

PNTR WITH CHINA

Economic and political costs greatly outweigh benefits

By Jeff Faux

The Clinton Administration and the Republican congressional leadership are urging Congress to ratify the trade and investment pact the administration recently negotiated with China. The agreement is one of a series China is negotiating with members of the World Trade Organization (WTO) in order to join that body. Approval by Congress would, among other things, grant China Permanent Normal Trade Relations (PNTR) – thereby surrendering Congress’ existing right to an annual review and renewal of the United States’ trade relationship with China. In that event, the United States will give up the most important non-military leverage it has in its complex relationship with the authoritarian and unpredictable Chinese regime.

Congress must now judge whether the likely costs are justified by the likely benefits. As always, the burden of proof is on those who propose a change in policy.

Supporters of the agreement have claimed that it will bring two types of benefits: *economic* benefits in the form of expanding jobs and income for Americans, and *geopolitical* benefits in the form of increased U.S. influence over China’s internal development. An analysis of the costs and potential benefits in these areas indicates that the trade pact’s supporters have not made their case.

Economic costs

Trade severed from worker and environmental standards. Granting PNTR to China will signal to the world that the United States has, in effect, abandoned the cause of putting worker rights and environmental standards on the agenda of international trade and financial institutions. Given the public rhetoric of the president, the vice president, and the U.S. trade representative in support of this cause, congressional ratification of the China trade pact will reduce America’s credibility on the issue to zero.

In the wake of the failed WTO meeting in Seattle, a global dialogue has begun over how to add such rights and standards to the elaborate investor protections that make up WTO rules. The European

community is now supportive of a social clause in the WTO, as are most independent labor movements as well. The effort to change WTO rules will be long and difficult. There is opposition from multinational corporations and Third World governments. But a proposal that was once considered utopian is now the subject of serious global policy discussion.

It is unclear whether China will apply for membership in the WTO if it does not have an agreement with the United States, although it appears that it can get a two-thirds majority needed to enter the WTO regardless. Despite the uncertainty in this area, there is one issue on which the present Chinese government hasn't wavered, and that is in its absolute opposition to any consideration of labor rights and social standards in the WTO.

The Chinese government's record on these issues is well known. Its authoritarian blend of state control and privatization of public assets to elites (a la Russia and Mexico) has brutally repressed basic worker and human rights in order to keep labor costs low in the pursuit of expanding exports. Despite claims that a market economy is bringing democracy to China, the U.S. State Department's 1999 human rights report on China concludes that the Chinese government's "poor human rights record deteriorated markedly throughout the year, as the government intensified efforts to suppress dissent, particularly organized dissent." Documented human rights abuses include: extrajudicial killings, torture and mistreatment of prisoners, forced detentions, arbitrary arrest and detention, lengthy incommunicado detention, and denial of due process. Violent repression of any effort at independent union activity continues (U.S. Department of State 2000).

Given China's record, its intentions, and its influence, if it should enter the WTO before that organization accepts labor and environmental standards, hope for such standards will evaporate. In that case, it is even more important that the United States – with its open market targeted by China – retain the right to protect itself against even larger quantities of imports produced under conditions of severe worker exploitation.

U.S. trade deficit exacerbated. The U.S. trade deficit with China continued to rise throughout 1999, reaching almost \$70 billion by year's end. A \$70 billion trade deficit translates into a loss of almost 900,000 jobs in industries producing "tradable" goods.¹ On its current trajectory the trade deficit will double over the next 10 years.

The largest contributors to the trade deficit with China have been industries that produce apparel, toys, and footwear, with imports in these areas having grown by 60% in the last five years. The next largest contributor to the trade deficit has been the machinery and transportation equipment industry, where imports in the same period have grown almost 140% (Scott 1999).

The new China-U.S. trade pact – even if fully and faithfully implemented by both sides – would aggravate this trend. Its primary economic consequence will be to encourage more U.S. investment in low-wage production for export back to the United States. One only has to look to the recent North America Free Trade Agreement (NAFTA) for clear evidence of the likelihood of this outcome. NAFTA's proponents convinced Congress in 1993 that the agreement was certain to bring large net benefits to the U.S. economy. Then, as now, supporters dubbed it a "no-brainer." It was claimed that the United States could only gain from expanded trade because Mexico began with higher tariffs and was therefore reducing its trade barriers further. Moreover, it was claimed that NAFTA would encourage "reform" politicians in Mexico to privatize their economy, and, in doing so, create a vast middle-class market for American

goods. The Clinton Administration confidently predicted that NAFTA would result in a rising trade *surplus* with Mexico and, because of this, would be a net U.S. job creator. In particular, NAFTA promoters predicted a boom in U.S.-made autos sold to Mexico.

