

JOBS AND THE TRADE DEFICIT: A GROWING PROBLEM

AN ISSUE BRIEF FROM
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Trade between the United States and China has grown tremendously since commercial relations between the two nations were liberalized in 2001. The effect has been net job loss in the U.S. and in Ohio. In this issue brief, Policy Matters Ohio looks first at trends in the nation, then at the impact on Ohio. The data in this issue brief was compiled by Robert Scott at the Economic Policy Institute, based on analysis of data from the United States Census Bureau, the United States International Trade Commission (USITS) and the Department of Labor's Bureau of Labor Statistics (BLS).

National trends in trade between the United States and China, 2001-2008

The growth of U.S. trade with China since that country entered the World Trade Organization (WTO) in 2001 has had a dramatic effect on U.S. workers and the domestic economy. The U.S. trade deficit with China has risen from \$84 billion in 2001 to \$270 billion in 2008, an increase of \$186 billion. Since China entered the WTO in 2001, this deficit has increased by \$26.6 billion per year on average, or 18 percent per year (Table 1).

Table 1: US Trade Deficit with China, 2001-2008 (\$billions, nominal)

				Changes in: (\$billions)			Percent change
	2001	2007	2008	2001- 07	2007- 08	2001- 08	2001-08
U.S. domestic exports*	\$18.0	\$61.0	\$67.2	\$43.1	\$6.2	\$49.2	274%
U.S. imports	102.1	323.1	337.5	221.0	14.4	235.4	231%
U.S. trade balance	84.1	262.1	270.3	178.0	8.3	186.2	221%
Average annual change in the trade deficit				29.7	8.3	26.6	18%

Source: Economic Policy Institute analysis of Census Bureau, USITC and BLS data

Trade between countries can lead to growth in or loss of jobs in either place. Because China is exporting so much more to the United States than we are exporting to China, this relationship has translated into extensive job loss in the United States. Between 2001 and 2008, 2.4 million jobs were lost or displaced, including 91,000 in 2008 alone, despite a dramatic decline in total and bilateral US/China trade deficits that began in the second half of that year. On balance, this job loss grew by an average of 19 percent annually between China's entry into the WTO in 2001 and 2008, the most recent year for which data is available (Table 2).

Table 2: U.S. trade-related jobs supported or displaced (thousands of jobs)

				Changes in: (thousands of jobs)			Percent change
	2001	2007	2008	2001- 07	2007- 08	2001- 08	2001- 08
U.S. domestic exports	166.2	470.0	518.8	303.8	48.8	352.6	212%
U.S. imports for consumption-jobs displaced	1,188.2	3,819.3	3,959.5	2,631.1	140.3	2,771.3	233%
U.S. trade balance-net jobs lost	1,022.0	3,349.3	3,440.7	2,327.3	91.4	2,418.8	237%
Average annual job displacement				387.9	91.4	345.5	19%

Source: Economic Policy Institute analysis of Census Bureau, USITC and BLS data

Note: Domestic exports are goods produced in the United States. Total exports as reported by the U.S. International Trade Commission include re-exports, i.e. goods produced in other countries and shipped through the U.S. Total exports were \$71.5 billion in 2008 while U.S. re-exports to China represent 6.0% of total exports. The employment estimates shown here are based on domestic exports only.

The impact of the China trade deficit is not restricted to job displacement. Competition with low-wage workers from less-developed countries has driven down wages for other workers in manufacturing and reduced the wages and bargaining power of similar workers throughout the economy—essentially all production workers with less than a four-year college degree, roughly 70% of the private sector workforce, or about 100 million workers. China is the most important source of downward pressure from trade with less-developed countries, because it pays very low wages and because it was responsible for nearly 40% of our non-oil imports from less-developed countries in 2008.

Manufacturing accounts for most of the trade deficit between China and the United States (Table 3, p.3). Manufacturing jobs are important in the United States and in Ohio because they make up a large share of our economy and because they play an outsized role in generating other jobs, both nationally and at the state level. Manufacturing accounts for roughly two-thirds of U.S. research and development expenditures and employs more engineers and scientists than any other private sector industry. Manufactured goods represent two-thirds of our exports and drive more net wealth creation than any other sector.¹ Average weekly wages in manufacturing were 21.1 percent higher in 2009 than in other private sector occupations.²

¹ Manufacturing Performance Institute on behalf of the American Small Manufacturers Coalition, “Next Generation Manufacturing Study, Overview and Findings,” p.5

² United States Department of Labor, Bureau of Labor Statistics, Economic News Release, January 15, 2010, Table 1: Table 1. Earnings of production or nonsupervisory workers on private nonfarm payrolls in current and constant dollars by industry (not seasonally adjusted) at <http://www.bls.gov/news.release/realer.t02.htm>

