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European Languages	زبانهای اروپائی

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17.06.2019

Look to U.S. Executive Suites, Not Beijing, For Why Production is Moved

The ongoing trade war between the United States and China, and the rhetoric surrounding it coming out of the White House, has served to reinforce the idea that China is "stealing" jobs from the United States. The reality, however, is that if we are seeking the responsible party, our attention should be directed toward U.S. corporate boardrooms.

The internal logic of capitalist development is driving the manic drive to move production to the locations with the most exploitable labor, not any single company, industry or country. For a long time, that location was China, although some production, particularly in textiles, is in the process of relocating to countries with still lower wages, such as Bangladesh, Cambodia and Vietnam. (The last of those is already a long-time source of highly exploited cheap labor for Nike.) It could be said that China is opportunistic in turning itself into the world's sweatshop. And that it constitutes a colossal market is no small factor.

Low wages and the inability of Chinese workers to legally organize are crucial factors in the movement of production to China. The minimum wage in Shanghai is 2,420 renminbi per month, which equals US$349. Per month. And Shanghai's minimum wage is the country's highest rate and "roughly double the minimum wage in smaller cities" across China, reports the China Labour Bulletin. That does not translate into a living wage for Chinese workers. The Bulletin states:

"National government guidelines stipulate that the minimum wage should be at least 40 percent of the local average wage. In reality, the minimum wage is usually only between 20 and 35 percent of the average wage, barely enough to cover accommodation, transport and food costs. Workers on the minimum wage, including most production line workers, unskilled labourers, shop workers etc. have to rely on overtime, bonuses and subsidies in order to make a living wage. As a consequence, if the employer cancels or reduces overtime, bonuses and other benefits, low-paid workers will often demand immediate restoration."

Even with such meager pay and the illegality of any unions other than the Communist Party-controlled and employer-friendly All-China Federation of Trade Unions, increasing numbers of employees are classified as "independent contractors," making them even more precarious. Enforced overtime well in excess of the legal maximum, and employers demanding "flexible" working hours, are brutal on Chinese workers stuck in assembly jobs but lift corporate executives into ecstasy.

The leading culprit is headquartered in Arkansas

The single biggest culprit in the wholesale moving of jobs to China is to be found not in Beijing, but rather in Bentonville, Arkansas. Yep, Wal-Mart, the company that pays it employees so little that they skip meals and organize food drives; receives so many government subsidies that the public pays about $1 million per store in the United States; and is estimated to avoid $1 billion per year in U.S. taxes through its use of tax loopholes.

Other major United States retailers began procuring clothing items from Asian subcontractors before Wal-Mart, but the relentless drive to pay its suppliers as little as possible forced an acceleration in the shift of production to countries with the most exploitable populations. If a manufacturer wants to continue to have contracts to supply Wal-Mart, then it has no choice but to ship its operations overseas because it has no other way to meet Wal-Mart's demands for ever lower prices.

By 2012, 80 percent of Wal-Mart's suppliers were located in China. And because the company is so much bigger than any other retailer, it can dictate its terms. Gary Gereffi, a professor at Duke University, said in an interview broadcast on the PBS show Frontline that "No company has had the kind of economic power that Wal-Mart does, to be able to source products from around the world. … Wal-Mart is able to transfer whole U.S. industries to overseas economies."

Because of its size and its innovation in computerizing its inventory and tightly managing its suppliers, coupled with its willingness to squeeze its suppliers to the exclusion of all other factors, Wal-Mart holds life or death power over manufacturers, Professor Gereffi said:

"Wal-Mart is telling its American suppliers that they have to meet lower price standards that Wal-Mart wants to impose. The implication of that in many cases is if you're going to be able to supply Wal-Mart at the prices Wal-Mart wants, you have to go to China or other offshore locations that would permit you to produce at lower cost. … Wal-Mart's giving them the clear signal that you can't be a Wal-Mart supplier if you can't produce at substantially lower prices. … You can go to China, or, in many cases, many U.S. suppliers can't make that move, and they just go out of business, because Wal-Mart is the dominant company for many U.S. suppliers. If they can't go offshore, those suppliers end up going out of business."

Wal-Mart alone cost U.S. workers more than 400,000 jobs between 2001 and 2013, according to the Economic Policy Institute. That is a sizable fraction of the 3.2 million jobs that were lost in the U.S. due to trade relations with China.

To the best of my knowledge, however, no Chinese party or government official has ever walked into the headquarters of a U.S. corporation, pointed a gun at the CEO and demanded production be moved across the Pacific Ocean. Chinese business executives sometimes demand technology be shared in exchange for access to Chinese markets (a different matter), but executives from the U.S. or elsewhere do have the option of saying "no." Even if we were to concede that there is some coercion in regards to technology transfers, there isn't when it comes to moving production. That is a choice, a choice routinely made in executive suites.

It's not a deficit for Apple

Competitors that wish to stay in business can be compelled by capitalist competition to make that choice, matching the "innovation" of the company that first finds moving production a way to cut costs and thus boost profitability. This applies to all industries, and not only low-tech ones. Apple, for example, accrues massive profits by contracting out its manufacturing to subcontractors. A 2010 paper by Yuqing Xing and Neal Detert found that Chinese workers are paid so little that they accounted for only $6.50 of the $168 total manufacturing cost of an iPhone. Of course iPhones cost a lot more than $168 — an extraordinary profit is generated for Apple executives and shareholders on the backs of Chinese workers.

