

Supplemental Appendix to Statement by Richard Trumka China Trade: Deficits, Jobs, Investment and Exploitation

The Chinese economy is now undergoing the quickest and largest industrialization in world history, underwritten in part by the most comprehensive and large-scale violations of workers' rights in the current global economy. 2006 AFL-CIO 301 trade petition

According to the vice chairman of the U.S.-China Economic and Security Review Commission, we are witnessing "the actual transfer of U.S. national manufacturing capacity [to China] and the export back of the goods." 2006 AFL-CIO 301 trade petition

Trade Deficits: Economically Unsustainable and Dangerous

- The U.S. trade deficit in goods and services rocketed upward by more than \$100 billion in 2005 to \$725 billion – or nearly \$2 billion a day.¹ It went over 6% of GDP during the last quarter. The 2005 U.S. merchandise deficit portion of the overall deficit rose 18 percent to \$782 billion.
- The trends in trade deficits all bad: manufacturing is by far the biggest part of the trade pie but the other parts that were supposed to help are all in trouble. Advanced technology now in deficit, agriculture went into deficit at the end of 2005 and the services surplus dropped by nearly half in the last four years to \$58 billion.
- The 2005 trade deficit with China grew by 25 percent to \$202 billion. It is the largest bilateral deficit in world history. It was responsible for the entire increase in the United States' non-oil trade deficit² high-tech goods from China account for the United States' entire trade deficit in advanced technology products.³
- In January, 2006, the overall U.S. trade deficit in goods reached a record monthly level of \$73.4 billion, an increase of 4.6 percent in one month. The rate of growth of the bilateral deficit with China, which increased 9.9 percent in a single month, is accelerating. In March deficit in manufactured goods, the biggest individual component of the nation's trade picture, jumped 12 percent, to \$50 billion.

Trading Jobs: If you Don't Make Things You Have Nothing to Trade

- Since 1998, over 3.4 million manufacturing jobs have been lost—2.9 million of those since 2001—with over half that total coming from union shops⁴.
- Since 1999, over 40,000 manufacturing establishments have closed—medium and large plant closures have accounted for 90 percent of the job loss⁵.
- Studies confirm ongoing job loss to China: The International Trade Commission model shows that up to 973,000 manufacturing jobs and 1,235,000 total jobs are displaced by China's repression of labor rights; the Economic Policy Institute estimates 410,000 manufacturing jobs were lost to China between 2002 and 2004; US-China Economic and Security Review Commission (USCC) studies conclude that 70,000 - 100,000 jobs are moved each year from the U.S. to China, and those numbers *accelerated after 2001*.

- A recent study published by the Federal Reserve Bank of NY found that approximately 3.8 million jobs were displaced by U.S. trade in manufactured goods as of 2003.
- Extended unemployment and income decline characterize displaced U.S. workers in import-intensive industries: twenty-five percent remained unemployed six months after losing their jobs,⁶ two-thirds earn less on their new job.⁷ one-quarter suffer wage losses of more than 30 percent.⁸ Manufacturing workers with long tenure suffer particularly high wage losses.⁹
- Real hourly and weekly wages have fallen another 1.8 percent and 1.3 percent – four years into the “recovery.” In the last two years -- since the President rejected the AFL-CIO’s first petition -- the real hourly and weekly wages of U.S. manufacturing workers have *fallen* 3 percent and 2.2 percent respectively.
- The 2001-2005 job loss by manufacturing sector is staggering:
 - Computer and electronics 543,900 workers or 29.2 percent
 - Semiconductor and electronic components 260,100 or 36.7 percent
 - Electrical equipment and appliances 152,500 or 26 percent
 - Vehicle parts 153,400 or 18.6 percent
 - Machinery 289,400 or 19.9 percent
 - Fabricated metal products 235,200 or 13.3 percent
 - Primary metals 144,800 or 23.5 percent
 - Transportation equipment 246,300 or 12.1 percent
 - Furniture products 58,500 or 13.4 percent
 - Textile mills 158,500 or 43.1 percent
 - Apparel 220,000 or 46.6 percent
 - Leather products 24,700 or 38.3 percent
 - Printing 159,300 or 19.9 percent
 - Paper products 122,600 or 20.4 percent
 - Plastics and rubber products 141,400 or 15 percent
 - Chemicals 94,900 or 9.7 percent
 - Aerospace 46,900 or 9.1 percent.
 - Textiles and apparel employment declined by 870,000 between 1994 and 2006 an overall decline of 65.4 percent

Empty Cargo Containers: Our Leading Export to China.

- Over the decade 1995 - 2005, U.S. merchandise imports from China exceeded U.S. merchandise exports to China by a cumulative total of more than one trillion dollars.¹⁰
- China is now the second leading exporter to the United States behind Canada and exceeds Mexico, the low-wage export platform south of our border. At current growth rates, will surpass even Canada’s in two years
- Empty cargo containers are our largest export to China ... over 60% of the cargo containers that come into the U.S. from Asia return empty¹¹. We ship empty containers and raw materials to China. They ship back finished products.

