

# CRS Report for Congress

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## China and the WTO: Labor Issues

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### Summary

China's prospective membership in the World Trade Organization (WTO) raises issues among some U.S. workers and organized labor about job and wage security. Many labor groups argue that Mexico's threat to U.S. jobs and wages since the North American Free Trade Agreement (NAFTA) could be dwarfed by China's threat as a result of closer economic ties. China's average manufacturing wages, at about \$0.25 per hour, are about one-fifth as great as Mexico's, and about one-fiftieth as much as total compensation for manufacturing workers in the United States. China's labor force is 18 times that of Mexico and five times that of the United States. Most business groups argue that U.S. businesses in China pay much higher than average wages, that free trade creates both "winners" and "losers," and that China's WTO accession will greatly expand U.S. exports and jobs. On May 24, 2000, the House passed H.R. 4444 granting permanent normal trade relations (PNTR) with China. It would also set up a Congressional-Executive Commission to monitor Beijing's human rights compliance and codify anti-surge protection measures contained in the U.S.-China bilateral agreement. Related legislation includes proposals for an expanded adjustment assistance program for workers displaced from their jobs by possible increased trade with China. The Senate is not likely to vote on its version of PNTR legislation (S. 2277) until September.

China is the world's most populous nation. It has a labor force of about 700 million, five times that of the United States (at about 130 million). China's imminent membership in the World Trade Organization (WTO)<sup>1</sup> has crystalized concerns of some U.S. workers

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<sup>1</sup> On November 15, 1999, the United States and China announced a bilateral agreement on China's WTO membership whereby China, upon its WTO accession, would reduce or eliminate barriers to trade in agriculture, industrial products, and services. Before the full WTO membership can vote on its WTO entry, China must complete bilateral negotiations with other key WTO members and the WTO working party. In addition, to assure that the WTO agreements would fully apply, Congress would have to pass legislation granting Permanent Normal Trade Relations (PNTR) status to China – a status currently renewed on an annual basis. Source: U.S. Library of Congress. Congressional Research Service. *China and the World Trade Organization*, by Wayne M. Morrison. CRS Report RS20139. Also, the author would like to thank Wayne Morrison for  
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about their welfare in the new world economic order, “the global economy.” As one result of globalization, goods such as autos may be assembled from components produced in a dozen or more countries. At the same time, some services (e.g., processing of information) may be performed in localities far from where the service is received. Some labor groups have expressed concern that, with China’s entry into the WTO, increasingly fewer manufacturing and service jobs may be performed by workers in the United States.

China’s economic power has grown substantially in the past decade. Its roughly 125 export processing zones<sup>2</sup> – huge industrial parks located at or near ports – have provided an engine for economic growth and an increasingly sophisticated training ground for workers. Total U.S.-China trade rose from \$18 billion in 1989 to \$95 billion in 1999, while China climbed from tenth to fourth position among U.S. trading partners. Although its eager and massive working population has quickly made China a top world economic player, enforcement of worker rights protections and social policies are still lagging behind those of more developed countries.

## Debate Over the Effects of China’s Economic Growth

Some key concerns of some U.S. workers about the global economy and China’s growing role in it, together with responses of business groups and some economists are:

**Job Loss.** Labor economists note that many low-skill production jobs have been “lost”<sup>3</sup> as U.S. firms have shifted production to *developing* countries, leaving behind a predominance of low-skill service jobs and high-skill production and service jobs. Labor unions argue that China has the potential to absorb a large proportion of remaining U.S. moderate-skill production jobs including textile and auto production jobs. Business groups counter that the United States is already at full employment, and the opening of China’s markets will force workers in both countries into more productive jobs. This will reduce prices on goods that are imported rather than produced at home. Thus, cheap imports both raise living standards and increase demand for other products.

**Wage Loss Among Low-Skilled Workers.** In a Business Week/Harris poll, 68% were of the opinion that trade agreements with low-wage countries drive down U.S. wages. Anecdotal evidence documents stories of workers who accepted wage cuts to keep their company from relocating abroad. Economists have found that wages in developed countries have become steadily skewed in favor of high-skilled workers relative to low-skilled workers. Moreover, three sets of data show that real U.S. wage and compensation averages (adjusted for inflation) have *declined* between 1978 and 1999: *total private* average hourly earnings by 7%; average hourly earnings for *manufacturing* production workers by 12%; and hourly *compensation* (including benefits) for

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<sup>1</sup> (...continued)  
assistance in preparing this report.

