Friday, July 11, 2025

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Analysis of today
Assessment of tomorrow

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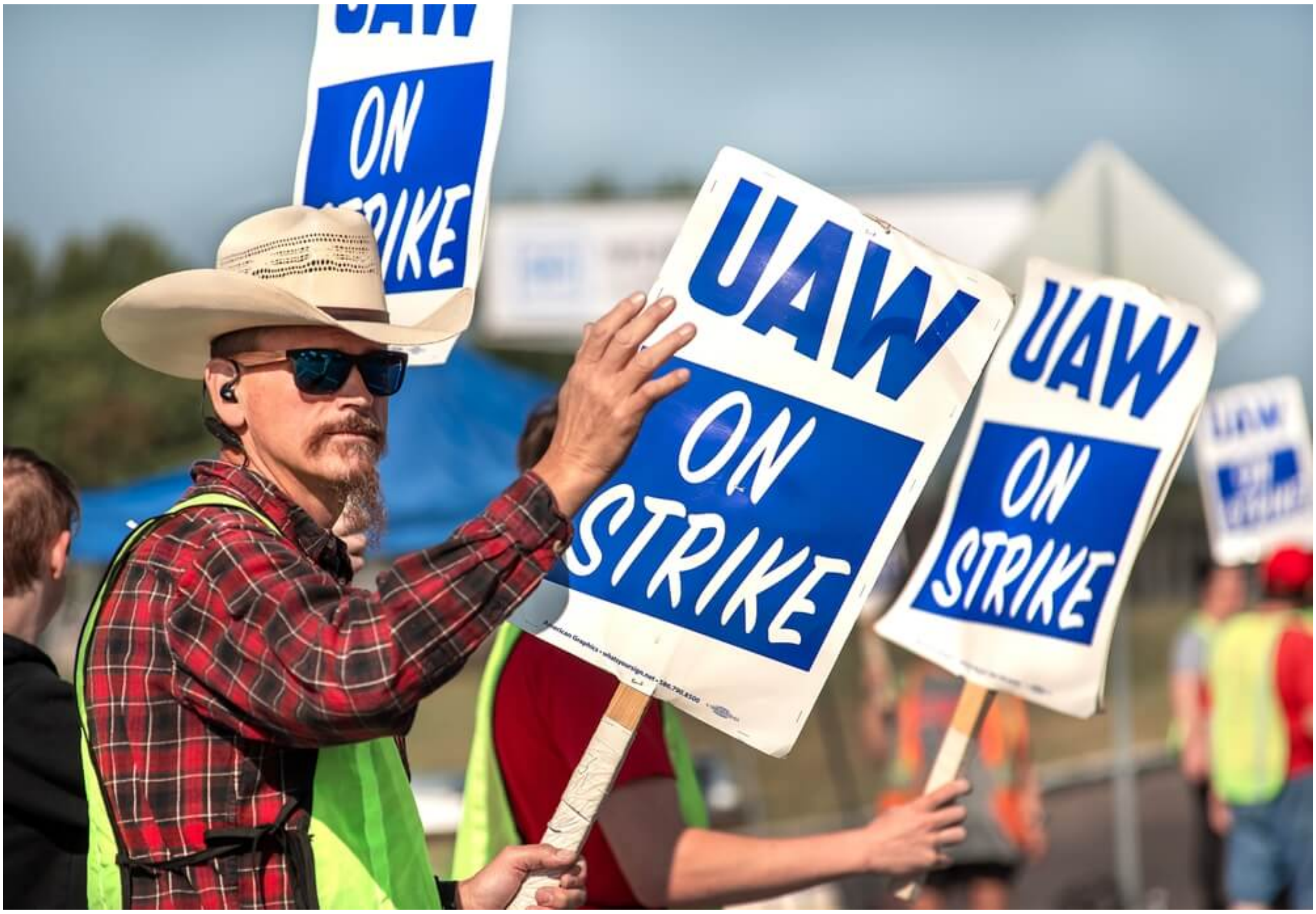
Why do Europeans and Americans understand globalization differently?



Back in 1999, when the euro was introduced, the lack of flexibility in Europe's labor market was widely expected to make responding to shocks more difficult.