- Of the top fifteen U.S. exports to China, three are “waste and scrap” - scrap metal, scrap paper and cardboard; four are raw materials or agricultural products -- soybeans and seed oils; six are parts -- some of which will return as finished products¹²
- Our two leading finished product exports to China are commercial aircraft and computers. However, 70 percent of Boeing’s new 787 will be manufactured offshore primarily in China and Japan. Computers exports have already begun to shift.
- In 2004 WalMart imported \$18 billion in goods from China thus accounting for more than 12% of that trade deficit. Nearly two thirds of their products are made in China.¹³

The Great Leap Forward: China’s Manufacturing Revolution

Unlike Mexico and other emerging export platforms, China has made “the crucial leap” to producing not just electronic and other consumer goods for global and domestic markets, but also manufacturing the components for those goods, including the fabrication of computer chips.¹⁴ Guangdong Province encompasses the largest such production base for electronics in the world.¹⁵

- In 2006 China became the third largest economy in 2005, passing Germany and behind only the United States and Japan. One third of China’s GDP is tied to exports.¹⁶ In the year 2005 alone, China’s *total* exports grew by 28.4 percent.¹⁷
- The Chinese government has reported annual growth rates of approximately 10 percent per year over the last quarter century, but economists believe that actual growth in 2005 was as high as 15 percent.
- Over the *decade* of the 1990s, China’s manufacturing production grew by 422.65 percent and its manufacturing exports grew by 384.2 percent.¹⁸
- Since the late 1990s China’s *annual* rates of growth in manufacturing output and manufacturing exports have *accelerated*. In 1999, China’s manufacturing output grew by 11.58 percent and manufactured exports grew by 7.2 percent.¹⁹
- In the last five years, China’s manufacturing production grew another 91.3 percent.²⁰ and in 2005, China’s manufacturing output grew by 16.4 percent and exports of “new and high technology products” grew by 31.8 percent.²¹
- China now leads the world in the production of televisions, refrigerators, cameras, bicycles, motorbikes, desktop computers, computer cables and other components, microwave ovens, DVD players, cell phones, cigarette lighters, cotton textiles, and countless other manufactured products
- China’s lead is growing at an *accelerating* pace. In 2005, China’s production of computers grew by 42.8 percent.²² Its production of mobile communication equipment grew by 108.2 percent; of motor vehicles by 33 percent; of semiconductors by 36.6 percent; photocopiers by 38.4 percent; fax machines by 33.8 percent; chemical fiber by 33.9 percent; electrical instruments by 27.7 percent; television sets by 22.8 percent; aluminum by 44.2 percent; steel products by 17.4 percent.

- China has more than 109 million manufacturing workers, many of them migrants without rights. Employment is growing especially in the export sector.²³ They are paid between 15 and 55 cents per hour, many work 70 hours a week but overtime, minimum wage, safety and health and environmental laws are not enforced.
- Child labor and forced prison labor also have an impact on Chinese manufacturing. There are as many as ten to twenty million child workers in China – from one-eighth to one-quarter the number of factory workers. The problem has increased since President Bush rejected the AFL-CIO’s first petition.²⁴ Estimates of the number of forced prison laborers range from 1.75 million to 6 million and higher.²⁵ China’s Ministry of Justice officially reports over 1.5 million in the 700 prisons that are part of the formal criminal justice system. But China also has from 250,000 to 5 million prisoners in “administrative detention centers” or “reeducation through labor (RTL) camps.”

Follow the Money: Public/Private Investment and the Coming Supply Shock

The supply shock to global industry will be felt over the next five to ten years.²⁶ William Ward, a former World Bank economist and current director of the Center for International Trade, concludes that China’s creation of excess productive capacity will “dramatically increase the competition that American producers feel, both in the U.S. market and in the global markets

- China’s capital expenditure is approximately 38 percent of GDP, nearly double the rate of countries such as India, Brazil, and Mexico.²⁷
- In 2003, the year before the AFL-CIO filed its first petition, China’s overall capital spending increased by 26 percent to \$662 billion.²⁸ In 2005, new capital spending in manufacturing increased by 38.6 percent – an accelerating pace of growth.²⁹
- In 2005, new capital spending in manufacturing increased by 38.6 percent – an accelerating pace of growth. Capital spending grew by 77.3 percent in metal products; by 80.1 percent in furniture production; by 81.6 in general equipment; by 51.1 percent in transport equipment; by 44.9 percent in electrical machinery; by 47.3 percent in apparel; by 38 percent in textiles; by 42.1 in plastic products; by 33.7 percent in chemical products.³⁰
- Foreign direct investment (FDI) to China increased from \$46.8 billion in 2000 to \$60.3 billion in 2005-- or \$100 billion including Hong Kong.³¹ China’s inflow of FDI is almost as large as FDI inflows into the United States, the leading destination of global capital.
- Seventy percent of China’s FDI is in manufacturing, with heavy concentration in export-oriented companies and advanced technology sectors.³² Contracted (future) FDI projections are more than double the actual level today, with U.S.–based firms leading the way. R&D, engineering, design are all part of the manufacturing investments and jobs that the Chinese government is aggressively pursuing.
- The impending supply shock in global manufacturing is closely connected to the extreme exploitation of labor by corporations and the Chinese government.