<sup>2</sup> The Flagstaff Institute. WEPZA International Directory of Export Processing Zones & Free Trade Zones. May, 1997

<sup>3</sup> Economists like to point out that in an economy operating at full employment, jobs are not “lost,” but merely shifted – typically from a declining industry to a growing one.

manufacturing production workers by 11%.<sup>4</sup> Over the same period of time, productivity measured as the growth in U.S. output per hour in manufacturing, has grown by roughly 30%.<sup>5</sup> Historically, until recently, real wage growth has tended to track productivity growth. Economists are uncertain about the cause of poor wage performance and the wage-productivity split, but most researchers have concluded that trade's impact on wages may be 15-20% or less, with the remainder attributed largely to technology.<sup>6</sup>

**Loss of Leverage on Worker Rights.** Despite some worker rights protections in Chinese law, China's workers are not permitted to organize freely, and "forced labor in penal institutions is a problem."<sup>7</sup> In addition, when a plant opens an operation abroad, worker protections mandated by U.S. law may not convey to workers in a developing country unless a business voluntarily adheres to a professional "code of conduct." On the other hand, businesses argue, when operations are transferred abroad, the combination of U.S. management and transferred machinery typically introduces into the developing country greater worker rights and safety protections, and higher wages. U.S. firms report that, in China for instance, the average hourly U.S.-paid manufacturing wage is \$3.86 versus China's national average of \$0.25.<sup>8</sup> Some labor unions counter that even with embedded protections, multinational firms can still exploit workers overseas by paying low wages, and can then potentially harm workers at home by exporting the goods back to the United States, threatening U.S. jobs where labor rights exist.

**Loss of Leverage on Human Rights.** For some Members of Congress, the annual renewal of China's NTR status provides an effective tool for influencing U.S. policy toward China on a variety of issues including human rights. United Auto Worker president Stephen P. Yokich concurs, arguing that the WTO accession agreement is "fatally flawed" because China "has a horrendous record of religious persecution and oppressing the freedom of its citizens to speak and assemble freely."<sup>9</sup> John J. Sweeney, president of the AFL-CIO, agrees: "The AFL-CIO fervently believes that the rules of the global economy . . . must take into account all of society. Human values, not just business values, must

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<sup>4</sup> U.S. Department of Labor, Bureau of Labor Statistics. International Comparisons of hourly Compensation Costs for Production Workers in Manufacturing, 1975-1998, table 3; and Economic Report of the President (EROP), February 2000, p. 360. Current figures were translated into "real" figured by dividing them by the consumer price index, EROP, p. 373.

<sup>5</sup> U.S. Department of Labor, Bureau of Labor Statistics data.

<sup>6</sup> See CRS Report 98-441, *Is Globalization the Force Behind Recent Poor U.S. Wage Performance?: An Analysis*, by Craig K. Elwell.

<sup>7</sup> U.S. Congress. *Joint Committee Print. Country Reports on Economic Policy and Trade Practices*. Report to the Senate Foreign Relations Subcommittee of the Senate Finance Committee and the House International Relations Subcommittee of the House Ways and Means Committee, April 2000. S. Print 106-45, p. 26-27.

<sup>8</sup> Source for U.S. figures: Business Coalition for U.S.-China Trade (BC). This figure may include benefits as well. Nike reportedly pays Chinese workers a minimum of \$44 per month, plus free housing, meals and medical care valued at \$108. In sharp contrast to the BC figure, this Nike figure divides out to \$38 per week, or, depending on hours worked, less than \$1 per hour.

<sup>9</sup> Bureau of National Affairs (BNA). Inside U.S. Trade. Text: UAW Letter on China Vote. Feb. 4, 2000.

inform these trade agreements.”<sup>10</sup> Business groups counter that granting China PNTR, opening it to greater U.S. influence and to a higher standard of living, will encourage greater respect for human rights as has occurred in other nations moving from developing to industrialized status.