Table 3: Trade with China by industry, national level, 2001-08 (millions of dollars)

	2001			2008			Change in trade, 2001-08		
	Imports	Exports	Net exports	Imports	Exports	Net exports	Imports	Exports	Net exports
Agriculture, forestry, fisheries	\$749	\$1,345	\$596	\$2,411	\$10,222	\$7,811	\$1,662	\$8,877	\$7,215
Mining	250	80	-171	694	848	154	444	769	325
Manufacturing	100,866	15,383	-85,483	333,879	48,300	-285,579	233,014	32,918	-200,096
Non-durables	23,412	975	-22,436	58,214	3,323	-54,891	34,802	2,348	-32,454
Durable goods	67,883	11,169	-56,714	242,595	33,202	-209,393	174,712	22,033	-152,678
Information	6	0	-6	2	23	21	-4	23	28
Scrap, non-comparable imports	194	1,079	884	449	7,541	7,092	255	6,462	6,208
TOTAL	102,066	17,886	-84,180	337,435	66,935	-270,500	235,369	49,049	-186,320

Source: Economic Policy Institute analysis of Census Bureau, USITC and BLS data

The impact of changes in trade on employment is estimated here by calculating the labor content of changes in the trade balance—the difference between exports and imports. Each \$1 billion in exports to China from the United States supports American jobs. However, each \$1 billion in imports *from* China displaces the American workers who would have been employed making them in the United States. On balance, the net employment effect of trade flows depends on the growth in the trade *deficit*, not just exports.

Two-thirds of the job loss that is attributable to the trade imbalance with China is in manufacturing. Table 4 illustrates the sub-sectors within manufacturing that have been particularly vulnerable to job loss due to the trade imbalance.

A trade imbalance like we see here was not envisioned when China entered the WTO and trade liberalized with Western nations. Promoters of liberalized U.S.-China trade claimed the United States would benefit because of increased exports to a large and growing consumer market in China. However, despite widespread reports of the rapid growth of the Chinese middle class, this growth has not resulted in a significant increase in high value U.S. consumer exports to China. The most rapidly growing exports to China are bulk commodities such as grains, scrap, and chemicals; intermediate products such as semiconductors; and producer durables such as aircraft (Table 4). Currency manipulation, export subsidies and barriers to imports are cited as major problems in trade with China.

Table 4: Change in net U.S. jobs created or displaced by industry due to trade imbalance with China, 2001-2008

Sector	Net job gain/loss	Share of total
Manufacturing	-1,616,281	66.9%
Non-durable goods	-300,955	12.5%
Food and kindred products	-7,931	0.3%
Beverage and tobacco products	-219	0.0%
Textiles and fabrics	-55,092	2.3%
Textile mill products	-33,088	1.4%
Apparel and accessories	-150,192	6.2%
Leather and allied products	-54,434	2.3%
Industrial supplies	-177,617	7.4%
Wood products	-20,938	0.9%
Paper	-23,146	1.0%
Printed matter and related products	-31,060	1.3%
Petroleum and coal products	-1,355	0.1%
Chemicals	-21,900	0.9%
Plastics and rubber products	-59,162	2.4%
Nonmetallic mineral products	-20,055	0.8%
Durable goods	-1,137,709	47.1%
Primary metal	-39,955	1.7%
Fabricated metal products	-108,657	4.5%
Not specified metal industries	0	0.0%
Machinery, except electrical	-54,163	2.2%
Computer and electronic parts	-627,740	26.0%
Computer and peripheral equipment	-330,226	13.7%
Communications, audio and video equipment	-148,620	6.2%
Navigational, measuring, electromedical, and control instruments	-11,477	0.5%
Semiconductor, other electronic, magnetic & optical media prod.	-137,418	5.7%
Electrical equipment, appliances, and components	-63,914	2.6%
Transportation equipment	-22,109	0.9%
Motor vehicles and parts	-25,150	1.0%
Aerospace product and parts	5,986	-0.2%
Railroad, ship, and other transportation equipment	-2,946	0.1%
Furniture and fixtures	-84,281	3.5%
Miscellaneous manufactured commodities	-136,889	5.7%
Other not specified	0	0.0%

Source: Economic Policy Institute analysis of Census Bureau, ITC and BLS data

Trade Imbalance with China: Effect on Ohio

A negative impact on the industrial base has serious repercussions in Ohio. Manufacturing plays a more prominent role in the Ohio economy than in other states. The manufacturing sector accounts for 12 percent of the U.S. gross domestic product (GDP) while Ohio's manufacturing sector accounts for 18 percent of gross state product (GSP), 50

percent higher than in the nation as a whole.³ Ohio ranks third among the states in contribution to the national economy from manufactured products.⁴

Ohio ranks eighth among the states in net job loss due to the trade deficit with China in 2001-2008, with a loss of 91,800 jobs (Table 5). In terms of share of state employment lost to this growing trade imbalance, Ohio ranked twentieth, with 1.70 percent. (Table 6). There was not a single congressional district in the state that avoided impact: all districts suffered from job loss that may be attributed to the imbalance of trade with China (Table 7).