In fact, the opposite occurred. NAFTA encouraged large U.S. and other foreign investors to move capital south of the border in order to exploit production costs made cheap by the absence of effective worker protections and environmental standards. The new factories then exported their products back into the United States. Investors in these factories were aided by a sudden drop in the value of the peso, against which NAFTA offered no protection. This devaluation made Mexican imports even cheaper and U.S. exports even more expensive. As a result, by 1999, the United States was running a trade deficit with Mexico of \$23 billion. Major contributors to the deficit were autos and auto parts, computers, televisions, and telecommunications equipment. Instead of raising living standards in Mexico, NAFTA reinforced “reform” government policies in Mexico that reduced real wages for workers by 25% and increased to 38% the share of the Mexican population living on less than \$2.80 a day (Laos 2000; Rendon 2000).

The Clinton Administration’s case for the China-U.S. trade agreement is similar to that which it used to sell NAFTA. The administration argues that U.S. exports to China will rise because tariffs will be lowered on goods like autos and auto parts and that quotas will be raised on the import of foreign wheat by China. *But, as with NAFTA, the most important part of the agreement provides for the opening up of China to further U.S. investment.* For example, China promises to allow foreign firms to own larger shares of Chinese telecommunications companies, to permit foreign banks to conduct local currency operations, and to allow U.S. insurance companies to sell insurance and to invest in equity shares of Chinese businesses.

Moreover, in China the United States has a trading partner even more oppressive of human and worker rights than was Mexico, and with even more independent power to manipulate its currency in order to increase its trade balance with the United States.

Under these conditions, every increase in U.S. direct investment in China leads to an increase in Chinese exports to the United States and a decrease in U.S. exports to China (Burke 2000).

Finally, promoters of the China-U.S. trade pact claim that any increase in imports will simply represent diversions of imports that would have come from other Asian countries. NAFTA’s supporters made a similar argument in 1992, claiming that any increased imports from Mexico would be diverted from Asia. After NAFTA was passed, however, imports rose from *both* Mexico and Asia.

Increased U.S. debt exposure. In 1999, the U.S. current-account deficit (the gap between financial outflows and inflows) reached \$340 billion, driven largely by the rising trade deficit. Because the United States must borrow to pay for its excess of imports over exports, the rising and persistent trade deficits have increased America’s net public and private international debt to an estimated \$1.6 trillion at the end of 1999 (Blecker 2000).

No country can continue to borrow forever. At some point, the United States will have to force a reduction in its trade deficit. Already the trade deficit has been cited by Federal Reserve Chairman Alan Greenspan as one of the growing economic “imbalances” that has prompted him to slow down the economy with higher interest rates (Reuters 2000). Reducing the trade deficit will involve some combination of a substantial depreciation in the dollar, a forced increase in the domestic savings rate, a prolonged period of domestic austerity, and a restructuring of U.S. trade policies to reduce imports and stimulate exports.

Trade with China now represents one-fifth of the United State's total trade deficit, and it is certain to keep growing whether or not the U.S. Congress approves the China trade deal. Pressure on Chinese leaders to create jobs by increasing exports and limiting imports will only grow over the next decade, as they face the enormous challenge of restructuring their economy. Already, unemployment, in a country where citizens once had an automatic right to a job, is huge, with some estimates as high as 80 million workers unemployed. Despite heavy press censorship, there are widespread reports of strikes, riots, and growing violence.²

With a large part of the U.S. trade deficit tied to China, whose leadership will be increasingly desperate to export, conceding PNTR to China will make it even harder for the United States to deal with its growing debt exposure. Although the agreement does, on paper, allow the United States to apply anti-dumping restrictions for 15 years and continue its right to retaliate against sudden import "disruption" for 12 years, these restrictions can be applied only under certain conditions in very narrowly defined markets. Moreover, the United States would have no recourse to protect itself against a continued general expansion of the trade deficit with China resulting from a depreciation of the Chinese renminbi. Unlike the yen, the euro, or even the Mexican peso, the exchange value of the renminbi does not float in the market but is largely determined by the Chinese government. In 1994, the Chinese devalued it in order to expand their exports and reduce their imports. There is nothing in the accession agreement to prevent another episode of such "exchange rate protectionism."

