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Before the U.S.-China Economic and Security Review Commission
The Impact of U.S.-China Trade and Investment on Key Manufacturing Sectors
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Good morning. My name is Jon Honeck. I am a Research Analyst with Policy Matters Ohio, a non-profit research institution with an interest in employment, taxation, education, and economic development policy. I will make a few remarks about Ohio's employment situation in general, and then discuss how our economic relations with China have affected Ohio's manufacturing sector.

Ohio is truly experiencing a "jobless recovery." Total non-agricultural wage and salary employment in July of this year is over 207,000 jobs below the level of July 1999. This represents a loss of 3.7 percent of our total employment base. Of course, during the previous five years, our population has continued to grow. If total employment had kept pace with population growth, Ohio would have 315,000 more jobs than it does now.

Despite reports about signs of an upturn in national employment, preliminary statistics indicate that Ohio lost 12,000 jobs in August, the worst in the nation. Our seasonally adjusted unemployment rate rose from 6 percent in July to 6.3 percent in August.

Another indicator of economic distress is that statewide unemployment claims for the first half of this year are still 40 percent higher than they were in the first half of 1999. Moreover, the rate at which unemployment compensation recipients exhaust their benefits before finding a job is still at a recessionary level.

Job loss in manufacturing is by far the single greatest cause of the employment crisis in Ohio and the other Great Lakes states. A recent U.S. Department of Labor report estimated that 353,000 workers had been displaced from the manufacturing sector between January 2001 and December 2003 in Ohio, Michigan, Illinois, Indiana, and Wisconsin. As shocking as this figure is, it only includes displaced workers with more than three years at the same job. Nationally, the same report estimated that just 60 percent of workers laid off from manufacturing were able to find another job. Of those who were reemployed full-time, nearly two-thirds reported that their earnings at their new jobs were below those of their lost jobs.

Layoffs and attrition combined to cause the loss of 202,143 jobs in Ohio's manufacturing sector between December 1999 and December 2003, a decline of nearly 20 percent. The manufacturing sector lost jobs in each year. The worst year was 2001, when 91,242 jobs were lost. Current estimates indicate that an additional 11,000 positions have been lost this year through August, leaving about 825,000 manufacturing jobs in our state.

The economic meltdown was widespread. If we look at Ohio's manufacturing sectors using four-digit North American Industry Classification System codes, or "NAICS" codes, as of 1999, there were seventy-seven industrial sectors that accounted for 99 percent of all wage and salary employment. Seventy of them had fewer jobs in December of 2003 than they did in four years before. The seven industrial sectors that gained employment created a combined total of 1,757 new jobs.

During the four years between December 1999 and December 2003, motor vehicle parts, which has the largest employment of any industrial sector in Ohio, lost 19,500 jobs, or 17 percent of its workforce. Plastic products, which has the second-highest employment level, lost 9,900 jobs, or 16 percent of its workforce. Three other sectors -- foundries, metalworking machinery, and rubber products -- all lost over 9,800 jobs, eliminating between 28 and 35 percent of their respective workforces. Seven other industrial sectors lost over 5,000 jobs. Thirteen industrial sectors lost between 3,000 and 5,000 jobs.

Manufacturing, especially durable goods manufacturing, has always been a very cyclical industry. Some of its problems are due to a fall-off in demand due to terrorism and the recession between March 2001 and November 2001. Yet, as recessions go, the contraction in GDP from March to November of 2001 was shallow compared to other recent recessions, particularly the one that occurred in early 1980s. As employment has failed to recover, it is clear that other factors besides domestic demand are at work. Federal Reserve Board Chairman Alan Greenspan and other economists often cite rising productivity in manufacturing as a key reason for the decline of manufacturing employment, but productivity alone is insufficient to account for the nationwide loss of three million manufacturing jobs between 1998 and 2003. Clearly, the other factor at work is international trade, as evidenced by our growing trade deficit. According to the Economic Policy Institute in Washington, D.C., almost one-fourth of domestic demand for manufactured products is now met by foreign imports.

There is no doubt that international trade has led to substantial job losses in Ohio's manufacturing sector. Earlier this year, Policy Matters Ohio released a report that analyzed program data from the U.S. Department of Labor's Trade Adjustment Assistance (TAA) program. The TAA program offers extended unemployment benefits, relocation and job search allowances, a health care tax credit, and limited wage supplements for reemployed older workers. The report found that nearly 46,000 Ohioans had been displaced from their jobs due to international trade between 1995 and November, 2003. The highest number of annual certifications took place in 2002, when 13,000 workers became eligible to apply for trade adjustment assistance. Last year's total was above 6,000, and this year's certifications are on a similar pace.

