China And The Jobs Issue

Martin Hart-Landsberg, January 21st, 2011

The President of China, Hu Jintao, just completed a visit to the U.S. and, not surprisingly, many people used the occasion to raise the jobs issue. The U.S. economy continues to suffer from high unemployment. And the U.S. continues to run an enormous trade deficit with China, a deficit that dwarfs any other bilateral deficit. The connection made is as follows: China is an unfair trader. Its state policies, including subsidies and labor repression, are a major reason for the destruction of our manufacturing sector and jobs.

This nation-state framing encourages us to see U.S. workers in direct competition with Chinese workers, with their gains largely coming at our expense. It also tends to promote a simple response: force China to quicken its embrace of market forces so that its economy will become more like ours. Unfortunately, this framing misleads more than it helps to clarify current economic dynamics. It also leads to a counterproductive response.

A more accurate framing would start from the fact that contemporary capitalist dynamics have led to the creation of a regional production network in East Asia, with China serving as the region's final assembly base for exports to the U.S. The primary beneficiaries of this development are the many multinational corporations that have created the network, and the primary losers are the majority of workers in China and the United States. The appropriate response to this development would be to build opposition to the policies that support this corporate strategy, including free trade agreements.

Multinational corporations have developed a strategy to cheapen their costs of production, especially of information, technology and communication (ICT) products and electrical goods like semiconductors. This strategy involves dividing production processes into ever-finer vertical divisions and locating the separate stages in two or more countries, creating what are called cross-border production networks. The growth in this strategy is captured by the growth in the international trade in parts and components. Trade figures also make clear that multinational corporations have made East Asia the center piece of their new strategy.

East Asia's share (including Japan) of world parts and component exports grew from 27 percent in 1992-93 to 39 percent in 2005-06, despite a significant decline in Japanese exports in recent years. Developing East Asia's share grew from 17.8 percent to 32.3 percent over the same period. In 2005-06, developing East Asia accounted for more than two thirds of the total component trade of developing countries.

Significantly, ICT and electrical goods together accounted for almost three fourths of total East Asian exports in 2006-2007. And in accord with the logic of this cross border production strategy, a growing percentage of this trade activity involves parts and components. And, a growing share of this parts and components trade now takes place between different East Asian countries. The Asian Development Bank summarizes the situation as follows:

Disaggregating manufacturing trade into final products on the one hand and parts and components on the other shows… [that] intraregional trade in Asia is mainly concentrated in parts and components. The intraregional share of developing Asia's parts and component trade rose by almost 20 percentage points over the past decade, reaching 62 percent in 2005-2006, as compared to an 8 percentage point increase in total trade in manufacturing over the same period.

China has come to play a central role in the overall operation of this multinational corporation controlled production strategy. As the Asian Development Bank describes:

there is the cluster of highly interdependent, open, and vibrant economies in East Asia and Southeast Asia . . . . With the PRC at the center of the assembly process and with exports going mainly to the U.S. and Europe, production in and trade among these economies have been increasingly organized through vertical specialization in networks, with intense trade in parts and components, particularly in the ICT and electrical machinery industries.

The share of parts and components in China's imports of manufactures from East Asia rose from 18 percent in 1994-1995 to 46 percent in 2006-2007. The import share of parts and components in the machinery and transportation equipment category (which includes both ICT and electrical goods) soared over that same period from 46.1 percent to 73.3 percent.

China's unique position as the region's production platform for the export of final goods is highlighted by the fact that it is the only country in the region that runs a deficit in parts and components trade, and whose exports are overwhelmingly final products. It is this unique position that has enabled China to increase its share of world exports of ICT products from 3 percent in 1992 to 24 percent 2006, and its share of electrical goods from 4 percent to 21 percent over the same period. Of course, these are not truly Chinese exports, but rather exports produced in China. Approximately 60 percent of all Chinese exports are produced by foreign corporations; the share is 88 percent for high-tech goods.

The Asian Development Bank highlights the significance of this process for East Asian economic activity as follows:

even though intra-Asian trade has been expanding more rapidly than Asia's trade with the rest of the world, Asia has become ever more closely linked by globalization to the major global markets of the G3 [the United States, EU, and Japan]. This stems from the nature of Asian trade, with intra-Asian trade driven by vertically integrated Asian production chains and extra-Asian trade driven by G3 demand for the final goods produced in these networks.

The rapid growth in the region's dependence on the G3, and the U.S. market in particular, is well captured by the following trends: the correlation between the growth in East Asian intraregional exports and U.S. non-oil imports increased from .01 during the 1980s, to .22 during the 1990s, and .63 during the first half of the 2000s. Similarly, the correlation between the growth in East Asian exports and G3 non-oil imports rose from .21 during the 1980s, to .34 during the 1990s, and .77 during the first half of the 2000s.

Drawing on the above, we can better understand why China now looms so large in U.S. trade discussions. The rest of East Asia has largely stopped producing final goods for export to the U.S., producing instead parts and components for export to China. China, in turn, has also become increasingy export oriented, producing the final products destined for sale in the U.S. market. As a result, our trade deficits with other East Asian countries have fallen while our trade deficit with China has increased. China is the face of a broader multinational corporate dominated East Asian production system.

In other words, our economy is being restructured in line with the economies of East Asia. We are being reshaped, just like East Asia, by a multinational corporate strategy, which also is supported by large U.S. firms. As noted above, approximately 90 percent of China's high technology exports to the U.S. are produced by multinational corporations and many of them are being bought and sold in the U.S. by other multinational retailers.

Working people in China are struggling in the face of multinational corporate demands that the Chinese government keep wages low and working conditions profitable. And workers in other East Asian countries are also suffering as their governments are forced to implement similar repressive labor policies in order to keep multinational corporations producing in their countries. In short, Chinese workers are not stealing our jobs. Rather working people in East Asia and the U.S. are suffering from very similar pressures being generated by the very same dynamic. Said more simply, our problems are at root caused by contemporary capitalist dynamics. Forcing China to become more open to capitalism is not going to help us or them.

Of course, this is a framing that the media and business and corporate elite are not eager to promote. Better that we think our system is great and that the problem is that the Chinese government has not yet fully committed to promoting a similar one.