

SECTION 4: A CASE STUDY OF THE LOCAL IMPACT OF TRADE WITH CHINA: NORTH CAROLINA

“The Commission shall investigate and report on—

“WORLD TRADE ORGANIZATION COMPLIANCE—The compliance of the People’s Republic of China with its accession agreement to the World Trade Organization.

“ECONOMIC TRANSFERS—The qualitative and quantitative nature of the transfer of United States production activities to the People’s Republic of China, including the relocation of high technology, manufacturing, and research and development facilities, the impact of such transfers on United States national security, the adequacy of United States export control laws, and the effect of such transfers on United States economic security and employment.”

Over the past several years, the Commission has conducted field hearings in Ohio, California, Washington, South Carolina, New York, and Michigan. The Commission chose North Carolina as the location for its 2007 field hearing because the state’s economy has been profoundly affected by trade with China, and because the state has had the collective foresight to identify and take a number of steps to assist industries and companies operating there to enhance their international competitiveness.

The Commissioners believed an examination of North Carolina’s situation would help them understand how trade with China has affected employment, wages, benefits, and communities at the local and state levels. That knowledge could be useful in understanding the effect trade with China has had on the entire nation, and the actions the United States might take to ensure the stability and prosperity of its economy as trade with China continues.

Chinese exports of textiles, clothing, and furniture to the United States have had severe effects on North Carolina’s three signature manufacturing industries. The result has been dramatic job loss, shuttered factories, and the near devastation of some rural factory towns. Yet North Carolina’s economy has survived through a mixture of planning, quick reaction, and resilience. For example, in 1959 North Carolina created one of the first and largest high technology research and development parks in the United States, the 7,000 acre Research Triangle Park (RTP). Conceived as a lure for the science and engineering graduates of the three universities that define its boundaries—Duke University, North Carolina State University, and the Chapel Hill campus of the University of North

Carolina—the research park has exceeded those initial expectations and has become a recognized, leading center for advanced research.

Today the RTP draws scientists and engineers from around the United States while it increasingly attracts foreign investment.¹⁷³ Software engineering and biotechnology were more concept than reality at the time of the RTP groundbreaking ceremonies in 1959, and no one had heard of personal computers, much less nanotechnology. Yet the RTP attracted those technologies as they emerged, and today they are prominently represented.

Although North Carolina’s manufacturing job loss has been among the most severe in the nation over the past decade, its overall unemployment rate is close to the national average, thanks in part to the state’s proactive record in attracting new service industries to North Carolina.¹⁷⁴

More than once, North Carolina was described during the Commission’s September 6, 2007 hearing in Chapel Hill as a “microcosm” of the U.S. economy.¹⁷⁵ The job loss in manufacturing has occurred throughout the United States—some 3 million manufacturing jobs have been lost in the United States since 2000, continuing the acceleration of a decades-long trend in which jobs in the services industry have increased sharply in number and as a share of overall employment. Between 2000 and 2006, despite the loss of factory jobs, 4.3 million net jobs were created in the United States.¹⁷⁶ Similarly in North Carolina, the addition of service sector jobs there more than offset the number of manufacturing jobs the state lost.

The share of the U.S. job market represented by manufacturing has been in decline for more than fifty years, dropping from 35 percent in 1950 to below 13 percent today.¹⁷⁷ There have been many causes of national job losses in manufacturing—including increases in the productivity of workers as a result of both technological advances and large amounts of capital investment. Some jobs have been lost to international trade as plants closed or downsized. Some factories faced with import competition chose to substitute capital for labor, resulting in job loss.¹⁷⁸ In some cases, U.S.-based manufacturers have moved production offshore or have begun buying goods manufactured offshore and selling them in the United States under a brand name familiar to U.S. consumers. In such cases, U.S. job losses have been the result.

Some manufacturers argue that the decline in manufacturing employment does not necessarily mean that production also is in decline. The overall output of American manufacturing has more than doubled in the past 25 years to \$1.6 trillion, even as manufacturing employment and the overall share of the economy represented by manufacturing declined.¹⁷⁹

However, the relative role of one of the causes of the decline in manufacturing employment—foreign competition, particularly that from China—is more apparent in North Carolina than in the U.S. economy as a whole, for a variety of reasons.