Unfortunately, TAA program data fails to capture the full extent of job losses due to trade. When a plant closes or reduces production, the effects cascade down the supply chain and also are felt by businesses that provide services to the plant. But, until November 2002, the TAA program did not cover workers at supplier companies, nor did it cover shifts in production facilities to countries other than Mexico or Canada. Just in the last year, the program certified workers at three Ohio companies that outsourced production to China: Senco Products in Cincinnati, Irwin Industrial Tools in Wilmington, and Ericsson Manufacturing Co. in Willoughby. Otherwise, program coverage for establishments that provide services to a manufacturing plant remains extremely limited. Despite these restrictions on program coverage, our report found that job losses certified under the TAA program accounted for nearly 19 percent of the net decline in manufacturing employment between January 1999 and October 2003.

Finally, there are an unknown number of jobs lost in other sectors of the economy because of the negative multiplier effects of manufacturing job loss on consumer spending. I would like to draw the Commission's attention to the fact that there are 6.4 percent fewer people employed in Ohio's retail sector than there were five years ago.

It is well known that the United States runs a substantial and growing trade deficit with China. American consumers are already familiar with China's exporting prowess in labor-intensive sectors such as apparel, toys, and footwear. What are the implications of China's export surge for Ohio's economy, which is concentrated in more capital-intensive sectors? Let's take a look at the fifty Ohio industrial sectors with the highest numbers of jobs lost between 1999 and 2003, and the proportion of total imports within each sector that come from China. In 1999, the median share of Chinese imports to all imports in each sector was 6 percent. By 2003, the median Chinese share had risen to 11.4 percent. China's share of total imports was 18 percent or over in 20 sectors. Only one of these fifty sectors (non-ferrous metals except aluminum) did not experience an increase in the Chinese share of total imports. Over the 1999 to 2003 period, the median increase in the value of Chinese imports across all fifty sectors was 106.2 percent (in nominal terms).

Increased Chinese import competition played an important role in creating market conditions that led to severe job losses in certain Ohio sectors. In the communications equipment sector, which lost nearly half of its workforce in Ohio, Chinese imports grew in value by 148 percent and accounted for nearly one-fifth of the value of all imports by 2003. Chinese import competition played a major role in the recent shutdown of two large plants in Central Ohio that made glass picture tubes for televisions (Techneglas in Columbus and Thomson in Circleville). These shutdowns combined to cost over 1,000 workers their jobs. In 2002, Chinese products accounted for one-fourth of the U.S. market in the household audio-visual equipment subsector, which includes television production. Although changing technology also played a role in the shutdowns of these two plants, the U.S. International Trade Commission found that certain cathode-ray tube Chinese televisions were being dumped on the U.S. market, and an antidumping order has been in place since June of this year (I.T.C. Case no. A-1034).

In the plastic products sector, which lost almost 10,000 jobs (16 percent of its workforce), Chinese imports grew in value by 75 percent and China increased its share of all imports from 19 to 24 percent. Most of Ohio's job losses occurred in the "all other plastics products" subsector, in which China is the leading exporter to the United States, sending $2.8 billion worth of products to the U.S. in 2003, up from $1.6 billion in 1999. In contrast, U.S. exports to China were a paltry $124 million. Chinese goods in this subsector held a 3.4 percent share of the U.S. market in 2002.

In the rubber products sector, which lost 30 percent of its Ohio workforce, Chinese imports grew in value by 129 percent and China doubled its share of imports in the sector to 11.6 percent over the 1999 to 2003 period. Over half of the total job loss in rubber products occurred in the tire and tire products subsector. By 2002, China had become the third largest exporter of tires and tire products to the United States, holding roughly three percent of the U.S. domestic market. If present rates of growth continue for four or five years, China may surpass Japan and Canada to become the largest exporter of tires and tire products to the United States.

Those who support normal trade relations with China often point to that country's potential as an export market. Ohio's exports to China have grown significantly since the U.S. and China began normal trading relations in 2000, but from a very low level. China became Ohio's seventh-largest export destination by 2003. Even so, China only accounts for slightly over 2 percent of Ohio's total exports. To put this in perspective, Ohio's exports to China in 2003 were just 3.8 percent of the value of goods that Ohio exports to Canada ($16.9 billion), our largest trading partner. Put another way, the value of Ohio's exports to China probably comprise no more than one-half of one percent of Ohio's total industrial output. It should also be mentioned that recently there has also been another downside to China's rapid growth – shortages of scrap metal, certain steel products, and cement. These shortages are beginning to affect the construction industry, which has been one of the few bright spots in Ohio's economy.

Standard economic models of international trade often assume that the economy is functioning at full employment. In this situation, international trade shifts jobs among various sectors of the economy but does not determine the overall level of employment. This may have been the case in Ohio and the rest of the United States during the 1990s, as a brisk rate of economic growth hid the effects of a rising trade deficit. However, Ohio's experience in the last several years is an example of what can happen when severe manufacturing job loss due to unbalanced trade occurs in the context of an economic downturn. The shrinking manufacturing sector becomes a decisive influence on the overall level of employment because it sets in motion a vicious circle of falling consumer and business demand. No one can say when this process will end, but the latest chapter in the dismantling of Ohio's industrial base will make it even harder for our economy to provide an acceptable standard of living for all of our residents.