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DISCUSSION PAPER SERIES

IZA DP No. 14532

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Towards Trade**

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JULY 2021

## DISCUSSION PAPER SERIES

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# Import Competition and Public Attitudes Towards Trade

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## ABSTRACT

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# Import Competition and Public Attitudes Towards Trade\*

We use data from the Pew Global Attitudes Survey to analyse how public attitudes towards trade have changed over time in developed economies, and how these attitudes differ across groups in the population. Attitudes towards trade deteriorated in the 2000s before the onset of the financial crisis, with declines tending to be greater in countries that also saw larger increases in Chinese import competition. Perhaps surprisingly, given that barriers to trade appear to be on the increase again after several decades of steady decline, attitudes towards trade improved again during the last decade both in the US and in leading European economies. Comparing across survey respondents with different individual characteristics, those without a university education are less likely to have a favourable impression of international trade, and to believe that it has specific benefits in terms of reducing prices, creating jobs, or increasing wages. While economists often emphasize the consumer benefits of trade due to lower prices, only 20-40% of survey respondents in most countries perceive such a price effect, suggesting that the benefits of trade may not be salient for many people.

**JEL Classification:** F10, F16, F60

**Keywords:** trade, attitudes, prices

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# 1. Introduction

The politics of trade are rarely far from the headlines. Trade tensions between the US and China flared into tit-for-tat tariff increases. The UK and EU are involved in increasingly fraught negotiations on the nature of their new trading relationship. On top of this, the perceived fragility of international supply chains during the spread of COVID-19 has led some observers to predict a partial reversal of globalisation and resurgence in protectionist policies.<sup>1</sup> Understanding public attitudes towards trade, and the factors that drive those attitudes, is therefore important for both politicians and economists.

Academic economists tend to be unequivocal in their support of free trade as a means to make most citizens better off, since trade increases productive efficiency and provides consumers with cheaper products and greater choice. Various surveys of the University of Chicago's IGM Economic Experts Panels find that 95–100% of leading economists agree that local free trade areas in Europe and North America (EU and NAFTA) and intercontinental trade with China have made most European and American citizens better off, even though they acknowledge that some workers have been made worse off.<sup>2</sup>

The important benefits of trade, however, may only be realised if there is broad public support for the open trade policies that underpin them, and if particular attention is paid to those who lose out. Unless the public sees these benefits as tangible and fairly distributed, a backlash could ensue.

In this report, we describe how public attitudes towards trade have changed over time and across countries. We track how public attitudes towards trade in OECD countries changed between the years 2002 and 2018. To this end, we draw on data from the Pew Global Attitudes Survey, which repeatedly surveyed individuals sampled from the general population of major countries about their attitudes towards trade. Specifically, multiple waves of the survey included the question 'What do you think about the growing trade and business ties between [survey country] and other countries—do you think it is a very good thing, somewhat good, somewhat bad or a very bad thing for our country?'

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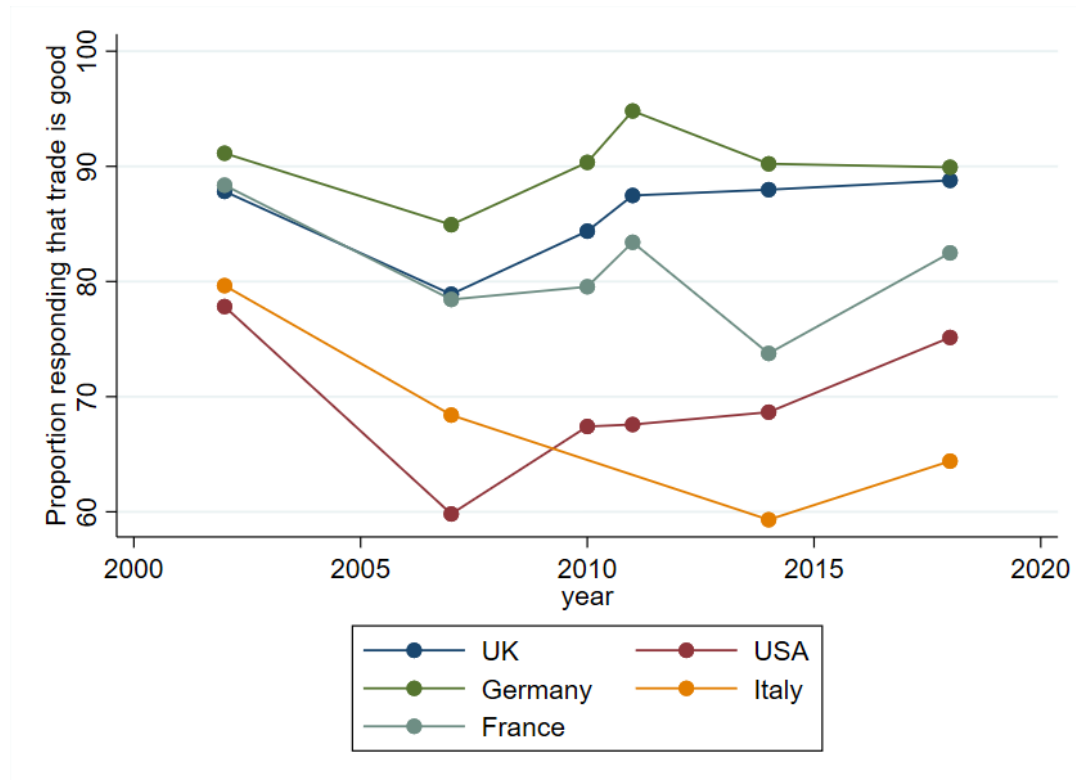
<sup>1</sup> For example, 'Has covid-19 killed globalisation?', *The Economist*, 14 May 2020.