Thus, should the United States give up its right to renegotiate its trade relationship with China, the future burden of reversing the trade deficit – which eventually must be faced – will be even harder, and require even more austerity for America's workers.

Economic benefits

Most optimistic forecasts predict only smallest of gains. The Clinton Administration argues that the accord signed with China will open up markets there that are now closed. According to the president, "the agreement will create unprecedented opportunities for American farmers, workers, and companies to compete successfully in China's market" (Clinton 1999).

Supporters have provided little in the way of specifics to back up these claims. Where they have, their own estimates reveal the modesty of the promised benefits, even in the unlikely event that the agreement is faithfully carried out.

For example, economists at the U.S. International Trade Commission (ITC), which openly supports the China-U.S. pact, applied to the agreement a statistical model biased toward generating benefits. The model assumed that no American workers would become unemployed as a result of the removal of quotas on textile and apparel imports, that China would voluntarily refrain from replacing formal trade restrictions with informal barriers, and that China would not devalue its currency (Scott 2000). Even with these cheerful premises, the best the ITC model could manage was a net benefit to the United States of about \$1.7 billion (the U.S. economy totals \$9 trillion). This "benefit" is so small that it is less than the statistical error associated with estimating the United State's gross domestic product.

Another supporter of the China-U.S. deal, Gary Hufbauer of the Institute for International Economics, – whose widely advertised projections of large job gains from NAFTA proved wrong – now forecasts that 65,000 jobs will be created from the agreement. Even if this estimate proved to be accurate, it would still be a gain of only five one-hundredths of one percent to the existing U.S. labor force (Hufbauer 1999).

In the agriculture sector, the Clinton Administration claims that China's agreement to lift quotas would enhance U.S. exports by \$2 billion in 2005. The modesty of this number is revealed by taking into consideration that, over the last five years, U.S. agricultural exports have varied between a low of \$46 billion in 1994 to a high of \$61 billion in 1996, with the annual change averaging \$5 billion (U.S. Department of Agriculture 1999). A \$2 billion gain would get lost in the normal annual fluctuations of this sector. Moreover, in 1999 the United States had a trade deficit with China in agricultural goods, suggesting that, even if the agreement is actually adhered to, increased trade in agriculture between the two nations would not automatically benefit the United States.

Clearly, some Americans would benefit from this agreement. The beneficiaries would include people who broker international contracts involving multinational telecommunications firms, banks, insurance companies, and other global financial institutions. To the extent that these firms actually make more money in China than they would have if they invested outside of China, American investors in these companies would also gain. In addition, jobs in headquarter offices of U.S. financial institutions would probably expand.

But there would be little positive benefit in terms of jobs and income to the average American working household from the opening up of financial markets in China. It is unlikely that many Americans would move to China to sell insurance or become bank tellers.

Will the U.S. suffer a competitive disadvantage without the deal? The Clinton Administration claims that if Congress does not ratify the accession agreement with China, the United States will be at a disadvantage in the Chinese market relative to the other nations in the WTO. According to the president, "Our competitors in Europe, Asia, and elsewhere capture Chinese markets that we otherwise would have served" (Clinton 2000). But the claim that rejecting the agreement will disadvantage U.S. business is simply not true. As Professor Mark Barenberg of Columbia University, among others, has pointed out, trade between the United States and China is regulated by a 1979 bilateral trade agreement between the two countries, in which each nation grants the other "most favored nation" treatment. Barenberg notes:

...if China, in acceding to the WTO, grants market-opening concessions to WTO members other than the United States, then the China-United States bilateral agreements require that China grant those same concessions to the United States, even if Congress does not grant PMFN to China. (Barenberg 2000)

As Barenberg points out, China's obligations under the bilateral treaty with the United States are no less binding than under any agreement it might sign with the WTO. If China can be trusted to live up to one agreement, then it can be trusted to live up to the other.

Barenberg's analysis is supported by last month's report to Congress on PNTR by the U.S. General Accounting Office (GAO). The GAO states that, if Congress rejects the agreement, the United States can invoke a WTO provision called the "nonapplication clause," which permits members not to grant reciprocal trade benefits to each other. "Should the United States invoke the nonapplication clause," concludes the GAO, "U.S. trade relations with China would continue to be based on a 1979 U.S.-China trade agreement and other bilateral agreements" (GAO 2000).

