

The Impact of Trade with China on New York State and Opportunities for Economic Growth

**"Testimony before the US-China Economic and Security Review Commission"
July 23, 2009**

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Panel II: The Impact of Chinese Competition on local companies and communities

Let me begin with the biggest impact on our economy due to trade with China, the deindustrialization of America and the myth that this is inevitable and necessary. Though in some areas this process began long before permanent trade relations with China were established by legislation, the record of the last ten years in different manufacturing sectors and our trade deficit with China leads one to the undeniable conclusion that deindustrialization and attendant reduction in the manufacturing over the last decade has greatly increased to the detriment of the United States and New York State. There are those representing the corporate sector, from the Chamber of Commerce to the International Monetary Fund that have continued to put forth the view that deindustrialization and the loss of manufacturing in the United States is inevitable in a globalized market economy and not detrimental to our economy due to the expansion of the service economy. The statistics refute this view beyond any doubt. Just a decade ago manufacturing was about 30% of US Gross Domestic Product or GDP, today it is less than 12%. From 2000 to 2007 another 3 1/2 million jobs were lost in US manufacturing. Yet as of 2007 US manufacturing still employed 14 million Americans and creates 8 million additional jobs in other sectors. When it comes to the jobs of the future, whether in robotics, lasers, computer sciences, photonics or bio medical advances, American manufacturers are the leading buyers of new technology in the United States. In fact, American manufacturers are responsible for two thirds of research and development investment in the US and nearly 80% of all patents filed come from the manufacturing sector. Though the great recession has reduced these numbers, at the end of 2007 manufacturing contributed \$1.2 trillion dollars to America's economy while every 100 steel or auto jobs create between 400 to 500 new jobs in the rest of the economy. Contrast this with the retail economy where every 100 jobs generates about 94 new jobs elsewhere.

I would like to take a moment to commend RIT Professor Ron Hira for his work in the areas of concern before the commission, particularly his book "Outsourcing America". His research and documentation has furthered our knowledge of the actual effect of Global trade and problems with our policies involving China. Particularly disturbing are his findings that Research and Development tend to follow manufacturing off shore. R&D jobs, important in themselves, develop the new products, processes, innovations and technologies that shape the future and create the jobs of the future. This trend is especially disturbing for the future of domestic manufacturing, jobs and our economy.

Allow me to give a brief overview of Labor's problems with Trade with China under current conditions in light of the Commission's mandate to assess the nature of the transfer of United States production to the People's Republic of China. For one thing

the American people were not told that new global trade rules meant outsourcing their jobs for slave wages with few safety or environmental regulations. American companies selling American products to American workers with cheap foreign labor was never part of the bargain. Outsourcing jobs, in a race to the bottom, is not trade, but that is what happened. President Clinton said we might lose some labor intensive jobs in clothing, shoes, or toys, but high tech jobs with the exporting of computers and electronic parts would increase. In 2007 we had a \$68 billion dollar deficit in advanced technology products with China, 25% of the total US-China Trade deficit.

The fact is China's cheating trade practices has cost Americans millions of jobs. This was expected to change when China joined the WTO in 2001 with WTO rules on illegal subsidies, illegal dumping, and currency manipulation expected to reduce this problem, but in fact it has gotten worse with 2.3 million lost US jobs to China from 2001-2008. Add to this Labor Rights abuses against international standards, which artificially contribute to the low cost of Chinese goods. Millions of child workers and forced labor are used to make products for export to the United States. Independent Labor Unions are forbidden and such attempts result in firing, imprisonment or worse. The Chinese allow companies to pay as little as 15 cents to 50 cents an hour, depressing consumer demand thus forcing reliance on an export economy. Costs of production are also depressed due to low safety and environmental standards. As one example 80% of the products recalled by the Consumer Product Safety Commission in the past year involve Chinese products, from 17 million toys with lead, to poison pet food and toothpaste, to tainted and contaminated seafood.

I think the public at large would be alarmed to know that in 2007 the United States ran a manufacturing trade balance surplus in only two areas. Number two, a little over \$1.1 billion dollars a year was in non-electric machinery. Number one, by a large margin, over a \$17.4 billion dollar surplus, was in scrap and waste.

