

How the China Shock, Deep and Swift, Spurred the Rise of Trump

Many assumed the U.S. would withstand the import threat as it had with Japan, Mexico; devastation in Hickory, N.C.

By Bob Davis and Jon Hilsenrath

HICKORY, N.C.—In the late 1990s, this furniture-making hub seemed sheltered from the disruptive forces of globalization. Laid-off steelworkers from West Virginia, Tennessee and beyond streamed here for new jobs building beds, tables and chairs for American homes. The unemployment rate fell below 2%.

These days, Hickory is still suffering from a series of economic shocks, none more powerful than China's rise as an export power. The invasion of imported furniture drove factories out of business, erased thousands of jobs and helped drive unemployment above 15% in 2010.

Stuart Shoun, 59 years old, has been laid off three times since 1999. After one layoff, the Hickory machinist studied architecture at a community college but then couldn't find a job and returned to the furniture industry. He makes \$45,000 a year, the same as he did nearly 20 years ago and \$14,000 a year poorer after adjusting for inflation.

Mr. Shoun's son, Steven, a trained furniture upholsterer, manages a junkyard and discourages his own son, now in college, from working in the industry that gave North Carolina the nickname "Furniture Capital of the World." Steven Shoun says he blames "the people who run our country and who run our companies" for Hickory's economic turmoil.

Mr. Shoun and his father say they favor Donald Trump for president, even though they don't plan to vote. "I don't think one vote will make any difference," says Stuart Shoun.

When import booms from Japan, Mexico and Asian "tiger" economies such as Taiwan arrived in the U.S., many cities and towns were able to adapt.

China was different. Its emergence as a trade powerhouse rattled the American economy more violently than economists and policy makers anticipated at the time or realized for years later. The U.S. workforce adapted more slowly than expected.

What happened with Chinese imports is an example of how much of the conventional wisdom about economics that held sway in the late 1990s, including the role of trade, technology and central banking, has since slowly unraveled.

The aftershocks are sowing deep-seated political discontent this election year. Disillusionment with globalization has fed one of the most unconventional political seasons in modern history, with Bernie Sanders and especially Donald Trump tapping into potent anti-free-trade sentiment.

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Both presidential candidates aimed much of their criticism at 1994's North American Free Trade Agreement, which boosted imports from Mexico. Even then, though, the real culprit was China, economists now say.

Many U.S. factories that moved to Mexico did so to match prices from China. Some of the new Mexican factories helped support U.S. jobs. For example, fabrics made in the U.S. are turned into clothing in Mexico for sale globally by U.S. companies.

David Autor, a Massachusetts Institute of Technology economist who has studied trade, labor markets and technological change, calls China's economy a "500-ton boulder perched on a ledge." At some point, it would tumble and splatter what was below, but "you just didn't know when," he says.

Economists have long argued that while free trade creates winners and losers, the net results are beneficial. Americans gained from inexpensive imports and filled their homes with low-price bicycles, jewelry and kitchenware. U.S. companies won access to overseas markets.

Workers in industries exposed to imports were expected to upgrade their job skills or move somewhere offering fresh opportunities.

Japan's invasion in the 1970s largely hit industries in cities with broad manufacturing bases on which to fall back. In Akron, Ohio, long the center of the U.S. tire industry, chemists trained at the University of Akron helped create a local polymer industry that employs tens of thousands of workers, said David Lieberth, a former Akron deputy mayor who chronicles the city's history.

China upended many of those assumptions. No other country came close to its combination of a vast working-age population, super-low wages, government support, cheap currency and productivity gains.

Imports from China as a percentage of U.S. economic output doubled within four years of China joining the World Trade Organization in 2001. Mexico took 12 years to do the same thing after Nafta. Japan took just as long after becoming a major U.S. supplier in 1974.

By last year, imports from China equaled 2.7% of U.S. gross domestic product, a percentage point larger than Japan or Mexico ever won.