The only clear sacrifice that the United States makes by not signing an accession agreement with

China is the right to take a complaint against China to the WTO's multilateral dispute mechanism, which settles trade disagreements among its members. But the WTO process is slow, cumbersome, and dominated by nations that have a clear interest in keeping the U.S. market open.

Finally, despite the Clinton Administration's professed fear that other nations will elbow the United States out of lucrative Chinese markets, the other members of the WTO have hardly been rushing into an agreement with China. The European Union has thus far refused the Chinese offer of the same deal the U.S. negotiators accepted. As of April 1, 2000, only eight of the 135 member nations of the WTO had signed an accession agreement with China.

The question of compliance. In 1992, the Chinese and U.S. governments signed a Memorandum of Understanding in which China agreed to provide access to its markets to U.S. goods and to enforce U.S. intellectual property rights. President George Bush hailed it as a "breakthrough" agreement. Similar rhetoric pervades the current debate over increased trade with China. In words that are strikingly similar to President Clinton's today, the Republican U.S. trade representative claimed that the 1992 agreement would provide "American businesses, farmers, and workers with unprecedented access to a rapidly growing market with 1.2 billion people" (McMillion 2000).

Since then, U.S. exports to China rose by \$7 billion while imports from China rose \$56 billion (Scott 2000). Clearly the U.S. government badly misjudged either the willingness or capability of the Chinese government to live up to the agreement.

Chinese leaders signed a promise to honor U.S. intellectual property rights involving copyrights, patents, and trademarks. But the theft of protected material continues, with the clear involvement of military enterprises, government agencies, and companies owned by the families of Chinese leaders. After the Clinton Administration threatened unilateral trade sanctions in 1995 (which would be impossible with PNTR), the Chinese made a show of closing down a few marginal pirate operations. But today, according to industry analysts, the situation is worse than it was in 1995 (Mastel 2000).

China in 1992 also signed an agreement to open up market access to a large number of U.S. goods, including autos and parts, power generation equipment, pharmaceuticals, and electronics. As some barriers were lowered, new ones were put in place. The Chinese government has even reneged on written commitments to make public the rules and regulations affecting foreign trade and investment. There is ample evidence that China has been violating textile agreements by shipping goods through Hong Kong and Macao, and that it continues to use large amounts of forced prison labor to produce goods for export.

The Clinton Administration's response to these embarrassing precedents is to claim that this agreement will ensure the political triumph of U.S.-friendly free-market reformers in China, who can be trusted to live up to their end of the bargain. The argument is naïve on its face.

One of the few things we know about the Chinese government leaders – "hard-liners" as well as "reformers" – is that, next to internal security, economic growth and modernization is their top priority. To a large extent, China's successful modernization depends on its ability to export to foreign markets in order to earn the hard currency needed to import new technology. China is currently running a \$70 billion annual surplus with the United States. It is running a trade *deficit* with the other major hard currency blocs – the European Monetary Union and Japan – a trend that won't reverse in the foreseeable future. In order to pursue its own national agenda, *China needs the U.S. market.*

Thus, maintaining a large trade surplus with the United States is intrinsic to the Chinese strategy,

which is aimed at becoming an industrial power and being self-sufficient in agriculture. In order to achieve these objectives, China will protect its manufacturing and agriculture markets, importing only what it needs and using all of the powers of its authoritarian state in order to further this overriding goal. Under these circumstances, no faction of the Chinese leadership, regardless of the pro-Western lip service it may give to Washington, can in the near future deliver a significantly more open economy to the WTO.

It is this political and economic reality, not some character flaw in particular Chinese politicians, that makes it virtually certain that the Chinese government will violate both the spirit and the letter of this agreement.

The Clinton Administration expresses its hope that this time it will be different. But the ink was hardly dry on the agreement when the administration's statements about the level of "concessions" made by China were being contradicted by the Chinese themselves. For example, the Clinton Administration announced that China agreed to award U.S. insurance companies licenses with fiscal prudence as the only criteria. But the *Financial Times* reported that Ma Yongwei, chairman of the China Insurance Regulatory Commission, said that, even after it entered the WTO, China "reserved the right to block licenses for foreign insurance companies if their approval seemed to threaten stability of economic policy" (*Financial Times* 1999).

The Clinton Administration claims that China agreed to eliminate health-related barriers to U.S. meat imports that were not based on scientific evidence. According to China trade negotiator Long Yongtu, "Diplomatic negotiations involve finding new expressions. If you find a new expression, this means you have achieved a diplomatic result. In terms of meat imports, we have not actually made any material concessions" (*South China Morning Post* 2000).