The Effect of China on North Carolina's Manufacturing Economy

As late as 1995, compared to the rest of the country, North Carolina still had the highest proportion of its workforce engaged in manufacturing—23 percent.¹⁸⁰ Over the past decade, however, factory jobs in the state plummeted by 32 percent to just 553,300, down from 809,400 in 1996.¹⁸¹ Furthermore, the trend of declining manufacturing employment shows few signs of abating.

Because the services sector has been adding jobs even faster than they were lost in manufacturing, overall employment in the state has risen since 2003. However, because the services sector wage rates, benefits, and number of hours of work generally are below those in manufacturing, wage growth in North Carolina has barely exceeded inflation, and North Carolina's wages have fallen relative to other states.¹⁸² The state's per capita income fell from thirty-first among the states in 2001 to thirty-sixth in 2006—when, at \$32,234, it was 11 percent lower than the U.S. average of \$36,276.^{183 184}

A closer look at North Carolina's workforce and its unemployed workers shows why it has been so difficult for workers there to replace their former incomes. Dislocated workers are disproportionately middle-aged or older, with lower levels of education than the population as a whole; for example, 85 percent of those who lost jobs in 2003 in North Carolina had a high school diploma or less.¹⁸⁵ Both the age and educational factors complicated efforts to retrain workers who lost jobs they had held in manufacturing—workers who in most cases are many years past their last classroom instruction. Only 42 percent of North Carolina workers 55 and older who were laid off in 2002 found a new job within a year, and they earned just 61 percent of their former wages.¹⁸⁶ One-third of dislocated workers of all ages brought home less than half their previous earnings.

Laid-off workers in North Carolina also tended to be from rural areas with a strong sense of community. "The sense of place is very important to people here," according to Dr. Betty McGrath, a manager at the Employment Security Commission of North Carolina. "People don't want to leave their homes where generations of their families have lived and worked hard for years to make their companies successful. When jobs were not available in the communities in which they lived and had worked for many years, many of the laid-off workers were unable or unwilling to consider relocating to areas with greater employment prospects."¹⁸⁷ Just less than half of rural dislocated workers laid off in North Carolina in 2002 were able to find work within a year.¹⁸⁸

When displaced manufacturing workers in North Carolina found new employment, often it was in part-time work. Even if the hourly wage levels were equal—and often they were lower—such jobs obviously produce lower total wages. Also, part-time jobs seldom provide such benefits as retirement or health insurance. For example, researchers examining the fate of 4,800 workers laid off in 2003 from a group of Pillowtex textile factories in North Carolina found that 15 percent of these dislocated workers moved into an employment category of "professional and business services."¹⁸⁹ But with-

in that grouping are employers who pay no benefits and often hire workers for part time or temporary jobs. “At first glance, professional and business services sounded like a good transition, but a substantial number of those [jobs] were in temporary help agencies,” said Dr. McGrath. “[The displaced Pillowtex workers who took those jobs] most likely received no benefits.”

Women and minority dislocated workers have experienced special problems in regaining economic stability. The workers displaced by trade in North Carolina are disproportionately female, but because of family obligations they often find it more difficult than males to relocate where jobs are available. Although the rural North Carolina workforce is just 18 percent black, 42 percent of dislocated workers in rural areas are black.¹⁹⁰ Of the eight counties in which African-Americans compose 50 percent or more of the population, the unemployment rate in 2006 was 6.9 percent, compared to 4.8 percent in the state as a whole.¹⁹¹ When the displacements resulting from China trade caused the closure of many North Carolina manufacturing plants and the black workers in those plants lost their jobs, they found themselves added to the substantial pool of unemployed African-Americans for which job training and placement already had proved inadequate.