Japan's import wave also challenged a limited group of advanced manufacturing industries, largely autos, steel and consumer electronics. China's low-cost imports swept the entire U.S., squeezing producers of electronics in San Jose, Calif., sporting goods in Orange County, Calif., jewelry in Providence, R.I., shoes in West Plains, Mo., toys in Murray, Ky., and lounge chairs in Tupelo, Miss., among many other industries and communities.

"If we encouraged China to trade, we needed domestic policies in place that would minimize the impact that would follow," says Gordon Hanson, a University of California, San Diego economics professor. He calls the lack of such policies "a catastrophic mistake."

A group of economists that includes Messrs. Hanson and Autor estimates that Chinese competition was responsible for 2.4 million jobs lost in the U.S. between 1999 and 2011. Total U.S. employment rose 2.1 million to 132.9 million in the same period.

In the 2000s, congressional districts where competition from Chinese imports was rapidly increasing became more politically polarized, the two researchers and two coauthors concluded from examining vote totals. "Ideologically strident" candidates replaced moderates, they wrote in a paper.

In this year's Republican presidential primary races, Mr. Trump won 89 of the 100 counties most affected by competition from China, according to an analysis by The Wall Street Journal. Those counties include Hickory's Catawba County, where Mr. Trump got 44% of the Republican vote in the March primary against 11 other candidates.

Mr. Sanders won Democratic primaries in 64 of the 100 most-exposed counties in northern and Midwestern states. That pattern didn't hold in the South, where Hillary Clinton was strong among black voters.

Hickory, a quiet city of about 40,000 people, used to have a smell redolent of wood lacquer. It was a boomtown in the late 1990s. Foreign competition challenged the local apparel industry, but furniture thrived.

Furniture makers figured they were relatively safe from imports because their products were bulky, expensive to ship and often involved hand-craftsmanship. Then shipping costs fell, and many Americans chose low prices above all else.

Manufacturing employment in Catawba County and surrounding areas shrank to 38,000 in 2014 from 79,000 in 2000. Nearly half the decline was caused by lost furniture jobs.

Last year, total U.S. imports of furniture and fixtures from China reached \$20.4 billion, up from \$4.4 billion in 2000, the Census Bureau estimates. Especially hard hit were communities in North Carolina, Virginia, Tennessee, Iowa and Wisconsin.

The U.S. now imports 73.5% of all furniture it consumes, according to Jerry Epperson, an analyst at investment bank Mann, Armistead & Epperson Ltd. in Richmond, Va. More than half of that percentage comes from China.

“We were all pretty surprised by the speed,” says Alex Bernhardt Jr. , chief executive of Bernhardt Furniture Co., a family-owned manufacturer based in Lenoir, N.C., about 17 miles from Hickory.

Mr. Bernhardt and other furniture makers say they inadvertently helped China by dispatching technicians to its factories to offer guidance. American furniture companies also sent tools, parts and instructions to China to build intricate, machine-made products there.

Alex Shuford, 42, the CEO of family-owned RHF Inc., which owns Century Furniture and is based in Hickory, says the help U.S. manufacturers gave China “was like Ford helping Toyota. ”

Century and Bernhardt survived by focusing their U.S. production on made-to-order goods, especially upholstered furniture. Bernhardt now has 1,600 employees in North Carolina, down from 2,800 in 2000, while Century has shrunk to 845 workers in the state from 1,323 in 2003.

U.S. policies to deal with Chinese trade failed, including efforts to collect import duties. In 2004, a coalition of furniture makers won a trade case against China and collected \$309 million in tariffs.

Stanley Furniture Co. , of High Point, N.C., received the biggest payout, which totaled \$83.5 million, but had just 71 workers left in the U.S. as of last year, compared with 2,600 a decade earlier. Stanley spent heavily on a U.S.-made line of children’s furniture, but it flopped.

“We invested millions in the effort to save jobs,” says Stanley President and Chief Executive Glenn Prillaman.