<sup>2</sup> The University of Chicago's Initiative on Global Markets (IGM) has repeatedly surveyed its panels of leading economics professors on trade issues. In 2012, 35 of 37 US economists agreed that US citizens are on average better off thanks to the North American Free Trade Agreement (NAFTA), and 34 of 34 said that trade with China makes most Americans better off. In 2016, 46 of 47 European economists agreed that the average western European citizen is better off thanks to trade within the EU; and in 2018, 38 of 39 said that trade with China makes most Europeans better off. Most of the survey respondents (33 of 34 in the US and 33 of 39 in Europe) also agree that trade has made some American and European workers worse off who work in sectors such as clothing or furniture production that face heavy competition from Chinese imports. In all cases, the economists who did not agree with the statements were either uncertain or had no opinion, while no one disagreed. See <http://www.igmchicago.org/>.

## 2. Positive attitudes towards trade in rich countries have rebounded since the financial crisis

Figure 1 plots the change in the share of those replying they believe trade with other countries was either 'very good' or 'somewhat good' for five major economies: the UK, the US, Germany, France and Italy. In each country, positive attitudes towards trade predominate, with about 80–90% of survey respondents in Germany and the UK and about 60–80% of respondents in the US and Italy reporting a favourable view of trade (attitudes in France varied more, with between 70% and 90% of respondents reporting a favourable view). The time-series patterns reveal a rapid decline in positive trade attitudes from 2002 to 2007 in all five countries. However, by 2018 these declines had largely reversed in all these countries except Italy.<sup>3</sup>

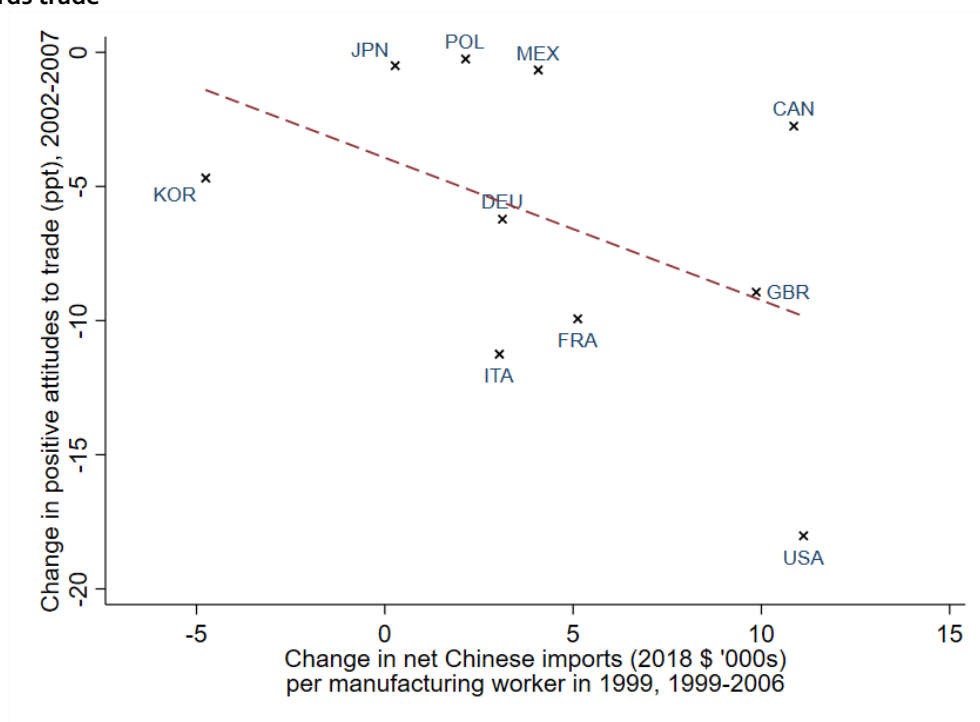
**Figure 1. Attitudes towards trade deteriorated before the 2008 financial crisis but have rebounded since**



