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From the Baltimore Sun

American consumers to blame for huge trade deficit with China

By Gary Gereffi

February 8, 2007

DURHAM, N.C. -- The Department of Commerce will release data Tuesday showing a record trade deficit with China of more than \$200 billion in 2006. This news will likely fuel reaction alleging China is plotting to harm the U.S. economy and its workers by flooding the American market with cheap goods. Such vilification is based on a mirage.

Nearly \$300 billion worth of U.S. goods were imported from China in 2006. Based on the pattern for China's total exports, up to two-thirds are likely to have come from other countries' corporations that are operating in China. That includes a few American companies that are profiting from China's cheap labor and efficient infrastructure.

More than any nefarious strategy, the China trade deficit reflects the state of the global economy: China is the world's factory and the U.S. is its supermarket.

There are, however, data that are far more telling about America's place in the global economy.

Consider these basic statistics on the U.S. economy in 2006: 4.6 percent unemployment and 3.4 percent growth in gross domestic product. They are signs of a healthy economy. Financial concerns among American workers do not stem from a national economy battered by China.

Pressing China to let the yuan appreciate - the current U.S. policy - even if successful, would contribute only slightly to the U.S. economy. Far more fruitful would be addressing the anxieties of American workers about job security, retirement and health care with new ways of providing the social supports once found in pensions, lifelong employment, company health insurance, Social Security and Medicare.

Another telling statistic is the growth of Wal-Mart. Since 2001, its global sales have ballooned from \$191.3 billion to around \$350 billion, with 80 percent of that coming from the U.S. market. Combine that with an average household credit card debt of \$2,350, according to the 2004 Federal Reserve Survey of Consumer Finances, and you have a powerful consumption machine obsessed with low prices.

The manufacturing boom in China over the last two decades is a result, mainly, of companies such as Wal-Mart, Nike and Mattel, as well as numerous Asian electronics makers, seeking to supply the American market with inexpensive goods. China's surge is caused as much by demand from American companies as by Chinese stratagems.

Denouncing China for its low wages, as some labor groups do, puts the blame in the wrong place. In fact, one of China's economic strategies is to add high-wage jobs by attracting research centers built by companies such as Microsoft and GE, while letting factory jobs move to the interior of the country or to Southeast Asian nations. The Chinese government wants to raise wages in order to create an expanded middle class whose consumption would provide a more balanced engine for its economic growth.

Cheap Chinese goods and labor have pitted the American consumer, in love with inexpensive goods, against the American worker, in fear of cheap labor. Unfortunately, these are often two sides of the same coin: America's workers are also its consumers.

Innovation is the only option left if Americans don't want to compete with China on wages and aren't ready to rein in their spending. A study I did with three colleagues found that 24 percent of the international patents filed in the U.S. in 2006 listed at least one foreign national as an inventor, up from 7 percent in 1998. An increasing percentage of innovation in America is coming from people who weren't born here and may have received much of their education elsewhere.

Nourishing innovation requires an educational system that produces talented homegrown researchers and welcomes foreign ones, and it requires a visa system that encourages them to stay, even in a day and age when security is an ever-present concern.

When the latest batch of trade data comes out next week, don't look to China in search of problems to fix. We'll have to find our answers right here at home.

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[This op ed also appeared in the Raleigh *News & Observer* on Feb. 9, 2007 under the heading, "Whose goods are these?"]