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NEWS

China makes, U.S. takes ; Surging trade imbalance raises nagging concerns

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Susan Kuperman pulls a 12-cup Mr. Coffee machine off a shelf at the Target in Hackensack and spies a label on the box.

"Made in China."

She glances down the row of models by Black & Decker, Melitta, Juan Valdez/Salton and Hamilton Beach - all made in China.

"Anything made in the U.S.A.?" she wryly asks her partner, Lois Maskell.

At the checkout, the women - co-owners of The Bag Lady, a company that distributes plastic trash bags - pay for a 123-piece Durabuilt tool set and an Oxo spoon and spatula, also made in China. Then they return to their New Milford home, which is stocked with dozens more Chinese-made items - from a Proctor-Silex toaster and Henckels cutlery to a set of Disney Seven Dwarfs soft toys and a blue-and- silver Yankee commemorative baseball.

These days, such a household is the American norm. China makes 50 percent of the world's cameras, a third of its air conditioners and 25 percent of its washing machines, as Western manufacturers, many in the United States, look for ever-cheaper ways to produce goods.

With relentless drive, rock-bottom wages and a government- controlled economy, China has tapped America's voracious demand for consumer items and created an unprecedented economic tsunami that has swamped - some would say battered - the United States.

The sheer scale of the Chinese onslaught is graphically demonstrated daily in New Jersey ports.

In one typical week this spring, ships docking in New York and New Jersey unloaded the equivalent of 12,800 20-foot-long containers packed with more than 300 categories of goods from China, including neckties, cologne, frogs and snails, rainwear and tractors.

Air conditioners filled 263 containers, 280 held lamps and lamp parts, 656 had toys. The biggest shipment, wooden furniture, filled 2,900 containers. Laid end to end, the containers would have stretched 48 miles.

"The growth rate is phenomenal," says Thomas Danjczek, president of the U.S. Steel Manufacturers

Association, who has visited China repeatedly. "[It's] past phenomenal, it's almost unbelievable."

The Chinese advances have also raised anew some unsettling questions about free trade, globalization and who wins - and who loses - when a rich country like the United States imports inexpensive foreign-made goods, or shifts white-collar jobs to low - wage countries.

Few American consumers would deny the benefits of \$1 wooden trains, queen-size comforters that go for \$32 or leather handbags for \$14.99. After all, Wal-Mart has built a retail colossus around Chinese imports.

But the bargains have come with high price tags: shuttered American factories, lost manufacturing jobs, a widening trade deficit and a dread of what China's emergence means for the future.

Economists predict China will overtake the United States as the world's largest economy sometime in mid-century. And some observers wonder how America's once-indomitable economy will fare then.

The concern stems in part from China's sheer size: 1.3 billion people and a labor force of 760 million - six times the size of its American counterpart - with many workers paid less than 50 cents an hour.

China's surging production needs have also pushed up global prices for oil, steel and other raw materials. And the Asian giant has invested so much of its export profits that it is now the second largest holder of U.S. treasury bills, the debt sold by the government to raise money.

Congress was so concerned with China's growing trade influence this year that at least 15 measures were introduced to rein in the export behemoth, most demanding that the Bush administration levy tariffs on Chinese goods.

It is primarily the speed and force of China's offensive that has stunned U.S. manufacturers.

Since 1996, as the number and diversity of Chinese-made products have mushroomed, American imports from China have quadrupled to \$196 billion.

Three decades ago, China exported 510 items to the United States; by 2001, that figure had multiplied almost twentyfold to 10,200 items, according to a study by the Federal Reserve Bank of New York, released in April.

That's good news for consumers. Over the same 30 years, the variety of items available to consumers tripled, thanks to imports from China and other countries, the bank says.

"China has given American consumers the best values they have seen in their lifetime," says C. Britt Beemer, a South Carolina consumer research consultant.

Yet China also has done more than any other country to strip the "Made in America" label from homegrown products.

