \zeta'_{i}\kappa + \epsilon_{it} \]

where

- \( \Delta y_{it} = y_{it} - y_{i,t-7} \) is the change in the vote shares of the group of parties \( y \) in LMA \( i \) between \( t - 7 \) and \( t \)
- \( \Delta IPW_{it}^{chn} \) and \( \Delta IMM_{it}^{shr} \) are the changes of \( IPW^{chn} \) and \( IMM^{shr} \) in LMA \( i \) between \( t - 7 \) and \( t \)
- \( x_{it} \) is a vector of regional and LMA controls
- \( \tau_t \) a vector of time FE
- \( \zeta \) a vector of regional FE
Econometric models

Model 2. LMA fixed effects

\[ y_{it} = \beta_1 IPW_{it}^{chn} + \beta_2 IMM_{it}^{shr} + x_{it}' \lambda + \tau_t' \nu + \phi_i \theta + \nu_{it} \]

where

- \( y_{it} \) is share of votes of the group of parties \( y \) in LMA \( i \) at time \( t \)
- \( x_{it} \) is a vector of regional and LMA controls
- \( \tau_t \) a vector of time FE
- \( \phi \) a vector of LMA FE
## Results - LMA First differences (IV estimates)

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) $\Delta \text{FarRight}$</th>
<th>(2) $\Delta \text{FarLeft}$</th>
<th>(3) $\Delta \text{Right-wing}$</th>
<th>(4) $\Delta \text{TAN}$</th>
<th>(5) $\Delta \text{Turnout}$</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\Delta IPW_{Chn}$</td>
<td>0.670**</td>
<td>-0.080</td>
<td>0.253</td>
<td>0.187</td>
<td>-0.283</td>
</tr>
<tr>
<td></td>
<td>(0.269)</td>
<td>(0.103)</td>
<td>(0.252)</td>
<td>(0.205)</td>
<td>(0.261)</td>
</tr>
<tr>
<td>$\Delta IMM_{shr}$</td>
<td>1.067***</td>
<td>0.227***</td>
<td>1.438***</td>
<td>0.782***</td>
<td>-0.666***</td>
</tr>
<tr>
<td></td>
<td>(0.289)</td>
<td>(0.068)</td>
<td>(0.215)</td>
<td>(0.169)</td>
<td>(0.192)</td>
</tr>
<tr>
<td>Region FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>LMACtrls</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<td>RegionalCtrls</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2SLS</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
<td>1,562</td>
<td>1,562</td>
<td>1,562</td>
<td>1,562</td>
<td>1,562</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.419</td>
<td>0.565</td>
<td>0.606</td>
<td>0.417</td>
<td>0.443</td>
</tr>
</tbody>
</table>

Notes: *** 1%, ** 5%, * 10%. LMA-clust. SE in parentheses. LMA ctrls: N. of res., Shr. res. over 65 in adult pop., Shr res. w/ prim. or l. sec. edu., Shr. of res. w/ tertiary edu., LF participation rate, Unempl. rate, VA per worker. Regional ctrls: Hospital migr., Informal labor, Shr. exp. culture, Tickets p.c., Volunteering, University attractiveness, Internet diffusion.
## Results - LMA Fixed effects (IV estimates)

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>(1) FarRight</th>
<th>(2) FarLeft</th>
<th>(3) Right-wing</th>
<th>(4) TAN</th>
<th>(5) Turnout</th>
</tr>
</thead>
<tbody>
<tr>
<td>IPW&lt;sup&gt;Chn&lt;/sup&gt;</td>
<td>0.683** (0.290)</td>
<td>-0.219 (0.141)</td>
<td>0.526* (0.286)</td>
<td>0.001 (0.195)</td>
<td>-0.031 (0.217)</td>
</tr>
<tr>
<td>IMM&lt;sup&gt;shr&lt;/sup&gt;</td>
<td>2.004*** (0.302)</td>
<td>-0.004 (0.075)</td>
<td>1.208*** (0.281)</td>
<td>0.677*** (0.160)</td>
<td>-1.692*** (0.229)</td>
</tr>
<tr>
<td>LMA FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Year FE</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>LMA Ctrls</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Regional Ctrls</td>
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<td>Yes</td>
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</tr>
<tr>
<td>2SLS</td>
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<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Observations</td>
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<td>2,052</td>
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<tr>
<td>R-squared</td>
<td>0.579</td>
<td>0.805</td>
<td>0.330</td>
<td>0.277</td>
<td>0.442</td>
</tr>
</tbody>
</table>

Notes: *** 1%, ** 5%, * 10%. LMA-clust. SE in parentheses. LMA ctrls: N. of res., Shr. res. 65 in adult pop., Shr res. w/ prim. or l. sec. edu., Shr. of res. with tertiary edu., LF participation rate, Unempl. rate, VA per worker. Regional ctrls: Hospital migr., Informal labor, Shr. exp. culture, Tickets p.c., Volunteering, University attractiveness, Internet diffusion.
Despite the different reference periods, the two models return, in qualitative terms, similar results:

- $IPW^{chn}$ and $IMM^{shr}$ have a significant and positive impact on the share of votes of far-right parties
  - the center of gravity of right-wing parties shifts to the extreme
- Little effects of globalization on the far left
  - the effect of immigration may be either positive or nil
- The electoral performance of right-wing and TAN parties significantly affected only by $IMM^{shr}$
- Turnout rate reduced by $IMM^{shr}$
Aside. Role of labor market controls

- Factors beyond immigration and import competition may influence both electoral outcomes and labor market dynamics. So, we included three LMA controls which, however, could be *bad controls* in our framework.

- The exclusion of these controls does not affect much the results. This could be due to:
  - controls not exhaustive and other variables (e.g. avg wages, income inequality and job security) could better capture the linkages between labor market dynamics and voting behavior
  - the effects of globalization may work not only through the labor market
  - within LMAs labour markets are perfect, thus IPW does not play a significant role in the aggregate
Wrapping up

The process of globalization is determined by the evolution of technology and politics.

This latter is in turn affected by the impact of trade openness and immigration on jobs, wages, incomes, social conditions and political attitudes.

Hard to predict as it varies along sectoral, factorial, occupational, and regional dimensions.

The ensuing economic insecurity and actual adjustment to trade shocks tend to impact on electoral outcomes, potentially affecting the future degree of openness.

Nothing new under the sky ... yet we start having some evidence.