Statistics compiled by federal programs that aid manufacturing workers whose jobs are lost to imports show that North Carolina has led the nation in import-related layoffs. In fiscal year 2006, for example, of the 120,000 workers nationwide who were eligible to receive special benefits to laid-off workers who had lost their jobs as a result of import competition, a third were in North Carolina.^{192 193}

Private sector employment gains in the state were almost wholly concentrated among 131,000 new jobs in private education and health care and 61,000 new jobs in the leisure and hospitality industries. The better-paying factory jobs making textiles, clothing, and furniture were replaced by lower paying services-sector work, including jobs waiting tables, cleaning hotel rooms, and caring for hospital patients. Average compensation for employment in the manufacturing sector was 128 percent of North Carolina’s average wage in 2005 while that for health care was 91 percent and compensation in the leisure and hospitality sector was considerably lower.¹⁹⁴ For example, compensation in hotels and resorts was just 50 percent of the average statewide compensation while restaurant work paid just 34 percent of the average. Fortunately for workers in the services sector, while services work on average is not as well paid as work in manufacturing, services jobs generally are not as import sensitive as manufacturing jobs.¹⁹⁵

Why were North Carolina’s signature industries hit so hard by imports, particularly those from China? China’s admission to the World Trade Organization in 2001 is one of the reasons. By joining the WTO, China also joined those textile- and apparel-exporting WTO member nations whose 30-year-old export quotas were being phased out on textile and clothing shipments to the United States, Japan, and Europe. Had China not joined the WTO, it would have remained under the quota system known as the Multi Fiber Arrangement of 1974. In that case, China’s clothing and textile exports to the United States and elsewhere would have remained cur-

tailed by quotas, just as the rest of the world's clothing and textile exporters were freed from such quotas. Instead, China benefited from joining the WTO at the very end of a ten-year quota phase out that had begun in 1995. China quickly seized the new, unrestricted opening and became the world's dominant, vertically integrated, low-cost producer, displacing all other clothing producers including the United States.¹⁹⁶

In the first quarter after China was freed from the quotas, Chinese textile and apparel exports to the United States increased 62.5 percent overall. Some categories jumped as much as 1,500 percent.¹⁹⁷ By the time the quota phase-out was completed, the U.S. textile and apparel industry lost more than 44,000 jobs; 11,000 of those were in North Carolina.¹⁹⁸

In response to persistent complaints from U.S. industry and under the pressure of lengthening lines at unemployment offices in North Carolina and several other states, the Administration successfully pursued with Beijing an agreement to limit some categories of Chinese clothing exports to a 7.5 percent annual increase through 2008. After that date, any remaining quotas will be lifted. The temporary agreement slowed the job loss in the United States,¹⁹⁹ but job losses are likely to reaccelerate once those restrictions are lifted. China has continued to invest heavily in textile and apparel production capacity. According to National Council of Textile Organizations (NCTO) figures, during the past ten years, the Chinese textile sector purchased 65 percent of all knitting machines, 62 percent of all weaving machines, and 46 percent of all spinning machines sold in the world.²⁰⁰

According to the U.S. textile industry, China's growing dominance is due to a Chinese industrial policy that favors the textile and apparel industry in China. The NCTO identifies 73 separate subsidies the organization claims the Chinese government provides its domestic producers. (A list of these subsidies can be found in Appendix VII-A.) That figure does not include China's currency controls that the NCTO estimates provide up to a 40 percent export price discount for domestically produced clothing. The subsidies come from the central, provincial, and municipal governments. They include monetary awards for export performance; low-cost financing; preferential rates on land, water, electricity, transportation, and telecommunications; tax reductions, exemptions, and rebates; lowered administrative fees and tariffs on equipment imports; free advertising; and exemptions from mandatory worker benefit contributions.²⁰¹

The furniture industry in North Carolina also cites the artificially low value of the renminbi as well as Chinese manufacturers' frequent practice of selling their products at prices below the cost of production—known as “dumping”—as among the causes of its difficulty in competing with exports of wooden furniture from China. North Carolina is home to the nation's largest wholesale furniture market (in High Point), and has been by far the nation's largest producer of wooden household furniture. But due in great measure to exports from China of wooden furniture, often sold in the United States at artificially low prices, the North Carolina industry has been devastated.²⁰² While no quotas had restrained imports of furniture from China prior to its WTO accession, admission

to the WTO lowered the tariffs China's furniture manufacturers faced in exporting to the rest of the world, including the United States. Between 2000 and 2003, 73 furniture plants closed in North Carolina.²⁰³ Between 2000 and 2005, 18,801 workers, accounting for 28 percent of the wooden furniture industry workforce there, lost their jobs.²⁰⁴ Of the 40 largest wooden furniture manufacturers who once operated 125 woodworking plants, 80 percent have closed their factory doors, according to Mr. Wyatt Bassett, president of Vaughan-Bassett Furniture that operates a plant in Elkin, North Carolina.