Note: Authors' calculations from the Pew Global Attitudes Surveys conducted in Summer 2002 and Spring 2007, 2010, 2011, 2014 and 2018. Italy was not included in the surveys for Spring 2010 and 2011. The vertical axis shows the share of respondents agreeing that trade with other countries is 'very good' or 'somewhat good'. Shares exclude those who refused to answer.

<sup>3</sup> The rebound in attitudes towards trade is confirmed by other sources. For example, surveys by Gallup have regularly asked Americans whether they viewed trade as 'an opportunity for economic growth through increased US exports' or 'a threat to the economy from foreign imports'. In 2008, 41% of adults saw trade as an opportunity for growth and 52% thought it was a threat to the economy. By contrast in 2019, 74% regarded it as an opportunity and just 21% viewed it as a threat. (<https://news.gallup.com/opinion/gallup/267770/americans-views-trade-trump-era.aspx>.) In the UK, recent surveys by the Department for International Trade also confirm generally positive attitudes towards trade agreements. Two-thirds of respondents to a survey in 2019 reported a positive attitude towards free trade agreements (<https://www.gov.uk/government/publications/public-attitudes-to-trade-tracker-patt-wave-2/public-attitudes-to-trade-tracker-wave-2-report-web-version>).

**Figure 2. Greater exposure to Chinese import competition is associated with worsening attitudes towards trade**



Note: Authors' calculations from the Pew Global Attitudes Surveys conducted in Summer 2002 and Spring 2007, OECD STAN database and UN Comtrade data. The vertical axis shows the change in the share of respondents agreeing that trade with other countries is 'very good' or 'somewhat good' over time. The  $R^2$  of the relationship between this and the change in net Chinese imports shown on the horizontal axis is 0.21.

One of the most dramatic developments in the world economy over the past 20 years has been China's rise to become the world's largest exporter of manufactured goods. China's share of world goods exports increased from 3.8% to 12.7% between 2000 and 2018.<sup>4</sup> This development contributed to a large increase in imports from low-wage to high-wage countries, and growing trade imbalances, especially in countries such as the US and the UK. Much of China's trade growth occurred in the early 2000s; its share of world exports stood at 8.6% in 2007. Various studies have investigated the effects of this 'China shock' on regional outcomes in developed economies, typically finding that areas with higher exposure to Chinese import competition saw greater reductions in manufacturing employment.<sup>5</sup> Since the 2008 financial crisis, the growth of Chinese exports has slowed and there has been some rebound, or at least stabilisation, of manufacturing employment in major economies such as the UK and the US.<sup>6</sup>

The marked increase in public scepticism towards trade prior to the 2008 financial crisis coincides with China's rapid integration into the world economy in the 2000s. Figure 2 draws on a larger set of OECD countries covered by the Pew surveys of 2002 and 2007 to explore whether favourable attitudes towards trade declined particularly in countries that faced a large surge in import competition from China. The figure plots the change in positive attitudes towards trade against the change in net Chinese imports between 1999 and 2006 per manufacturing worker in 1999. Net imports (i.e. imports minus exports) per manufacturing worker provide a simple summary metric of a country's exposure to

<sup>4</sup> Authors' calculations using data from the World Bank's World Development Indicators (<https://databank.worldbank.org/source/world-development-indicators>), series TX.VAL.MRCH.CD.WT.