A 2011 study led by Kenneth L. Kraemer calculated that $334 out of each iPhone sold at $549 went to the U.S. with almost the entire remainder distributed among component suppliers. Only $10 went to China as labor costs. Thus, despite the export of iPhones contributing heavily to the official U.S. trade deficit, the study said "the primary benefits go to the U.S. economy as Apple continues to keep most of its product design, software development, product management, marketing and other high-wage functions in the U.S." Chinese workers today likely account for somewhat more of the manufacturing cost as wages have risen in China over the past decade, but remain minuscule compared to wages in advanced capitalist countries. And the work endured is no vacation, as John Bellamy Foster and Robert W. McChesney noted in the February 2012 edition of Monthly Review:

"The eighty hour plus work weeks, the extreme pace of production, poor food and living conditions, etc., constitute working conditions and a level of compensation that cannot keep labor alive if continued for many years—it is therefore carried out by young workers who fall back on the land where they have use rights, the most important remaining legacy of the Chinese Revolution for the majority of the population. Yet, the sharp divergences between urban and rural incomes, the inability of most families to prosper simply by working the land, and the lack of sufficient commercial employment possibilities in the countryside all contribute to the constancy of the floating population, with the continual outflow of new migrants."

The working conditions of China are not a secret; business-press commentaries can come close to celebrating such conditions. A 2018 commentary in Investopedia, for example, goes so far as to claim that manufacturing in the U.S. is "economically unfeasible" and then says this about Chinese conditions:

"Manufacturers in the West are expected to comply with certain basic guidelines with regards to child labor, involuntary labor, health and safety norms, wage and hour laws, and protection of the environment. Chinese factories are known for not following most of these laws and guidelines, even in a permissive regulatory environment. Chinese factories employ child labor, have long shift hours and the workers are not provided with compensation insurance. Some factories even have policies where the workers are paid once a year, a strategy to keep them from quitting before the year is out. Environmental protection laws are routinely ignored, thus Chinese factories cut down on waste management costs. According to a World Bank report in 2013, sixteen of the world's top twenty most polluted cities are in China."

The overall U.S.-China economic picture is more balanced

The components of the iPhone are sourced from several countries and are assembled in China. Because the final product is exported from China, Apple contributes to trade deficits, as conventionally calculated. But the lion's share of the massive profits from this global supply chain are taken by Apple, a U.S.-based corporation. The profits from the actual assembly, outsourced to Foxconn, are accrued in Taiwan, Foxconn's home. Apple's arrangement is far from unique; the list of U.S. companies that manufacture in China is very long. If trade balances were calculated on the basis of where the profits are retained, the U.S. deficit with China would not be nearly so imposing.

As a commentary in the Financial Times points out, U.S. corporations sell far more goods and services in China than do Chinese companies in the U.S., but those sales are not counted toward trade balances. The commentary said:

"In 2015, the last year for which official US statistics were available, US multinational subsidiaries based in China made a total of $221.9bn in sales to domestic consumers. The goods and services sold were produced by an army of 1.7m people employed by US subsidiaries in the country. By contrast, China's corporate presence in the US remains small. Official figures on Chinese companies' US subsidiary sales to American consumers do not exist, but analysts estimate they are hardly material when compared with China's exports to the US. Thus, the US-China 'aggregate economic relationship' appears a lot more balanced than the trade deficit makes it look."

A separate report, by VoxChina (which calls itself an independent, nonpartisan platform initiated by economists), calculates that although the official U.S. trade deficit with China for 2015 was $243 billion, when foreign direct investment (FDI) and sales by both countries' companies in the other are included, the deficit was only $30 billion, and a U.S. surplus was forecast for following years. The U.S., incidentally, remains the world's second-biggest exporter according to the latest World Trade Organization statistics.

The Trump administration continues to make a big show of blaming China for jobs being moved across the Pacific and for trade deficits, but although China is opportunistic, those vanishing jobs (and resulting deficits) are squarely the responsibility of the corporate executives who make the decision to shut down domestic operations. This dynamic is part of the larger trend toward so-called "free trade" — as technology and faster transportation make moving production around the world more feasible, the corporations taking advantage of these trends seek to eliminate any barriers to cross-border commerce.

And as the race to the bottom continues — as relentless competition induces a never-ending search to find locations with ever lower wages and ever lower health, safety, labor and environmental standards — what regulations remain are targets to be eliminated. Thus we have the specter of "free trade" agreements that have little to do with trade and much to do with eliminating the ability of governments to regulate. And as the whip of financial markets demand ever bigger profits at any cost, no corporation, not even Wal-Mart, can go far enough.

Despite being a leader in cutting wages, ruthless behavior toward its employees and massive profitability, when Wal-Mart bowed to public pressure in 2015 and announced it would raise its minimum pay to $9 an hour, Wall Street financiers angrily drove down the stock price by a third. Wal-Mart reported net income of $61 billion over the past five years, so it does appear the retailer will remain a going concern. Apple reported net income of $246 billion over the past five years, so outsourcing production to China seems to have worked out for it as well.

The Trump administration's trade wars are so much huffing and puffing. Empty public rhetoric aside, Trump administration policy on trade, consistent with its all-out war on working people, is to elevate corporate power. Nationalism is a convenient cover to obscure the most extreme anti-worker U.S. administration yet seen. Class war rages on, in the usual one-sided manner.

JUNE 14, 2019