



THE WAL-MART EFFECT

Its Chinese Imports Have Displaced Nearly 200,000 U.S. Jobs

BY ROBERT E. SCOTT

China's entry into the World Trade Organization (WTO) was supposed to improve the U.S. trade deficit with China and create good jobs in the United States. But those promises have gone unfulfilled: the total U.S. trade deficit with China reached \$235 billion in 2006. Between 2001 and 2006, this growing deficit eliminated 1.8 million U.S. jobs (Scott 2007). The world's biggest retailer, U.S.-based Wal-Mart was responsible for \$27 billion in U.S. imports from China in 2006 and 11% of the growth of the total U.S. trade deficit with China between 2001 and 2006. Wal-Mart's trade deficit with China alone eliminated nearly 200,000 U.S. jobs in this period.

The manufacturing sector and its workers were hardest hit by the growth of Wal-Mart's imports. Wal-Mart's increased trade deficit with China eliminated 133,000 manufacturing jobs, 68% of those jobs lost from Wal-Mart's imports. Jobs in the manufacturing sector pay higher wages and provide better benefits than most other industries, especially for workers with less than a college education.

China has achieved its rapidly growing trade surpluses by purchasing more than \$1 trillion in U.S. Treasury bills and other government securities over the past few years in order to artificially and illegally reduce the value of its currency and thereby lower the cost of its exports to the United States and other countries. It has also repressed the labor rights of its workers and suppressed their wages, making its products artificially cheap and further subsidizing its exports. Wal-Mart has aided China's abuse of labor rights and its violations of internally recognized norms of fair trade behavior by providing a vast and growing conduit for the distribution of artificially cheap and subsidized Chinese exports to the United States.

China trade and U.S. job loss

Exports support jobs in the United States, and imports displace them. However, an increase in exports will not support the creation of *new* jobs if, for example, a domestic firm exports parts that used to be shipped to a domestic auto assembly plant, and those products are used to build cars that are then sent back to the United States.¹ Thus, the net effect of trade flows on employment must be based on an analysis of the *trade balance*. This Issue Brief calculates the employment impacts of growing trade deficits by using an input-output model that estimates the direct and indirect labor requirements of producing output in a given domestic industry. The model includes 200 U.S. industries, 86 of which are in the manufacturing sector.²

TABLE 1
Wal-Mart China trade and U.S. job displacement, 2001-06

	U.S. trade with China (\$billions)					
	2001		2006		Change, 2001-06 (\$billions)	
	U.S. total	Wal-Mart	U.S. total	Wal-Mart	U.S. total	Wal-Mart
U.S. domestic exports*	\$18.0	\$0.0	\$51.6	\$0.1	\$33.7	\$0.1
U.S. imports	102.1	9.5	287.1	26.7	185.0	17.2
U.S. trade balance**	-84.1	9.4	-235.4	26.6	-151.3	17.1
Wal-Mart share of U.S. imports						9.3%

U.S. trade-related jobs supported and displaced (thousands of jobs)

	2001		2006		Change, 2001-06	
	U.S. total	Wal-Mart	U.S. total	Wal-Mart	U.S. total	Wal-Mart
	U.S. domestic exports	189.3	0.4	526.3	1.0	337.0
U.S. imports—jobs displaced	1,189.6	111.8	3,289.7	309.1	2,100.0	197.3
U.S. trade balance—net jobs lost**	1,000.4	111.4	2,763.4	308.1	1,763.0	196.7
Wal-Mart share of U.S. job loss						11.2%

* Domestic exports are goods produced in the United States. Total exports as reported by the Census Bureau include re-exports, goods produced in other countries and shipped through the United States. Total exports were \$12.8 billion in 1997, \$19.2 billion in 2001, and \$55.2 billion in 2006. U.S. re-exports to China rose from 2.1% of total exports in 1997 to 6.5% in 2006. The employment estimates shown here are based on domestic exports only.

** Domestic exports-imports: This value is sometimes referred to as net exports, since re-exports are not included in this balance. Hence, the trade deficit reported here is slightly larger than the figure reported by the Census Bureau.

SOURCE: EPI analysis of Census Bureau and BLS data. See text for further details on sources and methodology.

