Trade Will Increase Industrial Jobs Under Trump's Two Agreements

by Paul Gallagher and Marcia Merry Baker

Jan. 18—President Donald Trump this month is signing two significant trade agreements just days apart, a first-phase reciprocal trade agreement with China and then the United States-Mexico-Canada Agreement, or USMCA. The most notable effect will be an increase in industrial and manufacturing employment in the United States and in the availability of American industrial and household products for consumption in China. Because of the elevation shown in the President's positive relationships with Presidents Xi of China and López Obrador of Mexico, the near-term outlook for cooperation in joint economic development projects is improved, among these three nations and beyond.

White House/D. Myles Cullen

President Donald J. Trump with Chinese Vice Premier Liu He, at the White House signing ceremony of Phase One of a trade agreement between the United States and China, on January 15, 2020.

Trump signed the U.S.-China agreement January 15 in Washington with Chinese Vice-Premier Liu He, calling it "fair and reciprocal"; on the 16th, the Senate sent him the USMCA which he is expected to sign in the week of the 20th.

At the Jan. 15 signing, the President stated for a second time that he intends to go to China "in the not too distant future" to discuss further agreements. Although no visit is set, this statement is important both to China as showing reciprocal respect, and to world peace and economic development, as it could lead to a near-term summit.

Trump praised his "good friend" President Xi Jinping: "We've developed incredible cooperation throughout this process." Now, he said, he foresees "greater harmony between the U.S. and China, leading to stronger world peace." The governments have made "a big investment in each other," Trump added. Going beyond trade, the President praised Xi for helping Trump's negotiations for denuclearization in North Korea, and noted the respect DPRK leader Kim Jong-Un has for President Xi. In general, "They [China] help us and we help them. We've created a beautiful mosaic" of cooperation, Trump said. (The reactions of those savage China-bashers, Vice-President Pence and Secretary of State Pompeo, can be left to readers' imaginations.)

On the Chinese side, Liu He read a letter from Xi to Trump, in which the Chinese President said, "I will stay in close touch with you personally," on implementation and progress.

What the U.S.-China Agreement Does

What surprised most of those speculating about the agreement, is that its impact on American industrial/manufacturing exports and energy exports to China is likely to be substantially greater than that on food exports, which had dominated discussion in the media before January 15. China agrees to increase manufacturing goods imports from America by just under $80 billion over 2020-21; these U.S. exports to China have recently been at a level of about $55 billion. Energy exports have not been much over $10 billion annually for years, but are to increase by a very substantial $52 billion over 2020-21. Agricultural exports, on the other hand, have been in the range of $10-15 billion per year and it is agreed to increase them by $40 billion over 2020-21. There will be increased agricultural imports of beef, pork, poultry, seafood, dairy, rice, and potatoes.

Proportionally, energy and agriculture are the larger increases—if they are implemented as agreed. But in terms of the volume of exports, and most importantly in terms of the additional well-paid jobs that should result in America, manufacturing predominates. Electrical machinery and communications equipment will be particularly favored.


Ford Media Center/San VarnHagen

The benefit from the U.S.-China trade deal and the USMCA for U.S. manufacturing and energy exports will be greater than that for food exports. Shown: a Ford employee installing the engine on a Ford Explorer at its Chicago Assembly Plant, in June 2019.

This not only agrees with the Trump Administration's goal of increasing exports to China, putting trade more in balance and increasing industry and manufacturing in the United States. It also reflects *China's own policy* of working to increase imports from American medium-sized and small production companies, one of the key goals of China's two-year-old "Import Expo" project.

Many politically biased analyses in the United States assume that China wants to keep doing what it was doing in the 1990s and the first decade of this century—exporting huge volumes of low-value-added products to Europe and the United States. President Trump has certainly realized that the two nations could move beyond the "unfair trade" which he always insisted "was not China's fault," but the fault of American economic policy. In reality, more than ten years ago, China shifted its economic growth driver to using large-scale credits to build new, very high technology economic infrastructure, in China, and since 2013, increasingly also in other countries through the Belt and Road Initiative.