<sup>5</sup> See Autor, Dorn and Hanson (2013).

<sup>6</sup> Between 2009 and 2019, manufacturing employment increased from 14.20 million to 15.74 million in the US and from 2.81 million to 2.99 million in the UK (data taken from <https://data.oecd.org/emp/employment-by-activity.htm>).

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Chinese competition.<sup>7</sup> It is greater for countries such as the US and the UK, where imports from China grew much faster than exports to China, and lower for countries such as Germany where import and export growth were more balanced.

Figure 2 shows a negative relationship among the countries for which we have data. Countries that saw larger increases in net Chinese imports per manufacturing worker tended to see greater declines in favourable attitudes towards international trade. The US stands out as having seen both a particularly large increase in Chinese imports per manufacturing worker over this period and one of the largest deteriorations in positive attitudes towards trade; the proportion of respondents in the US with a positive attitude to trade declined by an astonishing 18 percentage points between 2002 and 2007.

It has been widely hypothesised that increasing scepticism about free trade contributed to a recent rise of populism and nationalism. Indeed, within the US, areas with greater exposure to Chinese import competition were less likely to elect moderate political representatives in congress, and more likely to vote for Donald Trump in the 2016 presidential election.<sup>8</sup>

Of course, import competition from low-wage countries and public scepticism about the benefits of trade are just two of several factors that can contribute to the success of populist and nationalist movements that oppose international integration. For instance, several populist parties in Europe are opposed primarily to immigration, rather than international trade. It is perhaps for this reason that such parties were able to thrive during the last several years when public attitudes towards trade were improving again.

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<sup>7</sup> See Autor, Dorn and Hanson (2013) and Dauth, Findeisen and Suedekum (2014).

<sup>8</sup> Autor et al., 2020.



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### 3. The public sees the benefits of trade differently from economists

We can gain greater insight into the specific factors behind the public's general attitudes towards the costs and benefits of trade by using more detailed questions on trade's impacts that were included in the 2018 Pew Global Attitude Surveys. The surveys in Spring 2018 asked whether respondents believe that trade leads to job creation or destroys jobs in their country, whether it raises or lowers wages, and whether it raises or lowers the prices of products sold. Figure 3 reports the shares of respondents in OECD countries stating trade had favourable impacts on jobs, wages and prices (i.e. creating jobs, raising wages and lowering prices), as opposed to neutral or negative impacts.

Research in economics finds that trade has clear and immediate benefits through lower consumer prices. The impacts on employment and wages are more ambiguous, since greater trade may lead to a deterioration in outcomes for some groups of workers, especially when not all workers can easily make the shift from shrinking to growing industries.<sup>9</sup>

Figure 3 suggests that the public's views differ. In all countries except Sweden and Israel, just 20–40% of survey respondents state that trade reduces prices, suggesting that a favourable impact of trade on prices may not be particularly salient. The fraction of respondents perceiving a positive impact of trade on jobs is usually larger, ranging from about 30% to 60% in most countries. In all countries, the public is more likely to say trade has favourable employment effects than favourable wage effects.