## Possible Lessons from NAFTA

Some lessons from the North American Free Trade Agreement (NAFTA) with Mexico and Canada, which went into effect January 1, 1994, may be applicable to the new U.S.-China WTO relationship. For instance, with or without NAFTA, trade with Mexico, a developing country like China, was growing and would have continued to do so; after NAFTA, it accelerated. Second, on balance, about two U.S. jobs have been “gained” for every U.S. job “lost” to increased trade with Mexico since NAFTA.<sup>11</sup>

However, some lessons from NAFTA might not transfer exactly to the U.S.-China experience. First, NAFTA, as a free trade agreement, and PNTR, as a designation of trade status, provide very different forms of economic integration. Second, Mexico’s geographic proximity to the United States has encouraged a unique symbiotic relationship: U.S. components are often assembled in Mexico and sent back to the United States. With China, suppliers are more likely to be located in Asia. Third, whereas Mexico is a final assembler of U.S. components, China, among other things, is also a producer of components (e.g., computer components) assembled in the United States. Fourth, U.S. exports appear to have more growth potential with China than with Mexico. Under NAFTA, both Mexico and the United States reduced trade barriers. Under the U.S.-China bilateral agreement, only China is liberalizing its trade. With its huge population and low economic base, China holds a greater potential for absorbing large volumes of U.S. exports. Finally, U.S.-Mexico and U.S.-China trade involve some different industries. The largest U.S. export to China is airplanes and parts. Beyond the primary imports from both Mexico and China (electronics, computers, apparel), the United States also imports a large volume of furniture and housewares from China.

## Legislative Issues

**The Vote on PNTR Status.** A “yes” vote in Congress on PNTR would seal the U.S.-China WTO relationship, if China wins WTO membership which requires other similar bilateral agreements. China’s WTO membership, according to business interests, could widen the doors for greater U.S. exports to China and provide greater balance to the \$82-to-\$13 billion 1999 import-to-export ratio. To protect U.S. industries and workers against job “loss” from increased imports, the bilateral trade agreement with China includes several specific provisions: 1) anti-dumping provisions to prevent Chinese goods from being sold in the U.S. market below cost; 2) product-specific safeguards, which allow the United States to target rapidly increasing Chinese imports if they are

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<sup>10</sup> BNA. Inside U.S. Trade. Text: Sweeney Letter on China Vote. Feb. 7, 2,000.

<sup>11</sup> NAFTA: Estimated U.S. Job “Gains” and “Losses” by State Over 5 ½ Years, by Mary Jane Bolle. CRS Report 98-782 E.

disrupting or threatening to disrupt the U.S. market; and 3) special safeguards for U.S. textiles, which will be available until the end of 2008.

Business interests argue that a “no” vote in Congress on PNTR could diminish future U.S.-China trade and investment relations. The United States might not get all the benefits of China’s WTO accession, since China would have no obligation to grant them under the WTO. In addition, the United States would not be able to use the WTO dispute resolution process, if China uses trade barriers to unfairly discriminate against the United States. On the other hand, labor interests argue, a “no” vote could slow economic integration that might accelerate plant relocation, and also add more leverage to the annual NTR review process, permitting closer scrutiny of China’s human rights treatment.

**Amendment to PNTR.** On May 25, the Senate Finance Committee passed S. 2277, simply granting China PNTR status upon its accession to the WTO. One day earlier, on May 24, 2000, the House passed H.R. 4444, granting China PNTR status but adding several provisions that were proposed by Rep. Sander Levin and Rep. Douglas Bereuter, including a Helsinki-type Congressional-Executive Commission to monitor Beijing’s human rights compliance, and codifying anti-import surge protection measures contained in the U.S.-China bilateral agreement.

H.R. 4444 provides that the Commission shall: 1) monitor acts of China which reflect compliance with or violation of certain human rights; 2) compile lists of persons believed to be imprisoned, detained, placed under house arrest, tortured, or otherwise persecuted by the China government due to their pursuit of human rights; 3) monitor the development of the rule of law in China; 4) monitor and encourage programs of the U.S. government and private organizations that increase enforcement of human rights and develop the rule of law in China; and 5) issue annual reports and require congressional hearings on the reports.