Table 5: Top ten states in net job loss due to trade with China, 2001-08

	Net jobs lost
1. California	370,000
2. Texas	193,700
3. New York	140,500
4. Illinois	105,500
5. Florida	101,600
6. Pennsylvania	95,700
7. North Carolina	95,100
8. Ohio	91,800
9. Georgia	78,100
10. Massachusetts	72,800

Source: EPI analysis of Census Bureau, USITC and BLS data; see also Appendix A.

Ohio ranked 20th among states in the net job loss as a share of state employment, losing 1.7 percent of its jobs due to growing trade deficits with China, between 2005 and 2007. The states losing the largest share of their total employment were New Hampshire, North Carolina, Massachusetts, and California, each of which lost more than 2.2 percent of their jobs to trade with China. Ohio is impacted because the state's supply chain of small and medium sized manufacturers is concentrated in durable goods production, where the impact of the trade imbalance has been the greatest.

Table 6: Net Job Loss Due to Trade Deficit with China, Ranked by Share of State Employment

	Net jobs lost	Total employment	Share of total
1. New Hampshire	16,300	694,200	2.35%
2. North Carolina	95,100	4,133,000	2.30%
3. Massachusetts	72,800	3,241,300	2.25%
4. California	370,000	16,565,000	2.23%
5. Oregon	38,600	1,764,400	2.19%

³ Department of Labor, Bureau of Economic Analysis, 2008.

⁴ Ohio Department of Development, Gross Domestic Product of Ohio, January 2009, p.3

	Net jobs lost	Total employment	Share of total
6. Minnesota	58,800	2,713,700	2.17%
7. Rhode Island	10,600	526,500	2.01%
8. Alabama	39,300	1,995,900	1.97%
9. Idaho	13,500	685,800	1.97%
10. South Carolina	38,400	1,950,800	1.97%
11. Vermont	6,200	329,700	1.88%
12. Colorado	45,200	2,424,500	1.86%
13. Tennessee	51,400	2,778,500	1.85%
14. Wisconsin	52,300	2,849,100	1.84%
15. Indiana	54,900	3,000,700	1.83%
16. Texas	193,700	10,602,400	1.83%
17. Georgia	78,100	4,310,000	1.81%
18. Illinois	105,500	6,087,800	1.73%
19. Kentucky	32,200	1,863,500	1.73%
20. Ohio	91,800	5,412,100	1.70%
21. Puerto Rico	20,000	1,199,900	1.67%
22. Pennsylvania	95,700	5,825,400	1.64%
23. New Jersey	69,100	4,212,200	1.64%
24. Mississippi	19,400	1,201,700	1.61%
25. Arkansas	19,800	1,237,400	1.60%
26. New York	140,500	8,954,600	1.57%
27. Connecticut	27,300	1,742,300	1.57%
28. Utah	19,200	1,228,900	1.56%
29. Michigan	68,300	4,552,700	1.50%
30. Arizona	40,200	2,756,400	1.46%
31. Washington	44,300	3,051,500	1.45%
32. Maine	9,400	656,400	1.43%
33. Missouri	38,700	2,774,000	1.40%
34. Virginia	51,700	3,739,700	1.38%
35. Iowa	20,900	1,530,400	1.37%
36. Maryland	36,600	2,827,400	1.29%
37. South Dakota	5,200	407,600	1.28%
38. Oklahoma	20,700	1,626,900	1.27%
39. Kansas	17,400	1,380,000	1.26%
40. Florida	101,600	8,204,700	1.24%
41. Delaware	5,000	407,900	1.23%
42. New Mexico	10,600	868,100	1.22%
43. Nebraska	10,800	916,600	1.18%
44. Nevada	13,400	1,206,800	1.11%
45. District of Columbia	3,100	286,400	1.08%
46. West Virginia	8,000	753,200	1.06%

	Net jobs lost	Total employment	Share of total
47. Louisiana	17,400	1,872,100	0.93%
48. North Dakota	3,100	336,900	0.92%
49. Hawaii	5,000	605,800	0.83%
50. Montana	3,600	464,900	0.77%
51. Alaska	2,400	322,300	0.74%
52. Wyoming	2,000	268,800	0.74%
National plus Puerto Rico total*	2,414,900	141,348,700	