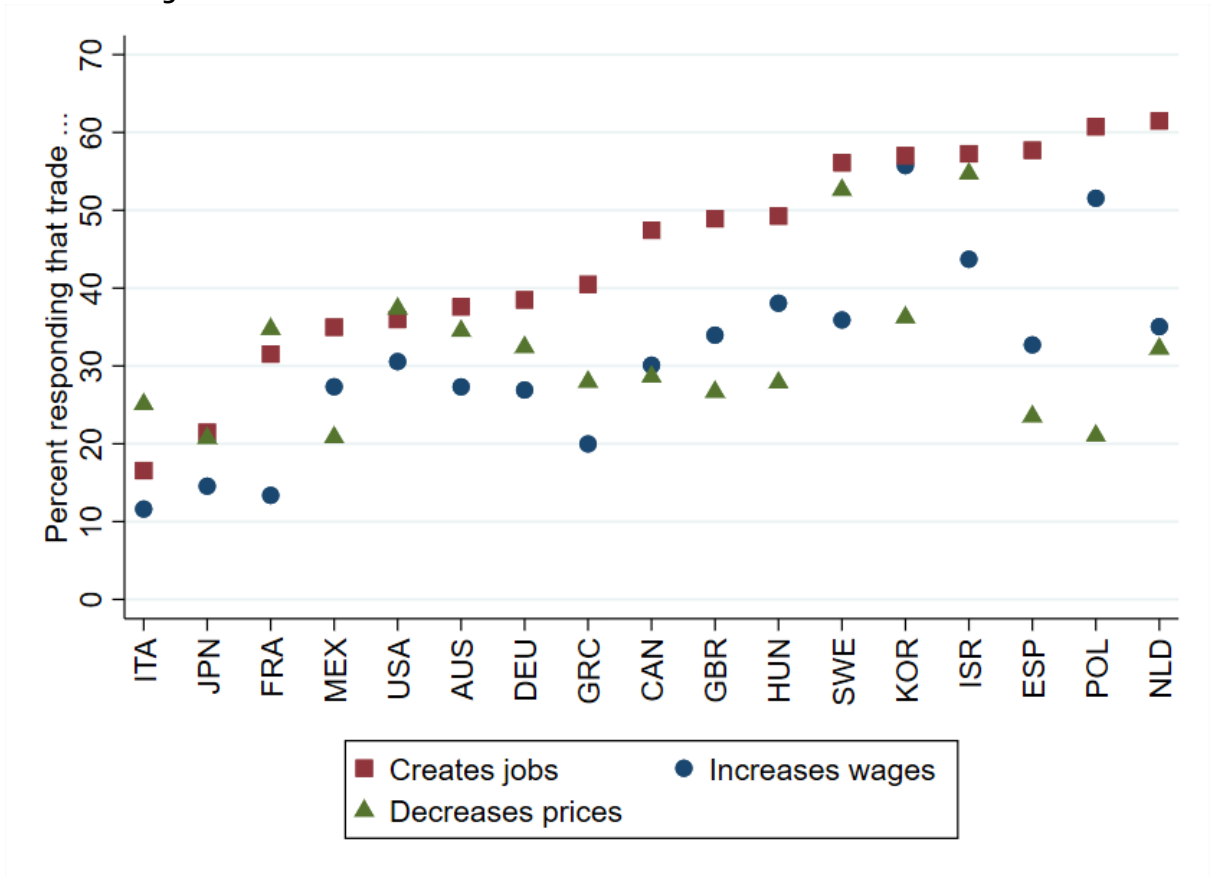
Figure 3 also reveals significant differences in responses across and within countries. In some smaller open economies such as Sweden, Israel and South Korea, attitudes towards trade appear more favourable than among the five major economies analysed in Figure 1. Japan joins Italy as a country where scepticism about the beneficial effects of trade abounds. While attitudes towards trade are generally more favourable in some countries than in others across all three dimensions of economic change, there is some noteworthy variation within countries. For example, while about 60% of respondents in the Netherlands and Spain state that trade has a positive effect on jobs, only about half as many also perceive a favourable effect on wages and prices. Respondents in the UK were also much more likely to see benefits from job creation rather than, for instance, reductions in prices.<sup>10</sup>

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<sup>9</sup> The University of Chicago's IGM Economic Experts Panels surveys show a widespread consensus among leading economists that most Europeans and Americans are made better off due to free trade, although some workers in import-competing sectors may be made worse off (see footnote 2). Economists' views on these questions have been informed by various studies showing that freer trade reduces consumer prices in developed economies. For example, free trade agreements signed by the EU lowered quality-adjusted consumer prices for domestic consumers (Breinlich, Dhingra and Ottaviano, 2016). Jaravel and Sager (2019) and Bai and Stumpner (2019) also find large reductions in consumer prices for industries that were more exposed to increased import competition from China in the 2000s. Recent tariffs introduced on foreign imports by the Trump administration had the opposite effect. Amiti, Redding and Weinstein (2019) and Fajgelbaum et al. (2020) find that the tariffs have been passed through completely to consumer prices in the US, at least in the short term. At the same time, studies of trade's labour market impacts suggest that adjustment to increased imports can also be sluggish, meaning that, for certain groups of workers, the gains from reduced prices can be more than offset by persistent, adverse consequences on their employment and earnings. Various studies have documented these impacts following episodes of trade liberalisation, particularly for the case of increased Chinese import competition in developed economies during the 1990s and 2000s (see the review in Autor, Dorn and Hanson (2016)).