Direct Connection: The Cost of the Supply Shock and Extreme Exploitation

- Suppressed labor costs attracts new capital seeking competitive advantage and increases the factor share of capital, allowing greater reinvestment by existing enterprises.
- The 2006 AFL-CIO trade petition on Workers' Rights in China found that systematic repression of those right had a profound economic impact:
- The Chinese government's labor repression lowers manufacturing wages by 47.4percent to 85.6 percent

The Chinese governments labor repression reduces the price (or overall cost) of Chinese manufactured exports by 10.6 percent to 43.6 percent

¹ U.S. Census Bureau and the U.S. Bureau of Economic Analysis

² Economic Policy Institute, Trade Picture (February 19, 2006).

³ Economic Policy Institute, Trade Picture (February 19, 2006).

⁴ Bureau of Labor Statistics

⁵ Bureau of Labor Statistics

⁶ Lori Kletzer, Job Losses from Imports: Measuring the Costs (Institute for International Economics (2001) at p. 40.

⁷ Id., at Table 3.3.

⁸ Id..

⁹ Duane Leigh, Assisting Workers Displaced by Structural Change (Upjohn 1995) at p. 5.

¹⁰ MBG Information, at www.uscc.gov.

¹¹ Thomas Fuller, China trade unbalances shipping, International Herald Tribune, January 30, 2006

¹² U.S. Census Bureau and the U.S. Bureau of Economic Analysis

¹³ Gary Gereffi interview, PBS' Frontline, "Is Wal-Mart Good for America?" Nov. 16, 2004, <http://www.pbs.org/wgbh/pages/frontline/shows/walmart/interviews/gereffi.html>

¹⁴ Dara O'Rourke and Garrett Brown, "The Race to China and Implications for Global Labor Standards," International Journal of Occupational and Environmental Health vol. 9, no. 4 (October/December 2003) at p. 299.

¹⁵ Boy Luthjie, Why China Matters in Global Electronics, *supra* note, at p. 345.

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¹⁷ PRC National Bureau of Statistics, Statistical Communique on the 1005 National Economic and Social Development (March 3, 2006).

¹⁸ China Statistical Yearbook 2001, Table 17-4 at p.587.

¹⁹ China Statistical Yearbook 2000, Table 13-4 at p.409; China Statistical Yearbk 2001, Table17-4 at p 587.

²⁰ OECD, Indicators for OECD non-member countries (March10, 2006); China Statistical Yearbook ch. 14.

²¹ PRC National Bureau of Statistics, Statistical Communique on the 1005 National Economic and Social Development (March 3, 2006); PRC National Development and Reform Commission, Report to the Fourth Session of the Tenth National People's Congress: China's Economic and Social Development Plan (March 5, 2006).

²² PRC National Bureau of Statistics, Output of Major Industrial Products (December, 2005)

²³ Judith Bannister, BLS, Manufacturing Employment and Compensation in China (November 2005)

²⁴ "Most commentators see [the number of child workers] as having increased in the last two years." CSR-Asia Weekly (November 9, 2005); China Labor Bulletin, "As China's Economy Grows, So Does China's Labor Problem" (June 10, 2005).

²⁵ Evan Osborne, "Some Economics of Chinese Prison Labor," Wright State University and Osaka University Institute of Social and Economic Research (undated); Philip Pan, "China's Prison Laborers Pay Price for Market Reforms," Washington Post (June 14, 2002).

²⁶ Dao Tong, Credit Suisse First Boston's chief economist for non-Japan Asia, concludes that the "major supply shock to global industry" will be felt within two or three years. See Worrying About China, Business Week Online, *supra* note(quoting Dao Tong).

²⁷ World Bank, Country Profile Tables, at www.worldbank.org

²⁸ Figures are for January through November, 2003. See National Bureau of Statistics of China, “Investment in Fixed Assets by Industry” (2003.1-11) at www.stats.gov.cn.

²⁹ National Bureau of Statistics of China, “Investment in Fixed Assets by Industry” (2005.01-12).

³⁰ National Bureau of Statistics of China, “Investment in Fixed Assets by Industry” (2005.01-12).

³¹ Data in this paragraph is from UNCTAD, “Table: FDI inflows, by host region and selected host economy, 2003-2005,” at www.unctad.org.

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