The model estimates the labor that would be required to produce a given volume of exports, and the labor that is displaced when a given volume of imports is substituted for domestic output.³ The job losses presented here represent an estimate of what total employment levels would have been in the absence of growing trade deficits.⁴

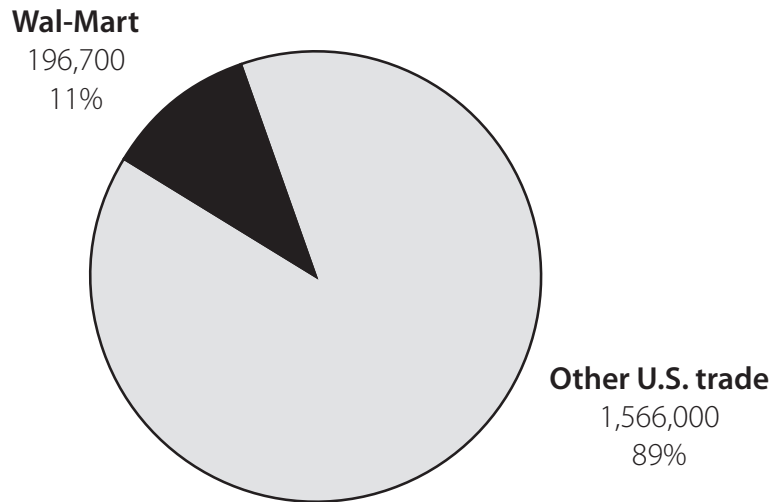
U.S. exports to China in 2001 supported 189,000 jobs, but U.S. imports displaced production that would have supported 1,190,000 jobs, as shown in the bottom half of **Table 1**. Therefore, the \$84.1 billion trade deficit in 2001 displaced 1 million jobs in that year. Job displacement rose to 2,763,000 in 2006. Growth in trade deficits with China has reduced demand for goods produced in every region of the United States and has led to job displacement in all 50 states and the District of Columbia.

Wal-Mart's role

Wal-Mart accounted for approximately 9.3% of total U.S. imports from China between 2001 and 2006. This estimate is based on widely reported statistics, including Wal-Mart's own estimates of its imports from China.⁵ U.S. imports from China increased \$185 billion between 2001 and 2006, as shown in the top half of Table 1, an increase of 181%.

FIGURE A

**Wal-Mart trade deficits with China eliminated nearly 200,000 U.S. jobs, 2001-06
(jobs lost)**



SOURCE: EPI analysis of Census Bureau and BLS data. See text for further details on sources and methodology

Wal-Mart's share of U.S. imports from China was stable in this period. Its imports increased from \$9.5 billion in 2001 to \$26.7 billion in 2006, an increase of \$17.2 billion (181%). As they are a retailer and not a manufacturer, Wal-Mart exports only a negligible amount to China, accounting for at most 0.2% of total U.S. exports to China.⁶ Wal-Mart was responsible for a \$17.1 billion increase in the U.S. trade deficit between 2001 and 2006.

The Wal-Mart trade deficit displaced 111,400 jobs in 2001 and 308,100 jobs in 2006. Thus, Wal-Mart was responsible for displacing at least 196,700 U.S. jobs in this period alone, as shown in the bottom half of Table 1 and in **Figure A**. While Wal-Mart was responsible for 9.3% of U.S. imports in this period, it was responsible for 11.2% of the U.S. job losses due to growing trade deficits with China (Table 1). Since Wal-Mart's exports to China were negligible, the rapid growth of its imports had a proportionately bigger impact on the U.S. trade deficit and job losses than overall U.S. trade flows with China (since the rest of U.S. trade with China does include significant U.S. exports to that country). On average, each of the 4,022 stores Wal-Mart operated in the United States⁷ was responsible for the loss of about 77 jobs due to Wal-Mart's trade deficit with China in 2006.

These job loss estimates are conservative because goods sold at Wal-Mart are primarily durable and non-durable consumer goods such as furniture, apparel and textiles, toys, and sporting goods. These are particularly labor-intensive manufacturing industries and support more jobs per \$1 billion of imports than more capital-intensive goods such as machine tools, automobile, and aircraft parts imported by other U.S. firms.

Job losses in manufacturing account for 68% of total jobs displaced due to growing imports from China in this period. Jobs in the manufacturing sector pay higher wages and provide better benefits than most other industries, especially for workers with less than a college education. Manufacturing also employs a greater share of such workers than other sectors.

Workers displaced by trade from the manufacturing sector have been shown to have particular difficulty in securing comparable employment elsewhere in the economy. More than one-third of workers displaced from manufacturing dropped out of the labor force (Kletzer 2001, 101, Table D2). Average wages of those who secured re-employment fell 11-13%. Trade-related job displacement pushes many workers out of good jobs in manufacturing and other trade-related industries, often into lower-paying industries, and frequently out of the labor market altogether.

Conclusion

The growing U.S. trade deficit with China has displaced huge numbers of jobs in the United States and been a prime contributor to the crisis in manufacturing employment over the past five years. Wal-Mart alone is responsible for the loss of nearly 200,000 U.S. jobs due to its own growing trade deficits with China. The current unbalanced U.S.-China trade relationship is bad for both countries, and Wal-Mart has played a major role in creating that imbalance. The United States is piling up foreign debt, losing export capacity, and facing a more fragile macroeconomic environment. Meanwhile, China has become dependent on the U.S. consumer market for employment generation, has suppressed the purchasing power of its own middle class with a weak currency, and, most importantly, has held hundreds of billions of hard-currency reserves in low-yielding, risky assets, instead of investing them in public goods that could benefit Chinese households.