Stuart Shoun, the Hickory machinist, says he was a 20-year-old “hillbilly” in search of steady work when he moved to Hickory from Mountain City, Tenn., in 1977. Roads to jobs in Hickory were called the Hillbilly Highway.

When layoffs hit, Mr. Shoun was surprised some coworkers asked for help deciphering instructions because they couldn’t read or write. “How would they even go and fill out [job] applications?” he recalls thinking.

He was recruited to run a furniture plant in China and could have doubled his salary to about \$100,000. “The offer said to me: ‘You might want to get out of North Carolina and go to China because that’s where the industry is going,’ ” he says. He didn’t want to leave his family and turned down the job.

During earlier import surges, American cities and workers remade themselves. Detroit rebounded from Japanese competition in the 1980s, with auto maker Chrysler and leader Lee Iacocca emerging as symbols of American revival. Chrysler is now part of Fiat Chrysler Automobiles NV.

Laid-off workers adjusted more slowly to the China shock. In Hickory and across the U.S., fewer uprooted themselves in search of job opportunities elsewhere, migration data show. Economists cite the increase in two-income families, the aging population, housing bust and skyrocketing housing costs in places such as San Francisco and Austin, Texas.

Government efforts for laid-off workers haven’t helped much. Washington’s formal program to retrain workers hurt by import competition, called Trade Adjustment Assistance, pays for two years of college tuition and extends unemployment-insurance payouts.

A 2012 evaluation ordered by the Labor Department found that program participants, especially those older than 50, generally made less money four years after starting the program than those who didn’t sign up. The others went back to work more quickly.

Mr. Shuford, Century’s chief executive, calls the job-relief program a “Band-Aid for an economy that has a sliced artery.”

In Hickory, laid-off workers went to community college but often came away without jobs in other industries. After losing his job in 2006, Mr. Shoun figured that learning architectural design would help him get a better job. The housing market collapsed by the time he finished his training in 2008. He went back to the furniture business.

His ex-wife, Michelle Surratt, an eighth-grade dropout who lost her job in 2006, used Trade Adjustment Assistance to start earning a high-school diploma but never took the required math test because she was “scared about numbers,” she says.

Ms. Surratt, 58, earns \$9.69 an hour repairing furniture fabric. About 15 years ago, she made about \$1 an hour more as a machine operator.

Many workers figure they aren't cut out for college and turn to Social Security Disability after years of grinding factory work. Between 2000 and 2013, the number of Catawba County residents on disability rose 86%, compared with increases of 61% in North Carolina and 65% in the U.S.

Anthony "Tony" Crawford, an upholsterer, tore a knee and hurt his back tripping over wooden frames on a furniture-factory floor in 2009. During the boom, he made \$29 an hour and worked overtime shifts for more money.

Mr. Crawford, 45, now lives on a fraction of his old income. "I made my money with my hands," he says. "Back to school wasn't an option."

In recent years, Hickory has shown signs of revival. The jobless rate was 5% in June, slightly higher than the U.S. Much of the improvement in Hickory's unemployment rate is due to the area's labor force shrinking by about 25,000 jobs, or 13%, since 2001. That means there are fewer people to count as unemployed

Apple Inc., Alphabet Inc. 's Google and Facebook Inc. have set up data centers, some on a stretch of U.S. 321 long called Furniture Row. Those operations don't employ many people. Bed, Bath & Beyond Inc. 's 48,000-square-foot data center has 10 workers.

Bernhardt, facing a shortage of skilled labor, now advertises for upholsterers at movie theaters and offers signing bonuses of \$1,000.

Mr. Autor, the MIT economist, says the worst is probably over now that wages in China are rising and production has begun shifting to lower-cost countries including Vietnam. That makes little difference to Hickory's furniture-industry casualties, few of whom are likely to regain the economic ground they lost.

"What we heard was China, China, China," says Lonnie Joiner, Mr. Shoun's former boss. "I blamed the large corporations and their greed."

Mr. Joiner says he supports Mr. Trump, who won him over with "raw honesty and brashness" and his tough talk on trade.