Such American consumer icons as Stanley tools, Fedders air conditioners, Huffy bikes, Sunbeam mixers and Radio Flyer wagons are just some of the items now made in China because their producers couldn't compete against foreign factories.

That flight contributed to a loss of 1.5 million U.S. jobs to China from 1989 to 2003, according to a report released in January by the Economic Policy Institute, a Washington-based think tank. Some 39,000 of those lost jobs came from New Jersey.

What all that means for the United States may depend on where you stand.

Free-trade proponents insist that everyone wins in the long run if countries produce only those goods they make best and trade for other needs. The United States may be buying a lot of imports, but the benefits are cheap goods for American consumers and a growing prosperity in exporting nations that will eventually provide

enough money to buy goods from the United States. Meanwhile, China's purchase of U.S. treasury notes helps keep America's economy humming.

But critics of free trade say it mostly means lost jobs and shrunken salaries in the United States and exploited workers overseas. They argue that the more the United States becomes a consumer rather than a producer, the less likely it will be an innovator and competitor in the world marketplace.

Somewhere in the middle is the average American consumer, who would like the best of both visions, says William Ward, a business professor who specializes in China at Susquehanna University in Pennsylvania.

"Americans universally want to have high wages, high benefits and low prices," he says. "But in the modern, globalized competitive world, that's probably a tough thing to do."

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Growth benefits ports

On a sweltering July day in Jersey City, a dark-blue freight container - a 40-footer owned by P&O Nedlloyd - hangs 50 feet in the air, suspended from the cables of a massive white crane operated by Sean Thomas, a 22-year-old longshoreman from Middletown.

He sits in a tiny glass cockpit 120 feet above the Oriental Bay, a 950-foot-long British steamer that docked the night before, stacked with 3,800 containers, most of them from Shanghai and the southern Chinese port of Shekou.

With the push of a black joystick from Thomas' right hand, the box rises, sways, crosses the ship and descends in one smooth arc. It touches down with a bang onto a white tractor-trailer below.

Around it, the dock at Global Terminal and Container Services Inc. buzzes with activity. Red, tan and gray containers are whisked away and stacked up to six boxes high by forklift trucks the size of houses, ready to be shipped to a distributor and sent to stores.

"We're at record volume now," says J. Shannon Pender, Global's safety/environmental officer, as she looks down at the activity from a gangway at the top of the crane. "In June, we hit one of our largest production days."

The volume of goods handled in New York ports in 2004 grew by 14 percent over 2003. China is a key driver as clogged West Coast ports push more ships here; one-third of all New York port business is now from the Far East.

These days, one in four ships that dock at Global are from China, says Global president Maurice Byan.

"Everybody seems to indicate that there will be continued growth," he says.

That prospect has been good news for jobs and investment at the docks. The Port Authority is spending \$1.63 billion to deepen the channel to take ships that carry 8,000 containers. The current maximum is 6,000 per ship.

At Global, the terminal workforce on a busy day is now 250, compared with 150 five years ago, Byan says. Global is awaiting permission to expand its docks, a \$35 million project that will allow it to handle more or larger ships.

And in the fall, Global will take delivery of two \$6 million cranes: Like much of the cargo they will lift, the cranes will be made in China.

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Chinese quality on rise

China's ascent to such manufacturing heights began with the production of simple goods, such as plastic toys, shoes and clothes. Most historians attribute the seeds of China's boom to Deng Xiaoping, who took the nation's helm after the 1976 death of Mao Tse-tung.

Deng privatized state-owned factories and allowed them to make profits. He permitted foreigners to invest in Chinese companies. And in a defining moment in the early 1980s, he promoted a shift to capitalism with the phrase "to get rich is glorious."

Initially, Chinese goods were so poorly made that U.S. manufacturers dismissed the industrial newcomer, figuring the Chinese couldn't meet the rigorous demands of American consumers.