China has purchased more than \$1 trillion in U.S. Treasury bills and other government securities in recent years in order to artificially and illegally hold down the value of its currency, and thereby lower the cost of its exports to the United States and other countries. It has repressed the labor rights and wages of its workers, making its exports artificially cheap, further subsidizing its exports. Wal-Mart has aided China's abuse of labor rights and its violations of internationally recognized norms of fair trade behavior by providing a vast and growing conduit for the distribution of artificially cheap and subsidized Chinese exports to the United States.

The U.S. relationship with China needs fundamental change: addressing the exchange rate policies and labor standards issues in the Chinese economy are important national priorities. Wal-Mart's huge reliance on Chinese imports illustrates that many powerful economic actors in the United States benefit from China's unfair trading system. Wal-Mart's gain, however, is not the country's gain, as their imports have contributed to the ever-growing trade deficit that imperils future economic growth.

—*The author thanks Josh Bivens, Ross Eisenbrey, and Lawrence Mishel for comments.*

Endnotes

1. This is assuming that the imported vehicles displace domestic production, as would be the case if the domestic assembly plant in question closed and production moved offshore.
2. See Methodology Appendix in Scott (2007) for further details.
3. This report distinguishes exports produced domestically and re-exports—which are goods produced in other countries, imported into the United States, and then re-exported to other countries, in this case to China. Re-exports do not support domestic employment because they are not produced domestically and they are excluded from the model used here. See Table 1 for information about the levels of U.S. re-exports to China in this period.
4. This model assumes that everything else is held constant; the trade and job loss estimates shown here are based on counterfactual simulations.
5. Wal-Mart (2007) reports “Wal-Mart directly exports about US \$9 billion from China every year. The export volume by third party suppliers is also estimated to be over US \$9 billion.” These data are for 2004, and were at least 9.2% of U.S. imports from China. Bianco and Zellner (2003) report that Wal-Mart imports from China totaled \$12 billion (9.6% of U.S.-China imports) in 2002. Bianco reports that Wal-Mart imports from China were \$15 billion in 2002 and \$22 billion in 2005 (9.1% of China imports). His estimates for 2003 and 2004 replicate the previously cited figures. Based on these estimates, Table 1 assumes that Wal-Mart maintained a stable 9.3% share of U.S. imports from China averaged in 2001 and 2006.

-
6. This calculation is based on average sales per international Wal-Mart store in fiscal year ending January 31, 2007, here-in-after referred to as FY2006 (Wal-Mart Stores, Inc. 2007). Wal-Mart reports state “over 95% of the merchandise in our stores in China is sourced locally” (Wal-Mart 2007). Export estimates in this paper assume that sales per store in China were equal to the average for all Wal-Mart international stores, and that all Wal-Mart imports into China came from the United States. We assume that Wal-Mart exports to China Wal-Mart were a constant share of total U.S. exports to China in this period. This is clearly an upper bound on total Wal-Mart exports to China because it assumes that all Wal-Mart imports into China originated in the United States, which is highly unlikely.

Wal-Mart had 2,787 international stores at the end of FY2006 and total international sales of \$77.1 billion in 2006, or about \$28 million per store. Wal-Mart had 73 stores in China, with estimated total sales of \$2 billion in FY2006, and total imports of \$100 million. Assuming that all these imports were shipped from the United States, Wal-Mart was responsible for 0.2% of total U.S. exports to China.

7. This figure was reported in Wal-Mart’s SEC financial report for its FY2006 and represents the number of stores actually in operation on January 31, 2007 (Wal-Mart Stores, Inc. 2007).

References

Bianco, Anthony. 2006. *The Bully of Bentonville: How the High Cost of Wal-Mart’s Everyday Low Prices Is Hurting America*. New York, N.Y.: Currency/Doubleday.

Bianco, Anthony, and Wendy Zellner. 2003. Is Wal-Mart too powerful? *Business Week*. October 3.

Kletzer, Lori G. 2001. *Job Loss From Imports: Measuring the Costs*. Institute for International Economics. Washington, D.C.: IIE.

Scott, Robert E. 2007. *Costly Trade With China: Millions of U.S. Jobs Displaced With Net Job Loss in Every State*. Briefing Paper. Washington, D.C.: Economic Policy Institute. <http://www.epi.org/content.cfm/bp188>

Wal-Mart. 2007. A brief introduction to Wal-Mart in China. <http://www.wal-martchina.com/english/walmart/index.htm>

Wal-Mart Stores, Inc. 2002. 10-K . For 1/31/02. <http://www.secinfo.com/d35n6.3b.a.htm>

Wal-Mart Stores, Inc. 2007. 10-K . For 1/31/07. <http://www.secinfo.com/d14D5a.u2z2c.7.htm>