Now, while continuing to do so, it is shifting its domestic economy toward "consumption-driven growth," and this emphatically features not just raising household consumption—living standards—but more consumption by Chinese companies, of high-technology manufacturing imports. With this trade deal, China is for the first time allowing U.S. exporters to set up wholly-owned wholesaling subsidiaries in Chinese port-of-entry cities, through which they can get their products sold in other cities in China, increasing their export profits.

Thus the trade agreement reflects both countries' priorities, and both Presidents may well have the view that they are making, in Trump's words, "a big investment in each other." Other recent developments back this conclusion as well. In late November, China *cut tariffs unilaterally* on nearly 900 types of U.S. exports, more than half of them manufactured goods. And second, the goals noted above—increasing exports to China, putting trade more in balance, and increasing industry and stimulating manufacturing in the United States—were already visible in changes over months before this agreement. U.S. exports had increased from recent years' $115 billion to a pace estimated at $125 billion in 2019. Monthly trade deficits with China had fallen by as much as one-third.

(Other, more general agreements such as China setting up a comprehensive legal system of intellectual property protection and enforcement, allowing full U.S. financial parent-company ownership of subsidiaries in China, and making technology transfer completely voluntary, also reflect changes in policy which China was already making before the agreement.)

This has to be seen in perspective: American manufacturing exports have increased in the second half of

2019, while overall U.S. industrial production has stagnated and manufacturing output and employment have fallen. This so-called "industrial recession" is *worldwide*, deepening fast in Western Europe, and threatening to trigger a global financial crash of corporate debt. Only in the past few months has China shown signs of pulling out of it.

Under the agreement, the Trump administration eliminated tariffs originally set to take effect in December 2019, and cut duties on $120 billion worth of China's exports, from 15% to 7.5%. But unfortunately, in a joint statement January 15, Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin said there is no agreement to remove tariffs imposed in 2018 on imports from China totaling more than $360 billion annually.

USMCA Benefits Industries

The United States-Mexico-Canada-Agreement that President Trump will sign this week is clearly an industrial job creator, and will raise wages and labor standards in some industries in Mexico; for this it got the backing of the AFL-CIO after some renegotiation of the originally agreed terms. There are estimations that the USMCA will increase manufacturing employment in the United States by 175-200,000. This is a small amount—manufacturing jobs grew by 200,000 in 2017 and again in 2018—but does reverse the drop that began in 2019.

The biggest manufacturing sector that spans all three countries is auto and auto parts and systems which, together with aerospace, constitute America's major machine-tool reserves. Even as USMCA was being approved in the House, with guaranteed approval in the Senate, Ford Motor Company announced production increases at two of its Michigan sites, bringing on 3,000 production workers.

The USMCA provides that 45% of all "auto content" produced in North America, and 75% of motor vehicles to be sold in North America, must be produced by workers earning at least $16 per hour. This will have the effect of raising some industrial wage levels in Mexico, but also increasing the industry's employment in the United States and Canada, where most production workers are earning that level or above.

The tripartite agreement also aims to try to bring back the decimated U.S. textile industry, by requiring that many textile products and sub-products be made in North America to qualify for trade benefits. Clearly, China's textile industry is the target of this. The United States' military-oriented industrial policy, commissioned in 2017 by President Trump and published in early 2019 by the Pentagon with direction from the anti-China Trade Advisor, Peter Navarro, identifies the entire textile sector as one which needs direct Federal government support. That report complained that critical elements of the armed services' high-tech uniforms, for example, are not being made in the United States, but imported primarily from China.

In many other respects, particularly those dealing with intellectual property and guaranteeing large banks and financial firms the ability to repatriate profits, the agreement resembles the NAFTA agreement it replaces. An exception is the USMCA's distinct reduction in pharmaceutical companies' length of patent protection.