The USTR asserts that "China will establish large and increasing tariff-rate quotas for wheat...with a substantial share reserved for private trade." Yet negotiator Long has publicly said that, although Beijing had agreed on paper to allow 7.3 million tons of wheat from the United States to be exported to the mainland each year, it is a "complete misunderstanding" to expect this grain to enter the country. In its agreements with the United States, he said, Beijing only conceded a "theoretical opportunity" for the export of grain (*South China Morning Post* 2000).

In the face of this damning evidence, the Clinton Administration's last ditch defense is that, despite what the Chinese openly admit, the WTO will somehow force China to cast aside its own agenda in order to live up to its agreement with the United States. Neither experience nor the very logic of the situation justifies such a hope. The WTO as an institution has no motivation for attempting to collect China's IOUs to the United States. Its dispute-resolution system has proven unable to force nations more lawful than China to dismantle informal and indirect protectionist barriers.

History has shown that there are many ways for a nation to proclaim allegiance to free trade while engaging in informal protectionist barriers against foreign goods. The Clinton Administration tells us that Chinese tariffs will be lowered to 25% on foreign automobiles and auto parts. But tariffs in Japan are practically zero, and after decades, there still remains no appreciable market for U.S. cars in Japan. Senator Max Baucus, a supporter of the China-U.S. agreement, recently acknowledged that, "Despite all the attention spent on opening the Japanese market during the Reagan, Bush, and Clinton Administrations, barely half of the agreements signed actually worked....Compliance by other nations with trade agreements is a serious problem for our country, and it will likely get worse" (Baucus 2000).

While the United States and the countries of Western Europe are the most open large markets in

the world, they themselves protect certain industries for domestic, political, and economic purposes. Good examples of this are the trade disputes between the United States and the European Union over the use of export subsidies and over import restrictions on steel, bananas, and hormone-treated beef. As *The Economist* of London explains: “America and Europe (like most countries) tend to see trade as a zero-sum game. They aim to pry open markets for their exporters while protecting their domestic industries from import competition as far as possible” (1999). If this is true of the United States, Western Europe, and Japan, with their high-income, mass-consumption markets and their relative openness to the world, there can be little hope that China will become a serious market for U.S.-made goods.

One vivid example of the futility of expecting the WTO to crack down on Chinese trade violations can be found in the record of the United Nations Human Rights Commission. On April 18, 2000, the commission – comprising 53 member nations — once again refused to debate a U.S. complaint concerning China’s human rights abuses, even though the commission has no punitive powers. Countries refusing to support the debate included such U.S. clients as Mexico, Argentina, and Ecuador. Expecting the WTO to behave differently in a similar situation is wishful thinking.

The geopolitical costs and benefits

According to President Clinton, “Supporting China’s entry into the WTO...is about more than our economic interests....We can work to pull China in the right direction, or we can turn our backs and almost certainly push it in the wrong direction. The WTO will move China in the right direction” (Clinton 2000).

The claim that PNTR will move China in an unspecified “right” direction is similar to the claims in the early 1990s made about Russia and Mexico. In both cases, the U.S. government made policy aimed at supporting a faction of another nation’s politicians who claimed to be “reformers.”

In Russia, support for Yeltsin’s “shock therapy” policies of radical privatization and the dismantling of the social safety net was supposed to create an instant middle class and a rising living standard. Instead, the reformers turned out to be corrupt and incompetent. A decade later, Russian GDP is about 60% of what it was in 1989, poverty has risen to 50% of the population, and large numbers of Russians look back wistfully to the communist era. The U.S. interest in Russia is now in the hands of Vladimir Putin, a former KGB agent whose popularity rests on his ability to whip up Russian nationalism by pursuing the war in Chechnya.

In the case of Mexico, Americans were told that NAFTA was necessary to support the “reform” political faction led by the Salinas family against the old-guard oligarchs. It was the reformers who would transform Mexico into a vast middle-class consumer market for U.S. goods. Only after NAFTA passed did Americans learn that many of the reformers were corrupt, opportunistic, and often allied with drug cartels. Mexico’s middle class was decimated by the sudden peso devaluation that followed, and Mexican society is less stable today than it was before.