Source: Economic Policy Institute, Based on Census Bureau, USITC and BLS Data

Ohio is a state with manufacturing in all areas, so all Ohio Congressional Districts have felt an impact. The largest impact was in the fifth congressional district, represented by Congressman Robert Latta, where 6,700 positions, more than 2.1 percent of the district's jobs, were lost between 2001 and 2008. This was attributable in part to job loss in the dense and diverse auto supply network around northwest Ohio. While the losses occurred throughout the state, other districts losing more than 1.9 percent of their jobs because of the trade deficit included the fourth, eighth, fourteenth, sixteenth and seventeenth districts, represented, respectively by Congressmen Jim Jordan, John Boehner, Steve LaTourette, John Bocchieri and Tim Ryan. Table 7 displays job loss by district.

Table 7: Job Loss due to trade with China by Ohio Congressional District, 2001-2008

Member of Congress	District #	Job loss	Total Jobs	Job loss as % of total
Steve Driehaus	1	4,100	293,300	1.40%
Jean Schmidt	2	5,200	319,200	1.63%
Michael Turner	3	5,500	295,200	1.86%
Jim Jordan	4	5,900	299,200	1.97%
Robert Latta	5	6,700	311,200	2.15%
Charles Wilson	6	3,300	268,400	1.23%
Steve Austria	7	4,300	308,200	1.40%
John Boehner	8	6,000	309,900	1.94%
Marcy Kaptur	9	4,100	287,900	1.42%
Dennis Kucinich	10	4,700	292,100	1.61%
Marcia Fudge	11	3,400	235,000	1.45%
Patrick Tiberi	12	5,100	349,100	1.46%
Betty Sutton	13	5,700	311,300	1.83%
Steven LaTourette	14	6,400	325,300	1.97%
Mary Jo Kilroy	15	4,400	329,100	1.34%
John Bocchieri	16	6,200	311,800	1.99%
Timothy Ryan	17	5,500	279,000	1.97%
Zachary Space	18	5,000	287,000	1.74%
Ohio	Statewide	91,800	5,412,100	1.70%

Source: Economic Policy Institute, Based on Census Bureau, USITC and BLS Data

Conclusion

The growing U.S. trade deficit with China has displaced huge numbers of jobs in the United States and has contributed to the crisis in manufacturing over the past seven years. States like Ohio, which have an economy rooted in manufacturing, have borne the brunt of the trade imbalance. We are losing export capacity, and facing a more fragile macroeconomic environment.

Although jobs have grown in China, this relationship has also had negative consequences for the Chinese economy. 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 trillions of dollars in hard currency reserves instead of investing them in public goods that could benefit Chinese households. Its vast purchases of foreign exchange reserves have stimulated the overheating of its domestic economy, and inflation in China has accelerated rapidly in the past year. Its repression of labor rights has suppressed wages, thereby artificially subsidizing exports.

There is much that must be done to improve our trade relationship with China. Steps must be taken to ensure fair trade practices, to support our manufacturing base here in America, to address problems of pollution, and to ensure labor rights are protected.

Appendix A**Net job loss by state due to growing trade deficits with China,
By number of jobs displaced, 2001-2008**

	Net jobs lost
California	370,000
Texas	193,700
New York	140,500
Illinois	105,500
Florida	101,600
Pennsylvania	95,700
North Carolina	95,100
Ohio	91,800
Georgia	78,100
Massachusetts	72,800
New Jersey	69,100
Michigan	68,300
Minnesota	58,800
Indiana	54,900
Wisconsin	52,300
Virginia	51,700
Tennessee	51,400
Colorado	45,200
Washington	44,300
Arizona	40,200
Alabama	39,300
Missouri	38,700
Oregon	38,600
South Carolina	38,400
Maryland	36,600
Kentucky	32,200
Connecticut	27,300
Iowa	20,900
Oklahoma	20,700
Puerto Rico	20,000
Arkansas	19,800
Mississippi	19,400
Utah	19,200
Kansas	17,400
Louisiana	17,400
New Hampshire	16,300
Idaho	13,500
Nevada	13,400
Nebraska	10,800
Rhode Island	10,600
New Mexico	10,600
Maine	9,400

**Net job loss by state due to growing trade deficits with China,
By number of jobs displaced, 2001-2008**

	Net jobs lost
West Virginia	8,000
Vermont	6,200
South Dakota	5,200
Delaware	5,000
Hawaii	5,000
Montana	3,600
District of Columbia	3,100
North Dakota	3,100
Alaska	2,400
Wyoming	2,000
National plus Puerto Rico total*	2,414,900

Source: EPI analysis of Census Bureau, ITC, and BLS data

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