Agreement's Shortcomings for Agriculture

But, like NAFTA, the USMCA is worst in regard to agricultural measures, which have been completely distorted and deranged across the three countries by the 25 years of NAFTA. The agriculture measures presuppose the continuation of the NAFTA-WTO destructuring of farm production and food supply lines in the U.S. and North America. Over the decades, production has been relocated to low-cost areas, increasing the profits of farm commodity cartels and Wall Street investors and creditors. For example America, by means of economy of scale, became the dominant supplier of staples of the Mexican diet (corn, beans) to a Mexico which stopped producing them; Mexico became the dominant supplier to Americans of fruits and vegetables formerly produced in America. All food groups have been affected.

The USMCA, amplifying NAFTA, offers U.S. farmers the prospect of still more exports as the relief from destruction by extreme low prices and negative farm income. For six years, commodity prices to farmers have been below their costs of production; thousands of independent family farms across North America have been shut down—especially livestock and dairy. The degree of monopolization of processing and trade has reached record extremes. The suicide rate in America's rural areas is the highest in the nation.

Some farm commodity groups were quick to applaud this week's trade actions, on grounds of getting some predictability in hardship circumstances where farmers otherwise are whipsawed by commodity speculation, lack of Federal parity pricing and production

USDA/Lance Cheung

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U.S agriculture has been shorted in both the trade deal with China and the USMCA. Shown are familiar scenes from the vanishing family farms in North America: A combine in a Virginia cornfield, pigs on a hog farm in Virginia, a soybean field in Tennessee, and dairy cattle in Quebec.

management policies, and of course, bad weather.

But here is an example of what they've "won." Canadian dairy farmers' protection from American dairy products is lowered; Mexican dairy producers will have no protection; U.S. dairy exports will increase. But regarding beef products, USMCA disallows labelling to show U.S. consumers the product origination. Such "country of origin labelling" (COOL) for beef was in effect from 2013 to 2015, but Congress removed it under pressure from the global meat packer lobby. Thus if cattle from Canada and Mexico (or Brazil, Argentina, Australia, etc.) are slaughtered in America, or the meat is packaged in America, the product is labeled, "Made in the U.S.A." Tysons, Cargill, JBS and National Beef/Marfrig process and pack 85% of all U.S. beef.

Belt and Road Opportunity

There is currently a complementarity between Chinese demand for certain commodities, and American capacity to produce them. As in manufacturing, there is a win-win potential. Take soybeans and pork, for example: The Chinese swine herd has been reduced by fifty percent over the past 18 months by African Swine Fever. U.S. pork production capacity is large, and could make up much of the pork gap in the Chinese diet. The pork tariff was just one of the nearly 900 unilaterally *reduced* by China in November, though it is not *removed* by this phase-one agreement. And China will need soybean imports to build its swine herd back up. In agriculture, as in other economic sectors, China is on course to upgrade its dietary level and domestic production capacity. It is in the interest of the United States to collaborate.

These two trade agreements, imperfect as they are, nonetheless come from respectful dialogue among Presidents Trump, Xi and López Obrador. Thus they show a potential that those presidents could discuss a higher order of progress in productivity and productive employment, than trade in industrial products—that is, joint building of major high-technology public works of infrastructure, including the joint issuance of credit for them. Xi Jinping continues to keep open the offer of participation in the Belt and Road Initiative, for the United States to join in its corridor and port projects across Eurasia and its projects in Southwest Asia and Africa. Trump and López Obrador have discussed the latter's proposed $20-30 billion joint infrastructure initiative from the Rio Grande border down through the Central American countries. China is clearly interested in such investments in Mexico.

These ideas require a new international credit system, or a new Bretton Woods which, together with Glass-Steagall break-ups of the megabanks, can head off a new global financial crash which is otherwise certainly close. These heads of state, together with those of Russia, India and other nations that may join in, must launch that system.