

Is China the boogeyman ?

害怕中国?

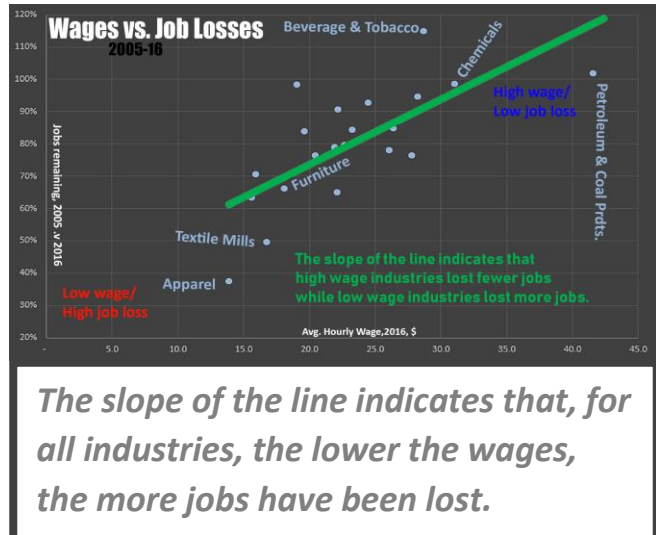
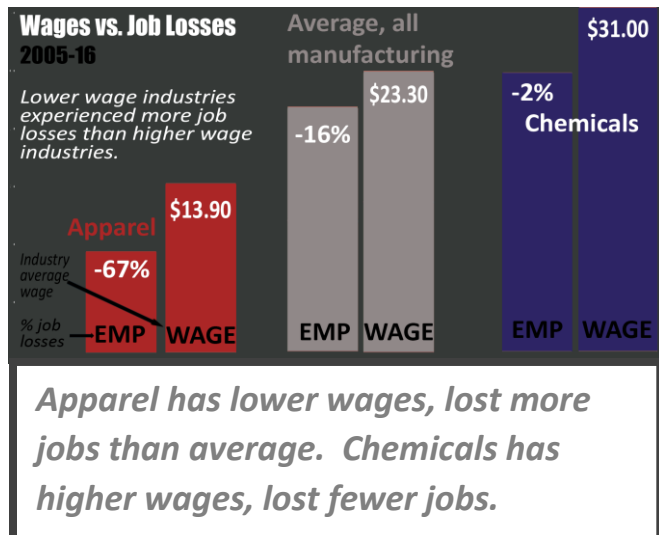
Did China steal jobs from the US?

Part 4: We are losing the right jobs for the right reasons

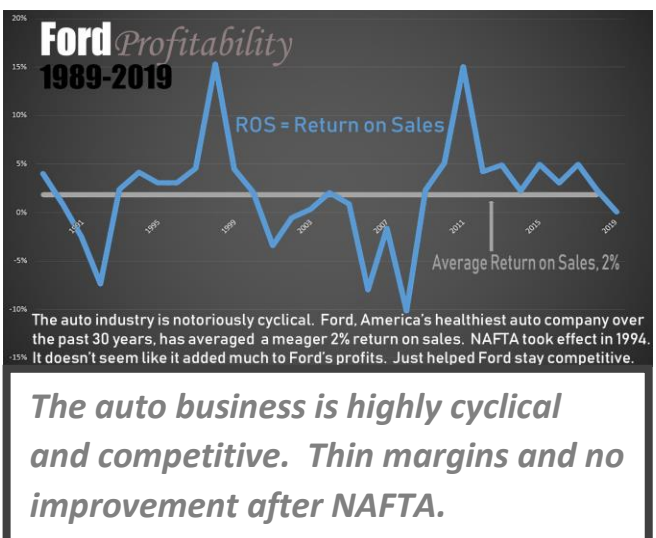
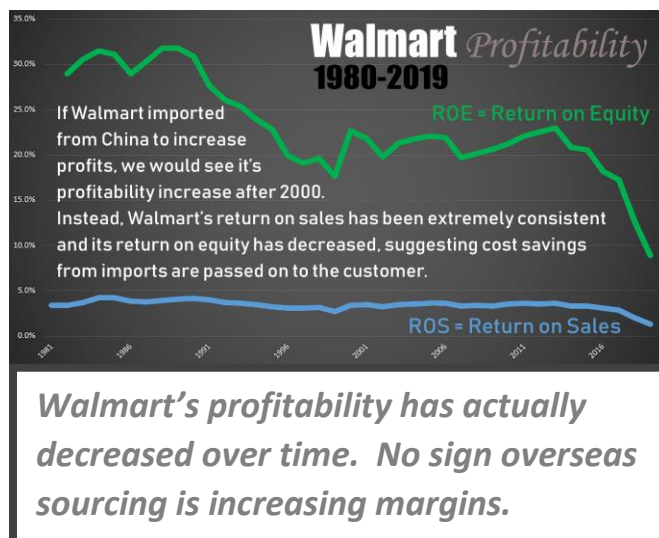
Low wage jobs are being lost far more than higher wage jobs. Low cost sourcing overseas results in savings being passed to the customer and rising R&D expenditure. This is all part of the process of progress which is vital to making life better, longer, and more fulfilling.

More low wage jobs are lost than high wage jobs

The industries that are losing the most jobs, like Apparel and Leather manufacturing, also have the lowest wages. Higher wage industries like Chemicals have lost few jobs. The relation holds across industries. This is an indication that lost manufacturing jobs has been a natural part of the evolution of the US economy.



Companies aren't padding profits, just passing on the savings



Walmart's Return on Sales—net income divided by sales or revenue—has been around 3% for the past 40 years, including after China joined the WTO in 2000. Plus, Walmart's return on equity, which basically measures how much profit a company makes on its investment, has also decreased since 2000. Considering Ford, note that the auto business is high cyclical so Ford's profits fluctuate considerably. Over the last 30 years, Ford has averaged a meager 2% Return on Sales, including after NAFTA passed in 1994. Walmart has been America's largest retailer for more than three decades. Ford is the only US auto company to not require a bail out over the last two decades. Both are iconic companies who are representative of their industries. Both have a slim margin for error, earning only 2-3 cents out of each dollar in sales. If trade fattened profits, no doubt these companies would show it. Yet that hasn't happened. It seems clear that, whatever lower costs these companies achieved, the savings were passed on to customers so that the companies could stay competitive. The same is true across all industries. Companies import from countries like China not to earn higher profits, but so as to remain competitive by passing on savings to customers.

Where does the money go?

Creative destruction and the price of progress.

In Part 5 of this series we discuss how lower costs, whether created by technology or trade, leads to more money for consumer to demand new products and services, which drives the process of progress that leads to higher incomes and a better life.