

Committee of 100

Issue Brief

April 2007

American Jobs Displacement Dispute

According to the AFL-CIO, the U.S. economy has lost 3.4 million jobs since 1998, with almost 1.3 million job losses tied to China. During the same period, China's economy has been growing by approximately 10% per year. In 2006, China exports increased 27.5%, after increasing 28.4% in 2005. What do these numbers signify?

The Controversy

Critics View

As jobs in the U.S. manufacturing and other sectors dwindle, critics point to the Chinese government's implementation of low labor standards as evidence that the Chinese government, at least tacitly, is trying to 'relocate' U.S. jobs to China. The critics argue that this is in addition to currency manipulation (addressed in our previous Issue Brief) that results in the undervaluation of the yuan by between 15 and 40 percent, in turn resulting in the decline of tens of thousands of U.S. jobs--primarily in the manufacturing sector.

Critics also contend that a number of substandard labor practices – child labor in export-oriented factories, failure to enforce wage and hour standards, forced labor among prisoner and temporary migrant populations, and absence of independent unions that guarantee freedom of association and collective bargaining rights – effectively deny workers' rights. As a result, labor costs in the manufacturing sector (including the export sector) are between ten and 77 percent lower than they would be if China were to observe international labor standards, leading to the displacement of approximately U.S. 1,235,000 jobs.

The AFL-CIO filed petitions in 2004 and in 2006 with the Office of the United States Trade Representative (USTR) alleging that China's labor practices violate Section 301 of the Trade Act of 1974 recommending trade sanctions to force China to improve their labor practices.

U.S. Government View

The U.S. government acknowledges that China's labor standards need improvement but the USTR has rejected each of the AFL-CIO Section 301 petitions. Citing direct engagement as the more effective means of bringing about improvement in China's labor standards, the Government claims that Department of Labor (DOL) and Department of State direct meetings and programs have had a positive impact.

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The DOL organizes exchanges for labor experts to help draft new laws and regulations and also funds labor law and workplace safety and education projects. The State Department meets regularly with Chinese officials, funds non-governmental organizations that promote reform, and brings Chinese officials to the U.S. to consult with U.S. labor experts.

In addition, the Department of Commerce considers China's labor practices when it makes a determination on whether China is a "non-market economy" for purposes of anti-dumping laws. The Government maintains that the 2004 regulations giving labor inspectors significant new powers, such as the right to enter a workplace unannounced, the right to inspect books and records, and the right to interview workers, are the direct result of DOL engagement.

Chinese Government View

The Chinese government takes the position that the U.S. consumers' desire for inexpensive products has caused jobs to shift from the United States to lower-cost factories in China and elsewhere. They also point out that the U.S. economy has shifted focus to service-sector employment, and away from manufacturing.

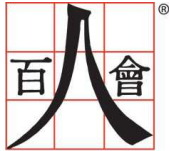
In addition, the Chinese government maintains that its labor standards are consistent with international norms, and that items manufactured using either child or forced labor are not exported to the United States. Nonetheless, the Chinese government is developing a new Labor Contract Law that would: improve the enforceability of employment contracts, protect temporary workers from being indefinitely used as temporary employees and deprived of protections as regular employees, limit employer's right to fire at will, enhance severance pay, and require transparent, negotiated work place rules.

The Outlook

Labor standards are a sensitive area for the Chinese government and engagement has the potential to yield tangible results. There is little consensus as to whether China, specifically, or other lower-cost jurisdictions are taking jobs from the United States, as opposed to manufacturing job migration being a function of the U.S.'s evolving economy. Given the differences among experts on the direct causes of the loss of U.S. manufacturing jobs – low labor standards in China and elsewhere or a shift in the U.S. economy – it is unclear whether pressure through trade sanctions would improve China's labor standards or simply cause manufacturing to shift to another jurisdiction with even weaker labor standards than China's. Clearly, direct sanctions against China would not affect other low-cost manufacturing jurisdictions.

China must improve its labor practices, especially in the child labor and forced labor areas and dual track engagement seems like the most effective approach: bilateral, government-to-government discussions along with engagement through multilateral entities such as the International Labor Organization aimed at improving China's labor practices. There is evidence that bilateral engagement has already helped strengthen Chinese labor standards in an incremental way.

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More Reading

U.S. Department of Labor, Statement on Secretary Chao's Meeting with Chinese Academic Experts to Discuss Chinese Labor Laws: <http://www.dol.gov/opa/media/press/opa/OPA20041130.htm>.

USTR, Statement from USTR on China Labor Petition:

http://www.ustr.gov/Document_Library/Press_Releases/2006/July/Statement_from_USTR_Spokesman_Regarding_China_Labor_Petition.html; USTR China Affairs Section:

http://www.ustr.gov/World_Regions/North_Asia/China/Section_Index.html.

Institute for International Economics, Testimony by Nicholas Lardy, "Do China's Abusive Labor Practices Encourage Outsourcing and Drive Down American Wages?":

<http://www.iie.com/publications/papers/paper.cfm?ResearchID=201>.

AFL-CIO Workers' Rights Case Against China:

<http://www.aflcio.org/issues/jobseconomy/globaleconomy/chinapetition.cfm>.

China Labor Watch: <http://www.chinalaborwatch.org>.

New York Times, China Drafts Law to Boost Unions and End Abuse:

<http://www.nytimes.com/2006/10/13/business/worldbusiness/13sweat.html?ex=1318392000&en=004ae914c77ca2c1&ei=5088&partner=rssnyt&emc=rss>.

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About the Committee of 100

*The Committee of 100 is a non-partisan and non-profit 501(c)(3) organization comprised of distinguished American citizens of ethnic Chinese descent who are the direct beneficiaries of the opportunities, equality, and civil rights provided by America's diverse democracy. Through the Committee, its members contribute to America's dynamic culture and robust economy by helping to build constructive relations between the U.S. and China that serve U.S. national interests and by promoting the full participation of Chinese Americans in all facets of American life. Among the Committee's efforts, its **Public Education Initiative** promotes mutual education and facilitates linkages between Chinese and American people as well as the leaders of the two countries. Visit the Committee of 100 website at www.committee100.org.*