The Federal Reserve Bank of Richmond sums up the importance of the furniture industry to North Carolina's manufacturing base this way:

*Furniture manufacturing has a long and storied tradition in North Carolina. From modest origins in the late 1800s, the state's furniture industry expanded during the twentieth century to rank among the largest and most prosperous in the nation. High Point, Hickory, Drexel, Thomasville, and other small North Carolina towns became focal points of the United States furniture craft during the period. And prosperity in the industry helped raise standards of living in a state that was once among the poorest in the nation. Along with textiles and tobacco processing, furniture manufacturing became symbolic of North Carolina's industrial progress and the South's efforts to spur economic development in the twentieth century.*²⁰⁵

But China's furniture exports severely damaged North Carolina's furniture industry. By 2000, China had displaced Canada as the largest exporter of furniture to the United States, despite having to ship its products halfway around the world.²⁰⁶ Shipments of Chinese wooden bedroom furniture, the predominant industry sector in North Carolina, totaled just \$200 million in 1999, according to industry figures. But in just three-and-a-half years, that figure jumped 715 percent to \$1.6 billion. China's share of the U.S. market for bedroom furniture increased from 15.6 percent to 53 percent, due largely to predatory pricing.²⁰⁷ Antidumping penalties levied in the summer of 2004 on Chinese wooden bedroom furniture then caused Chinese exports to plateau.

But the damage to the North Carolina industry already had been done. Much of the Chinese-made furniture exported to the United States is now being sold under the brand names of the U.S. companies that formerly made their own furniture in U.S.-based factories.²⁰⁸

The figures indicate one irony: if the U.S. companies making bedroom furniture were to file an antidumping petition with the U.S. Department of Commerce today, they might not meet the requirements for legal standing, because so many American manufacturers have switched to importing Chinese furniture and placing their own brands on the imports.²⁰⁹ As a result, many companies that formerly manufactured in the United States would now oppose imposition of antidumping penalties on furniture they import from China to sell under their own brand names.²¹⁰

North Carolina's Successful Efforts to Compete

Not all the most recent economic news has been bad for the Tar-heel state, however. In the 12 months ending June 2007, jobs had increased by two percent, placing North Carolina tenth among all states in job gains. Professional and business services, construction, and finance recently have joined the health and education sectors as strong gainers. The unemployment rate, at 4.8 percent, was just slightly above the national average of 4.6 percent in August 2007. Moreover, although North Carolina in July 2007 had the twenty-first worst job market in the nation in the furniture-making region of Hickory, Lenoir, and Morgantown due to layoffs there, it also could claim four of the nation's best job markets in Jacksonville (seventh best), Rocky Mount (twelfth best), Wilmington (fourteenth best), and Greenville (twenty-first best).²¹¹ Furthermore, North Carolina's share of the nation's GDP has been increasing (albeit sporadically) over the past four years and the gap between North Carolina's share of the economy and its share of the population has narrowed considerably.²¹²

North Carolina's Research Triangle Park has been cited, studied, and copied worldwide as a generator of jobs and economic prosperity, as well as an antidote to the collateral damage of globalization. In fact, China has copied the concept, and currently has ten parks that are among the world's largest, with more than 1,000 tenants each. Originally intended as a way to provide jobs for graduates of the three major universities in the area,²¹³ the RTP now attracts investors, scientists, and engineers from around the world.²¹⁴ Among the states, only California ranked higher than North Carolina in 2004 as a location where corporations were considering placing new offices and facilities.²¹⁵ More than 39,000 people work at 157 organizations located within the RTP. Their average salary is \$56,000, nearly 45 percent higher than the regional average—a sea change in an area that was once the state's poorest region.^{216 217}

During its hearing in North Carolina, the Commission heard from a representative of a highly successful company located within the region: Red Hat Software. Mr. Michel Chen, vice president of corporate marketing, told the Commission the company has 2,000 employees in 58 countries and had revenues last year of \$400 million. The company's product is unique: it supplies the customization and tech support required by users of the free, open-source Linux operating system. Half its clients/customers are in the United States, and half are outside.

