Controversial new report blames China for massive U.S. job losses

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Desk lamps, dress shirts and jeans for less than $20. DVD players for less than $50. Brand-name toys at prices even the most cash-strapped Americans can afford. Are the Chinese-made products that flood U.S. retail malls a boon to Americans because they offer high quality at a low price? Or do they cost millions of American jobs, and suppress the wages of millions of other workers who still have jobs? Supporters of free trade have long accepted the huge U.S. trade deficit with China as the necessary price for raising the buying power of American consumers.

But a controversial report by the Economic Policy Institute, a nonprofit, nonpartisan think tank based in Washington, argues that China's entrance into the World Trade Organization seven years ago has had a Devastating effect on U.S. workers and the domestic economy The report says that between 2001 and 2007, 2.3 million U.S. jobs were lost or displaced as a direct result of the trade deficit with China, including 366,000 jobs in 2007 alone.

Robert E. Scott, senior international economist and director of international programs at the institute, estimated that the growing trade deficit with China has displaced 102,700 jobs in Ohio alone since 2001, including 75,600 in manufacturing.

Even when American workers who have lost their jobs are re-employed in industries that are not involved in international trade, those workers lost an average of $8,146 a year; a total of $19.4 billion in 2007 alone, Scott said. Trade with less-developed countries such as China has reduced the bargaining power of all workers in the U.S. economy who resemble import-displaced workers in terms of education, credentials and skills. Annual earnings for all workers who don't have a four-year college degree N 70 percent of U.S. workers N are roughly $1,400 lower today because of this competition, and China is the chief culprit, Scott said.

But don't low-wage U.S. workers also enjoy a higher standard of living because of those high-quality, low-price imports from China? Scott said the impact of imports from China and other low-wage countries suppresses U.S. wage levels so much that the average American winds up having a lower standard of living. Low prices are the problem he said, not the benefits

Scott said leading U.S. manufacturers have continued to defend trade with China, despite the huge U.S. trade deficit, because their use of unfairly cheap, subsidized inputs from China and other low-wage countries has helped increase their profits dramatically. U.S.

companies have been able to get away with this practice because companies have used the threat of off-shoring jobs to China (and elsewhere) to extract massive wage and benefit concessions from domestic manufacturing workers. In other words: Agree to lower wages or lose your job.

Although Scott's report has sparked controversy among economists, business groups and China hands, it has yet to attract much attention among politicians. It is mind-boggling said Lloyd Wood, director of membership and media outreach at the American Manufacturing Trade Action Coalition. You cannot get the politicians to mention the China word. We've tried to do that, but we've been beating our heads against the wall. That could be about to change. China could move back into the spotlight after a new U.S. administration takes power, now that both Democrats and Republicans claim they want change and plenty of it. Reducing the huge trade deficit with China is one change that both political parties say they support. Scott hopes that his research will turn the heads of U.S. lawmakers eager to kill two birds with one stone: Redress the huge U.S. trade deficit, and hold the line against any declines in U.S. manufacturing jobs.

How could that happen? Scott said he wants the next U.S. administration to take three actions.

First, he wants to pressure China to recognize the core international labor rights established by the International Labor Organization. Scott said China's failure to adhere to global labor standards suppresses wages, contributing directly to China's unfair competitive advantage. They are using the U.S. as a dumping ground to avoid reforms that they are terrified of, he said.

Second, he wants China to do away with excessive industrial subsidies, such as in the steel sector, where the government provided $15.6 billion of subsidies in 2007 alone. Third, and most important, Scott wants China to raise the value of the Chinese yuan by between 25 and 30 percent, not just gradually, as it does today, but in one bold move. The U.S. Chamber of Commerce and the US-China Business Council have mounted efforts to discredit Scott's report. 'Some of our friends in Washington need to get their facts straight, said Myron Brilliant, vice president of the U.S. Chamber of Commerce's Asia division. This study neglects the most important and largest cause of job losses in the U.S.: gains in labor productivity because of technological innovation.

The chamber released an elaborate fact sheet debunking the study's claims on job losses. Brilliant said that rising petroleum imports are far more responsible for expanding the overall U.S. trade deficit than growing imports from China. Despite its trade surplus with the U.S., China lost 10 times the number of jobs than the U.S. did from 1994 to 2004, the chamber argued.

Simple logic indicates that factors other than trade are driving the global reduction in manufacturing jobs, and mistakenly blaming China for our economic woes won't create more American jobs, Brilliant said.

John Frisbie, president of the US-China Business Council, said Scott's research assumes that every product imported from China would have been made in the U.S. otherwise, which is clearly wrong N several decades wrong, in fact. Much of what we import from China is replacing imports from other countries, not products we make in the U.S. today. Erin Ennis, vice president of the council, adds: To lay this at the feet of the Chinese is where we take most issue with this study.

Scott said his study takes into full account the fact that many imports from China replace imports from elsewhere, and he discounted the argument that the rising cost of energy imports is the key reason for the rapid growth in the U.S. global trade deficit.
Wood agrees. Over the last eight years, the U.S. has run a $3.4 trillion deficit in manufacturing goods as opposed to $1.4 trillion in oil, he said.

He added that 56 percent of the U.S. trade deficit ($123 billion out of $220 billion) was due to the U.S. deficit with China during the first six months of 2008. The U.S. trade deficit in manufactured goods, as a share of manufacturing GDP, has nearly tripled since 1998, Scott said. Meanwhile, the Chinese share of the manufacturing deficit has nearly tripled from 5 percent of U.S. manufacturing value added in 1998 to nearly 17 percent in 2007.

And while China's manufacturing sector did shrink between 1994 and 2002, Scott said it was only because China's inefficient, state-owned manufacturing firms were being privatized and restructured. That restructuring process was the result of internal, domestic problems within the Chinese economy, not the growth of its trade surplus with the U.S., he said. The key cause of the recent boom in Chinese manufacturing employment, he said, was the boom in Chinese exports following its admittance into the WTO in 2001. The number of manufacturing jobs in China grew from 101 million in 2002 to 110.6 million in 2005. In 2005 alone, China added more than 6 million jobs, largely because of the export boom, Scott said.

Will trade with China finally become a political issue now that the U.S. is facing its most serious financial crisis in a generation? The answer depends on how American politicians connect the dots between China's huge trade surplus with the U.S. and the U.S. financial crisis. Over the years, China has purchased more than a trillion dollars in U.S. Treasury securities, Scott notes. That has created greater demand for Treasury bills, raised their prices, and helped to suppress long-term interest rates in the U.S.

Without China, mortgage rates in the U.S. would have been much higher, given the huge U.S. trade and budget deficits. The frenzy of sub-prime lending might not have been possible if interest rates had been significantly higher, Scott said. This sort of connection may not make China responsible for recent U.S. financial excesses, but it could become still another reason for politicians to point their fingers at China during the next administration.

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