One would think that these experiences would make the Clinton Administration more modest and cautious. If the White House did not understand the nature of the political economy just across the border in Mexico, how can we be sure it understands the nature of the political economy of a far more complex and distant China? It is not at all clear that this particular group of Chinese “reformers” will come out on top, or, if they do, and if they accelerate privatization, that China will become more stable. Indeed, massive unemployment, a depopulation of China’s countryside, and deteriorating living standards for urban working classes hardly seem to be a recipe for stability over the next decade. Moreover, the United States needs to

ask itself if it is prepared to bail out China when it enters a financial crisis akin to those experienced by Mexico and Russia.

The point is not that the Clinton Administration has been less competent than other administrations at forecasting complex political and economic change in other nations. America's history is replete with such mistakes. The point is that it is risky to make major policy decisions that lock the United States into irreversible actions on the basis of a transitory political situation. Surrendering control over Chinese access to U.S. markets to the WTO is even less reversible than policies toward Russia and Mexico. NAFTA – with only two other signatory nations – could possibly be renegotiated, but PNTR with China cannot. It will become part of a treaty with 135 nations, which, for all practical purposes, can be abrogated only by the United States pulling out of the WTO.

One indication of the Clinton Administration's misplaced trust in China's intentions is reflected in the lack of effect the U.S.-China agreement is having on Chinese actions now, the period of maximum incentive for China's government to be showing a friendly face to the world – and particularly to the United States. Instead, in the last few months the Chinese leaders have rattled sabers over Taiwan, instituted major crackdowns of dissidents, and reneged on promises to open up the Chinese markets to U.S. products.

It is simplistic, and somewhat arrogant, to believe that either the PNTR or membership in the WTO will fundamentally move China's internal development in what President Clinton terms the "right" direction. Certainly, there is no evidence to support that claim. It is much more prudent and responsible to accept that China is a major power and will move in the direction that its leadership sees as being in its own strategic interests.

At the same time, and despite the Clinton Administration's rhetoric, a vote against PNTR will not represent the United States' "turning its back on China." The United States will be providing China with a market worth \$82 billion this year, and a market of even greater value the next year. The United States will also be providing China with access to technology. The only reason the Chinese leaders would not continue to have cordial relations with the United States is if they are irrational. If such is the case, it is all the more important that the United States does not to give up its unilateral leverage.

The only clear geopolitical reality is that China needs the U.S. market, and that control over access to that market through the annual review of U.S.-China trade is the most powerful leverage the United States has in its own complex bilateral relationship with that country. Americans have paid a high price for that leverage in the form of large and continued trade deficits. Congress should not sell it so cheaply.

Conclusion

The cost of the proposed China trade pact is the permanent loss of control over trade relations with China. The potential benefits to the trade agreement are small — even by the supporters' calculations — and largely benefit investors by providing them with wider choices of foreign investment opportunities. A more realistic analysis indicates that the net impact on U.S. employment and domestic business is likely to be negative rather than positive.

Furthermore, the claimed geopolitical benefits of this trade agreement are less than credible. Given the United States' recent experiences in Russia and Mexico, the assumption that the United States can

identify the true Chinese “reformers,” that these leaders will ultimately prevail in the political arena, and that the acceptance of an ever-widening trade imbalance will turn China into a democratic, free-market economy cannot be taken seriously.

The U.S. relationship with China is likely to be complicated and difficult for as far into the future as we can see. To deny America its one non-military instrument of leverage in exchange for limited financial benefits that would go to a few multinational investors is a risky and irresponsible policy.

The costs and dangers of this proposal substantially outweigh any potential gains for the United States.

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Endnotes

1. It is important to stress that when U.S. trade is operating from a deficit, trade acts as a net destroyer of American jobs. Under current conditions, the jobs being lost due to trade have been offset by job creation generated by a domestic economy that is driven largely by high levels of consumer borrowing and business investment. With the currently low levels of unemployment, the primary effect of the trade deficit, from China and elsewhere, is on the composition of employment in the labor market – while jobs are being destroyed in the manufacturing sector, workers are finding new jobs in the services sector, where wages and benefits are lower. This estimate of job loss follows standard methodology in relating employment to trade-balance changes and is used by both advocates and critics of the China-U.S. trade agreement. (See Scott 2000.)
2. Even the Chinese officials who have been pushing for Russian-style privatization policies admit to mounting problems. The *Washington Post* quotes the mayor of Shenyang as having said that “Our ability to govern is being seriously affected [by rising joblessness]....All the work units have collapsed. It is a dangerous situation.” An economist who studies China reports that “the numbers inspire fear and awe. What is going on [in China] is so far removed from...the previous experience of the human race that it is difficult to put into perspective” (*Washington Post* 2000).

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