Mr. Chen told Commissioners that Red Hat was founded on the premise that globalization is inevitable and, coincidentally, that it sees China, with a sixth of the world's population and a fast-growing economy, as a huge potential market and opportunity for American exports. Red Hat has offices in seven Chinese cities. When Mr. Chen was asked why Red Hat chose the Raleigh-Durham-Chapel Hill area as the location for its headquarters and has kept it there after the company's rapid global expansion, he responded:

It's the innovation, it's the idea . . . because [North Carolina has] the best technology and the best business education in the world . . . If you look at the entire economy as a supply

*chain or supply network, there are certain places that North Carolina is shining through. . . I think given the pressure from China, given the new economy, given the globalization, it's the business leaders, it's the policymakers who have to take a step back and really think through how we can really build a new economy.*²¹⁸

North Carolina's Efforts to Cushion the Blow

North Carolina has developed an innovative approach to dealing with the mass layoffs that have swept through its rural textile and furniture manufacturing hubs. Unlike layoffs in economically diversified cities, the closing of just one medium-sized factory in a small town can be devastating to the entire town as the effects ripple through the economy, closing restaurants, car lots, movie theaters, bowling alleys, and barbershops. Workers who wish to leave the area to seek other work are unable to sell their homes. The tax base of the town and county often is devastated just as their citizens need extra help from government.

North Carolina participates in joint federal-state programs that respond to major economic dislocations by supplying immediate aid in the form of temporary replacement wages, assistance in obtaining health insurance, and education and re-training. North Carolina has developed a "rapid response team" approach to distributing aid to dislocated workers, particularly in cases of plant shutdowns.

Under the joint assistance program, states may create a simplified clearinghouse of job information free of the bureaucratic red tape associated with government employment agencies. The states work to pool funds available from related programs and use them to tailor assistance to individuals in a variety of ways that may include helping dislocated workers start their own businesses, obtain child day care, enroll in classes, or otherwise ease their reentry to the workforce.

In 2003, North Carolina's rapid response was tested when Pillowtex, a large textile company that in 1997 had absorbed Fieldcrest Cannon (itself the product of a merger of two textile giants), closed abruptly and filed for Chapter 13 bankruptcy. Some 4,800 workers in North Carolina were laid off, pushing the unemployment rates in three counties to around 10 percent.²¹⁹

A North Carolina union representative at that time, Mr. Harris Raynor, currently an international vice president of UNITE HERE, remembers the layoff in vivid terms:

"It was a despicable event, and it was a very tremendous tragedy. Almost all those workers, as the papers have shown, could not afford health insurance. . . . what programs there were were totally inadequate, did not understand workers, did not understand the education level of these folks, many of whom tried to go to school, many of whom thought that they had to go to school to get the extended unemployment benefits that were there, and most of them wound up taking remedial classes because they couldn't even read well enough to take the classes that they

*needed to take in order to get degrees and do the jobs that they have.*²²⁰

The state sent teams of state aid workers to the Pillowtex sites and helped the unemployed sign up for benefits and retraining programs. The state also tracked the efforts of the workers to obtain training and reemployment. In the four years ending in July 2007, 2,417—or half-the laid-off Pillowtex workers—enrolled in North Carolina’s community college system. A little more than a third of those sought to finish high school or obtain equivalency degrees. About the same number sought associate degrees and the remainder enrolled in occupational training. By the end of 2006, only 60 percent of the workers had managed to find jobs in North Carolina. A third returned to manufacturing while the rest moved into services industry employment.

Another instance in which the assistance system was tested was the April 2006 closing of the Collins and Aikman plant in Roxboro that manufactured automobile interior fabrics. This closing made 545 workers suddenly jobless. Counseling, retraining, health insurance, housing assistance, and, eventually, job fairs were among the services offered to that plant’s former workers.²²¹

North Carolina’s 58 community colleges have been important to the state’s retraining efforts. “The key to what we do with Rapid Response is to have empathy and a heart for helping people,” said Dr. H. James Owen, President of Piedmont Community College in Roxboro since 1987. “It’s not like teaching calculus and saying, ‘Ya’ll come and get it; here it is.’ You must work very diligently with people who have worked for the same company for 20, 30, and 40 years. You must make sure they understand the options available to them.”