To apply this to the Local area, since 2001 New York State has lost the third highest number of jobs to China, after California and Texas, 127,000 jobs. Manufacturing is the third largest contributor to NY's Gross State Product, about \$61 billion per year. Rochester has been devastated by the loss of manufacturing jobs. Kodak has moved whole divisions to China, employing less than 7500 workers here. Kodak employed over 60,000 in 1980 in Rochester. To be fair, Kodak's world wide employment is now less than 25,000. Bausch and Lomb has moved jobs to China. Auto jobs have been lost or offshored due to this unfair cheating by China, 4000 jobs at the old Delco, later ITT, then Valeo, a couple thousand more at Delphi. Hickey Freeman has lost a number of jobs and been in danger of closing in the past year due to dumping of subsidized Chinese suits. On average the jobs created in service industries, health care and government pay \$8100 less per year nationwide. However, these jobs have not been of sufficient quantity or wage quality to make up for the losses in the manufacturing sector. Additionally we now have significant job losses in the government sector which will not only decrease jobs but further depress average wages. State government has grants for companies, economic development funding and IDA and Empire or Enterprise zones for tax subsidies, but for the most part they haven't been sufficient to stop the bleeding. Since these tax subsidies do not require family sustaining wages, they will not rebuild an economy based on consumer spending. Interestingly, anti dumping laws and countervailing duty laws (AD-CVD) on subsidies have been around for over a century and are part of WTO rules, and they go hand and hand. These regulations have the support of most trade partners, expect many American CEO's who say when we advocate for enforcement we are

being anti-trade protectionists. In fact these executives are the anti-trade protectionists whose motivation is the same greed that caused business lobbyists to get politicians to pass Smoot-Hawley tariffs in the 1920's. These subsidies that favor home industries in China have hindered and denied access to the Chinese Market for foreign companies manufacturing in China so that most of what they make in China is for export. In less than a decade, over \$27 billion dollars in government subsidies in energy to China's steel industry has moved them to the number one producer and exporter of steel, producing more steel than the next three countries together, Japan, US and Russia. As our own NY Nobel Laureate in economics, Joseph Stiglitz writes, all countries have the ability to levy tariffs to balance trade and protect jobs, all do with a VAT, value added tax on imports, except the US. However, the majority of countries do not have the money to subsidize their own industries to compete with massive subsidies that China gives to their industries. Such subsidies are the epitome of protectionist unfair trade.

Though I agree with the recommendations I've seen from this commission on dumping, subsidies, currency manipulation, and labor and environmental standards, the problem is they are recommendations, recommendations to Congress to recommend to the President or the Treasury, that they recommend to the WTO that the trade regulations be enforced. The Bush Administration showed no interest in enforcement and sometimes neither did the WTO. Regulations are useless if not enforced. Congress must pass laws requiring corrections in WTO rules and enforcement of existing rules or pull out. The Constitution charges our government to promote the general welfare, not some tribunal that is not accountable to the electorate. Economists still agree that when America sneezes the rest of the world catches cold. China needs our consumer market, especially in a country where workers are low waged and not free, suppressing internal consumer demand. Yet there are still plenty of Big Business types and economists from the IMF, the Chicago School, the "my head is flat" Tom Freedman people who say this is "OK", natural, evolutionary, that 100 manufacturing jobs lost in Rochester is "OK" because 100 customer service call center jobs replaced them in Tuscan. In a democracy they don't get to decide that it is "OK" our children have no family sustaining jobs after school, its not "OK" that 45% of Rochester children live in poverty and that poverty is crumbling our city and contributing to a culture of crime and fatalism. In a Democracy they don't get to decide for the rest of us that its "OK" to sacrifice and destroy once thriving communities like Rochester, and Flint and Detroit, and Buffalo, and Syracuse and Akron and Newark. We need trade laws and rules with cheaters in the Global Community, like China, that are required to trade by the rules as our Constitution says, and promote the general welfare.