<sup>10</sup> Respondents across countries are much more likely to report having a positive attitude towards trade overall than to agree with any of the individual statements that trade creates jobs, trade reduces prices or trade increases wages. One important reason for this is that respondents had the option of stating that trade made no difference to jobs, prices or wages whereas they only had the options of saying that trade with other countries is 'very good', 'somewhat good', 'somewhat bad' or 'very bad' or that they 'did not know' (making positive responses more likely for the general question than for the specific questions). Respondents may of course also believe that trade has benefits in other dimensions (such as non-economic or political benefits) that are not captured by the questions about jobs, wages or prices.

Figure 3. The public is more likely to believe that trade creates jobs than that it reduces prices or increases wages

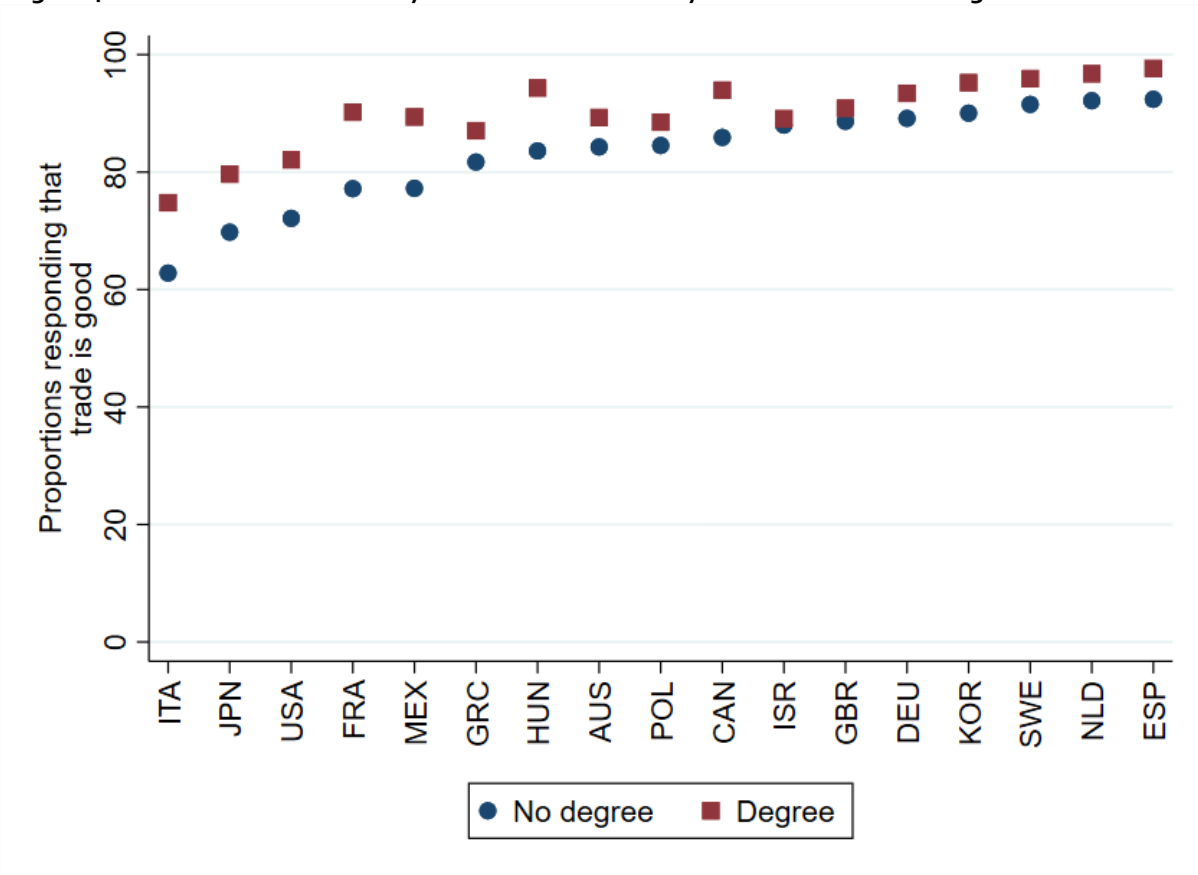


Note: Authors' calculations from the Pew Global Attitudes Surveys conducted in Spring 2018, for OECD countries included in the Pew survey. Countries are ranked according to the percentage responding that trade creates jobs in their own country. Shares exclude those who refused to answer.