Other provisions offer further monitoring and enforcement activities. These include: 1) an annual review within the WTO, of China’s compliance with its terms of accession; 2) authorization of appropriations for three U.S. Government entities (the Departments of Commerce and Agriculture, and the Office of the U.S. Trade Representative), to expand U.S. monitoring and enforcement of U.S. trade agreements and trade laws with respect to China; and 3) monitoring of U.S. importation of products of forced or prison labor, through a task force which would work closely with the U.S. Customs Service. The bill also authorizes funds for programs to support China in its development. The Secretary of Commerce in consultation with the Secretary of State, is authorized to create a program to conduct rule of law training and technical assistance for commercial activities in China.

**An Expanded Trade Adjustment Assistance Program.** It is clear that the ongoing expansion of trade with China and other countries, while supporting many jobs, also involves disruption for many U.S. workers. Two Federal programs, the Trade Adjustment Assistance Program (TAA) and the NAFTA-Transitional Adjustment Assistance Program (NAFTA-TAAP) support workers adversely affected by imports. Under both programs, workers may receive cash payments, job training, and training allowances. The difference between the TAA and NAFTA-TAAP programs is that while both offer benefits to workers dislocated by increased imports, only NAFTA-TAAP offers benefits to workers who lose their jobs because their plant relocates abroad. Most job losers under NAFTA are eligible for both programs. Of these, 55% typically lose their job because their plant

relocates, and for 85% of these, the plant relocates to Mexico. Authorization for both programs was extended through FY 2001 by the consolidated appropriations act, P.L. 106-113. For 1999, total funding for both the TAA and NAFTA-TAA programs including income support, was \$252 million, serving a total of 38,000, for an average of \$6,613 per recipient.

Critics of the TAA program, the only program which covers job loss as a result of trade with *China*, point out that it does not cover workers whose *plants relocate* to China – only those who lose jobs to *increased imports* from China.<sup>12</sup> H.R. 4649 (Kaptur) would rectify this by establishing a transitional adjustment assistance program for trade with China similar to the NAFTA-TAA program. Some critics argue, additionally, that the TAA program is inadequate in helping workers transition into higher-skilled jobs: The Department of Labor found that only 29% of displaced full-time wage and salary workers (with no reference to which had access to the TAA program) were able to gain re-employment at the same or greater salary level one to three years later.<sup>13</sup>

A third criticism of the TAA program is that it does not provide for the collection of specific data on U.S. job loss to various countries. For years, Congress tried unsuccessfully to get the Department of Labor to document such job loss.<sup>14</sup> Under the NAFTA-TAAP program, reporting requirements led to the collection of data on job loss to Mexico and Canada, separated into nine reasons for job loss. H.R. 4649, if passed, could likely lead to the reporting of this data for trade with China. In addition, H.R. 1491 (Matsui), S. 220 (Moynihan), and President Clinton's FY 2001 budget proposal would raise the training funding cap for the combined programs from \$110 to \$150 million and extend TAA benefits to all workers who lose their job either to increased imports or the relocation of their plant abroad. Such a provision could provide a vehicle for collecting data on all plant relocations abroad.<sup>15</sup>

## Conclusions

With or without a “yes” vote on PNTR, U.S. trade with China will likely continue to grow and accelerate, as U.S. trade is growing with other developing countries. Such trade will continue to have “winners” and “losers” as U.S. workers shift from declining import-competing to growing export industries. This suggests a continuing need to consider assisting dislocated workers in ways that maintain their quality of life and help the U.S. economy continue to grow.

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<sup>12</sup> Workers dislocated because of *either* increased imports from or plant relocations to Mexico or Canada under NAFTA are eligible for benefits.

<sup>13</sup> BLS Finds Risk of Displacement Higher Even as Job Losses Ease in 1995-97 Period. BNA Daily Labor Report, August 20, 1998, p. D-5 – D-13.

<sup>14</sup> See CRS Report 93-355, *Plant Closings, Mass Layoffs, and worker Dislocations: Data Issues*, by Mary Jane Bolle.

<sup>15</sup> See CRS Issue Brief IB98023, *Trade Adjustment Assistance for workers: Proposals for Renewal and Reform*, by James R. Storey.