This fear was vindicated after the global financial crisis a decade later, when a real-estate boom went bust, leading to a sovereign-debt distress and prolonged downturns in the eurozone.

The United States, by contrast, recovered from the 2008 crisis fairly rapidly. But the US has struggled far more than Europe to cope with another major economic shock: globalization and China's emergence as an export powerhouse.

In many ways, globalization has presented a bigger challenge to Europe than to the US.

Whereas US merchandise imports are almost exactly the same level as 25 years ago – 10-11% of GDP – the European Union's imports have increased from about 11% of GDP to over 14%.

The challenge presented by China's rise, meanwhile, is roughly the same on both sides of the Atlantic. By 2023, both the EU and the US were running trade deficits with China of about $300 billion annually.

Transatlantic difference

Despite these similarities, narratives about globalization differ sharply between the EU and the US.

Though direct comparisons of opinion polls are imperfect, owing to variations in phrasing and methodology, the basic message is clear: Whereas a large majority of Europeans believe that they benefit from free trade, most Americans think other countries have reaped more benefits than they have.

US President Donald Trump has built his political career partly on these grievances – in particular, the narrative that free trade, especially with China, is responsible for the decline of US manufacturing and the struggles of displaced blue-collar workers in former industrial hubs.

> The increase in Chinese imports led to the loss of 2.4 million US jobs between 1999 to 2011

So, while EU leaders have remained broadly committed to trade openness – even European populists have not embraced protectionism – Trump is using the threat of tariffs to force countries into revised trade deals that are more favorable to the US.

What accounts for this transatlantic difference? According to a landmark 2016 study, the increase in Chinese imports led to the loss of 2.4 million US jobs between 1999 to 2011, including nearly one million manufacturing jobs.

A follow-up study by the same authors five years later found that, while the so-called China shock "plateaued" in 2010-12, the affected areas were still struggling with "deteriorated" levels of overall employment and earnings.

Context is important

While these findings might appear damning at first glance, context is important. The US has more than 160 million workers, and unemployment has remained at very low levels in recent years.

Moreover, Trump received about 77 million votes in the last election – far more than the 2.4 million people displaced by the China shock.

So, it was probably the general decline of manufacturing – which, as multiple studies show, has been driven largely by factors other than trade, especially automation – that caused Americans to turn against free trade.

But Europe's manufacturing sector, too, has been declining – and, in many branches, the losses exceed those in the US.

Not all European countries experienced losses on this scale, but nor did all US states and regions

Over the last 20 years, manufacturing's share of total employment fell by about three percentage points in the US (from 13% to 10%); four percentage points in Germany (from 23% to 19%); and five percentage points in France (from 16% to 11%).

Not all European countries experienced losses on this scale, but nor did all US states and regions.

If the divergence in prevailing views on trade cannot be traced to a difference in the scale of labor-market dislocation, what explains it?

Policy responses to economic change

One important factor might be that in Europe – particularly Germany – exports also rose, creating new employment opportunities for workers who had lost their jobs as a result of import competition.

These workers did not even have to move, because the successful exporters could be located in the same regions as the industries in decline.

Another key difference lies in the social-safety net and industrial structures in each region.

When Americans and Europeans talk about globalization, they are not talking about trade volumes or manufacturing job losses; they are also talking about institutions, social resilience, and political narratives

Given America's higher level of industrial specialization, workers are more likely to have to move for jobs in new industries. But the country's social-safety net is much weaker than those in Europe, making such moves – and adjustments to economic shocks more broadly – far more difficult, especially for unskilled, lower-wage workers.

This helps to explains why, as Anne Case and Angus Deaton have documented, the US has endured an uptick in "deaths of despair" (due to suicide, drug overdose, and alcoholism), particularly among working-class men, in recent decades. Family breakdown and a weakening of community ties might also play a role.

When Americans and Europeans talk about globalization, they are not talking about trade volumes or manufacturing job losses; they are also talking about institutions, social resilience, and political narratives.

Keeping this broader picture in view is essential not only to shape trade policies, but also to guide policy responses to economic change in an unstable world.

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