That's what Techni Edge Manufacturing Corp thought. For years, it proudly made industrial blades and utility knives in factories in Little Ferry and Maplewood, confident the Chinese couldn't compete.

"A lot of times, the quality wasn't there," says Deborah Williams, Techni Edge's president. "We were very stubborn; we wanted to put out blades with 'Made in U.S.A.' on them."

But 18 months ago, the company decided to expand production by making knives under contract in a factory in southern China.

One reason for the shift was "the price thing," she says - competitors had gone abroad and could sell knives for less. The other was the quality of work that Williams saw firsthand when she visited China last year.

"It was an eye-opener," she says. "They were very advanced. They could take a product and redesign it."

That transformation has been relentlessly repeated as China has climbed the skill ladder, producing ever more complex products.

Ten years ago, electronics, machinery and transportation equipment accounted for 18 percent of Chinese exports to the United States, according to an Economic Policy Institute study. Now that figure is 42 percent.

That's one reason the United States last year spent \$162 billion more on Chinese goods than China spent on American goods. The gap contributed to a \$617 billion trade deficit between the United States and the world.

The same imbalance is evident in trade at the New York area's ports, of which Newark, Elizabeth and Jersey City are the busiest: The value of goods sent by China to New York in 2004 was five times as much as the goods New York sent back.

Moreover, although China's imports from New York include high-value items such as plastics, machinery and computers, many are quite the opposite.

In the same week in April that New York ports received 12,800 containers from China, the ports sent back 3,100 containers, many of them filled with paper, cardboard, metal and foam waste.

Waste brokers in the United States say the scrap exports are another sign of China's relentless appetite for raw materials, some of which will end up in U.S. consumer goods.

"They are very, very hungry for scrap metal," says Craig Cinelli, owner of Hackensack-based Cinelli Iron and Metal Co., which sends six containers a week to China.

He says most of the containers are full of plastic-coated copper wire and electric motors that are too difficult - and so expensive - to recycle in the United States, but which are picked apart by Chinese workers earning mere pittance.

"I use the word 'feed'," he says of his shipments. "[They're] to feed their giant, evolving economy."

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An uncertain future

What all this means for the United States - now and in the future - is unclear.

Take raw materials. Sure, China has pushed up prices. That's bad news for buyers, but good for producers.

The struggling American steel industry, for instance, last year had its strongest sales in 30 years, says Danjczek, of the U.S. Steel Manufacturers Association. One reason, he says, is that global steel makers sold to China instead of competing with companies in the United States.

But economists and politicians fret about America's trade deficit, especially the amount of U.S. debt held by China.

"The concern is that if you go into an economic war, if China reduces the flow of investments to the United States, maybe the United States will have to raise interest rates," says Jorge Pinto, director of the Center for Global Finance at Pace University in New York.

While skeptical of that possibility, Pinto nonetheless says it would "definitely hurt the U.S. economy."

The most contentious issue, however, is what - if anything - should be done to slow the flood of Chinese imports.

Some industries want the United States to place tariffs, essentially a tax, on Chinese goods. Others want quotas, or limits on the number of items that can be imported.

That is the demand of U.S. textile and apparel makers, who have been hammered since January, when quotas that had limited imports of clothing and textiles since the 1970s were lifted.

China's rise helped push Ge-Ray Fabrics, a Morganville textile manufacturer, and its North Carolina factory into bankruptcy, says Larry Casper, the factory's general manager.

In South Hackensack, Spinnerin Dye, a textile dye company, closed in February. After years of losing customers to foreign competition, the quota removal was "the icing on the cake," says owner Bill Rabidan.

Compared with last year, Chinese imports are up by more than 50 percent, even after President Bush reintroduced limits on a few items of apparel in response to industry pressure.

Last Thursday, the administration announced it would begin negotiations this week toward a comprehensive agreement with China to try to staunch the flood of clothing and textile imports.