Today, Dr. Owen told the Commission, the college is hoping to retrain and place some of the former Collins and Aikmen workers at a new plant that will be building the Cheetah mine-resistant vehicle for the U.S. military. The new plant will employ 270. The Cheetah’s manufacturer has been interviewing prospective employees at the college’s “workforce training center.” The college also hopes to help dislocated workers obtain jobs at the \$100 million Honda Aircraft Company, Inc. headquarters under construction in Greensboro. It is expected to employ 500 new workers building light aircraft. In such cases, businesses work with the community college system to determine and arrange for the types of training that will best fit the needs of employers and their potential employees, according to Dr. Owen and Mr. Thomas White, Director of Business and Industry Services for the Division of Workforce Development of North Carolina state government’s Department of Commerce.

While the North Carolina dislocation assistance system has proven effective over the past decade, some improvements in the way the federal and state governments coordinate the available benefits could improve and expand the help that assistance system provides to dislocated workers, according to Dr. Owen. For example, the federal Trade Adjustment Assistance program requires dislocated workers to be enrolled in approved training within 13 weeks of the end of their severance pay in order for the training to be funded by the government. However, since most nursing programs accept

new students only at the beginning of the fall semester, this avenue is often closed to dislocated workers because of the narrow 13-week window. In some cases, the newly unemployed workers need more help in choosing among the many options for health insurance and more time to navigate the complexity of the Trade Adjustment Assistance program that provides benefits for those workers who lose their jobs because of imports. Even the personnel of the assistance program “sometimes find it difficult to understand,” said Dr. Owen. “This complexity inhibits clarity of communication of requirements and benefits of the program to those who are already upset and anxious about being dislocated from their livelihood.”

Conclusions

- The accelerating decline in North Carolina’s manufacturing employment is due in large measure to increasing competition from imports, mostly from China. Manufacturing employment in the United States has declined for 50 years although the dollar value of manufacturing production has increased as a result of rising productivity.
- During this same period, the number and proportion of jobs in the North Carolina services sector have been increasing. This shift has put downward pressure on wages because manufacturing historically has paid substantially higher wages than the services sector. This shift also has reduced the number of workers receiving such fringe benefits as retirement and health insurance, in part because some of the displaced workers were able to find only part-time jobs that often do not offer benefits.
- Because a greater proportion of North Carolina’s workforce held manufacturing employment than held such employment in any other state, North Carolina’s workforce was more vulnerable to competition from imports than the workforces of other states. North Carolina’s manufacturing economy was made even more vulnerable by its concentration in the import-sensitive sectors of textiles, apparel, and furniture.
- Trade agreements can profoundly affect state and regional economies and particular industries. The combination of China’s 2001 admission to the World Trade Organization (WTO), which gave it quota-free access to U.S. markets for its textile and clothing exports, and the subsequent U.S. grant of Most Favored [Trading] Nation status that lowered most tariffs on Chinese imports,²²² battered North Carolina’s textile and apparel industries, and they never recovered. While trade agreements that lower import barriers among America’s trading partners have the potential to benefit American exporters, North Carolina appears to have realized few if any substantial benefits from China’s admission to the WTO, and the net effect of trade with China since its accession appears to be negative overall for North Carolina’s economy.
- Two provisions in trade laws and agreements proved crucial to sustaining what remained of North Carolina’s textile, apparel, and furniture industries after China’s admission to the World

Trade Organization. The first authorized the U.S. Department of Commerce to levy “dumping” duties on below-cost imports of Chinese wooden bedroom furniture in July 2004. The second authorized imposition in 2005 of temporary import quotas on Chinese clothing imports.

- North Carolina has been a global leader in establishing a local base for research and science, leveraging the state’s best universities and an innovative industrial policy to fashion the 700-acre Research Triangle Park, now almost 50 years old. It has been successful by almost any measure, attracting 157 tenants and producing its own job-creating momentum. This center has enabled North Carolina to compete successfully for facilities of many companies and has substantially increased the number of higher paying jobs in the state.
- North Carolina has worked diligently to make user friendly the system of benefits for dislocated workers that has been established and funded largely by the Federal Government. This has greatly benefited its workers who have been dislocated by the effects of trade, and has helped salvage the state’s economy and place it on a firmer footing.