## 4. Those with a university education tend to be more positive about the effects of trade

So far, we have discussed international differences in the average person's attitudes towards trade. Of course, this disguises differences in attitudes across population groups within countries. In particular, the labour market effects of trade may be felt differently for workers with different levels of education. Figure 4 indicates the shares of those with and without university degrees stating that trade is very good or somewhat good. In all countries, those with a university degree are more likely to believe that trade is good. This difference is smaller in the UK than elsewhere: 89% of those without a degree believed that trade was somewhat good or very good, compared with 91% of those with a degree.

Figure 4. Those without a university education are less likely to believe that trade is good overall



Note: Authors' calculations from the Pew Global Attitudes Surveys conducted in Spring 2018, for OECD countries included in the Pew survey. Countries are ranked according to the percentage of those without a university education responding that trade with other countries is 'very good' or 'somewhat good'. 'Degree' indicates those holding at least a bachelor's degree (or national equivalent). Shares exclude those who refused to answer.

Those with a university education are also less sceptical on trade's specific impacts on jobs, wages and prices.<sup>11</sup> For example, in the UK, 57% of those with degrees thought that trade created jobs, compared with 48% of those without a degree. While the survey did not ask respondents to assess the impact of trade on jobs for their own education group, it is plausible that people answered the job question through the lens of different group-specific experiences of the impacts of trade. Empirical research

<sup>11</sup> In all countries, those with a university education are more likely to agree that trade with other countries creates jobs, increases wages and (in all but one country) reduces prices.

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indeed suggests that trade's impact on the labour market is relatively more adverse for lower-skilled workers.<sup>12</sup>

The increase in scepticism towards trade that we saw between 2002 and 2007 was much greater for those without a degree in the US, the UK and Germany (declines were much more similar across education groups in France and Italy, though still greater for less-educated workers in France). For example, in the UK, the proportion of those with a degree agreeing that trade with other countries was somewhat good or very good fell by 6 percentage points (from 91% to 85%), while amongst those without a university degree the proportion fell by 15 percentage points (from 87% to 72%).<sup>13</sup> This is again consistent with evidence that increased Chinese import competition in these years had unequal impacts, with relatively worse effects on the employment and earnings of those in less-skilled occupations.<sup>14</sup>

As well as showing some consistent patterns, Figures 3 and 4 highlight some of the complexities in interpreting public attitudes towards trade. Individuals may have divergent views on the nature of trade's benefits – for jobs, wages and prices – and may weigh these benefits differently when coming to an overall judgement. There may also be differences in the importance respondents attach to trade's non-economic benefits (such as peace and security), impacts on other countries or impacts on their fellow citizens. What is more, there are notable differences across population groups, with the less-educated holding significantly more sceptical attitudes about trade's impacts than those with a university degree. While views on international trade have become an important issue during election campaigns in some countries such as the US, trade is only one of many policy issues that people care about. Therefore, the extent to which changes in public attitudes towards trade affect political outcomes will strongly depend on how individual voters, politicians and political parties weigh up their views over different policy areas.

In the coming years, future waves of the Pew survey may reveal how the COVID-19 pandemic has affected public attitudes towards trade, and how these changes vary across countries and education groups. Whether the pandemic's effect on attitudes towards globalisation turns out to be one of its lasting impacts is still very much unknown.

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<sup>12</sup> For example, Autor et al. (2014).

<sup>13</sup> In Germany, the proportion of those with a degree agreeing that trade with other countries was somewhat good or very good fell by just 2 percentage points (from 97% to 95%), while amongst those without a university degree the proportion fell by 7 percentage points (from 91% to 84%). In the US, the proportion of those with a degree agreeing that trade with other countries was somewhat good or very good fell by 14 percentage points (from 85% to 71%), while amongst those without a university degree the proportion fell by 20 percentage points (from 76% to 56%). In France, favourable attitudes towards trade amongst those holding a degree fell by 8 percentage points (from 94% to 86%), while among those without a degree favourable attitudes declined by 10 percentage points (from 87% to 77%). In Italy, the decline in favourable attitudes was greater amongst those with a degree (where they fell from 87% to 71%) than amongst those without (for whom they fell from 79% to 68%). This may partly be because Italians without a university education were more likely to be sceptical of trade's benefits than those in other countries at the start of the period.

<sup>14</sup> See Autor et al. (2014) and Dauth, Findeisen and Suedekum (2014).

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