Opponents of tariffs and quotas, however, say such measures merely protect weak and uncompetitive industries. The answer, they say, is not protection but stronger American businesses.

"It's good to have competition," Pinto says. "The United States will accommodate in a different way and will continue to be a superpower."

That was the case two decades ago, with Japan. An influx of Japanese imports - especially cars, electronic goods and microchips - was prompting similar concerns that the United States would lose jobs and be hurt economically.

It didn't happen, and no one is worried about Japan today. But that was an entirely different situation, says

George T. Haley, a business professor at the University of New Haven in Connecticut and an author of books on China.

With a population "bigger than the United States, Europe and Japan combined," China presents a challenge unlike any other, **Haley** says.

"The optimistic people basically argue that it's a natural event - that it happens throughout history and we are basically going to have to find a way to tolerate it," he says. But, he adds, there is no doubt some concerns are warranted.

"They're single-minded," he says of the Chinese. "They have ambitions to be basically a world superpower, and a very wealthy, dominant economy in the world."

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New York's top Chinese imports

The top 15 categories of Chinese imports into New York ports by volume in one week selected in April. Elizabeth, Newark and Jersey City, handle the bulk of the goods into New York ports.

Rank/Item / 20-foot container equivalent

1. Furniture / 2,928.98
2. Plastic products / 667.64
3. Toys / 656.81
4. General cargo / 448.90
5. Footwear / 391.76
6. Hardware / 324.58
7. Women's infant wear / 325.50
8. Lamps, parts / 278.25
9. Fans, blowers, compressors / 276.21
10. Air conditioners / 262.90
11. Sheets, towels, blankets / 248.80
12. Stoves, heaters / 245.09
13. Men's wear / 213. 29
14. Household appliances / 182.03
15. Miscellaneous apparel / 175.33

Source: Piers Global Intelligence Solutions

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America's growing trade with China

China exports to the United States goods worth five times what the U.S. sends back to China. Below are totals, in millions of dollars, for trade between China and all U.S. ports, and with New York/New Jersey ports.

New York posts

1998 - Imports - 9.90 / Exports - 1.30

2004 - Imports 19.71 / Exports - 3.65

U.S. ports

1998 - Imports - 71.17 / Exports - 14.24

2004 - Imports - 196.68 / Exports - 34.75

Source: U.S. Census Bureau, Foreign Trade Division

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U.S. trade deficit widens

The trade gap between U.S. imports and exports has multiplied sixfold in a decade.

In billions of dollars

1994 - Imports - 801.7 / Exports - 703.2

2000 - Imports - 1,449.7 / Exports - 1,071.5

2004 - Imports - 1,769 / Exports - 1,151.4

Source: U.S. Census Bureau, Foreign Trade Division

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American icons made in China

Sunbeam mixers

Stanley tools

Huffy bicycles

Fedders air conditioners

Radio Flyer / Little Red Wagon

IBM computers

Barbie

Etch A Sketch

GI Joe

Dirt Devil

Hoover

Troll Doll

Mead composition notebooks

Mr Potato Head

Raggedy Ann and Andy

Farberware

Black & Decker

Coleman

Life's a Breeze - American Flag

Toastmaster

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Caption: * * *; 1 - COLOR PHOTO - CHRIS PEDOTA / STAFF PHOTOGRAPHER - The British steamer Oriental Bay waiting to be emptied of its 3,800 cargo containers, most filled with goods from China, at the Jersey City docks.; 7 STAFF COLOR PHOTOS BY DON SMITH;; 2,3,4,5,6,7,8 - Like most Americans, Lois Maskell, left, and Susan Kuperman of New Milford have a house filled with goods that used to manufactured in the United States, but are now made in China.; 3 STAFF COLOR PHOTOS BY CHRIS PEDOTA;; 9 - Crane operator Sean Thomas relies on a joystick, center;; 10 - to control the crane that lifts a cargo container off a ship;; 11 - right, and swings it to shore and a waiting truck.

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