

## Senate Democratic Policy Committee Hearing

### “Do China’s Abusive Labor Practices Encourage Outsourcing and Drive Down American Wages?”

Monday, March 29, 2004

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Dirksen 562

Sen. Byron L. Dorgan (D-ND)

Rep. George Miller (D-CA)

#### **Witnesses:**

Mark Barenberg: Professor of Law, Columbia University

Huang Ciping: Executive Director, Wei Jingsheng Foundation

Nicholas Lardy: Senior Fellow, Institute for International Economics

#### **Transcript:**

**Sen. Dorgan:** We're going to begin the hearing this morning. This is a hearing of the Democratic Policy Committee, and let me thank all those who have attended the hearing today. The hearing is titled, "Do China’s Abusive Labor Practices Encourage Outsourcing and Drive Down American Wages?" We have three witnesses with us today. I will be joined by my colleagues as we go along, but I do want to start in the interest of beginning this hearing on time.

Let me briefly describe my interest and our interest I should say, both in the U.S. House and the U.S. Senate about this subject. There has been a great deal of discussion recently about the outsourcing of American jobs. We know that in this country we've been through a recession, a reasonably mild recession, but following the recovery from that recession, we've seen very little or almost no job growth. We are still down nearly 2.4 million jobs from the previous high. One would expect at this point, following a recession, we would begin building and seeing monthly increases in the domestic job numbers here in this country, but that has not been the case. As a result of the rather anemic job creation that is now existing and as a result of being nearly two and a half million jobs behind, as it were, there's been a lot of discussion about what happened to our jobs. Where are they? And there's been, as a result of that, discussion about outsourcing.

The discussion about outsourcing of jobs leads inevitably to the question of, what kind of incentives exist for moving American jobs overseas for outsourcing work in a manner that allows companies to access labor from other countries that is dramatically lower cost than labor in this country? As we know, the current administration released an economic report about two months

ago that said the following, "When a good or service is produced more cheaply abroad, it makes more sense to import it than to provide it domestically." Let me read that again because I think it is an important piece in the economic report to Congress that was submitted by President Bush. "When a good or service is produced more cheaply abroad, it makes more sense to import it than to make or provide it domestically."

Well now, I have both studied and taught economics and I know certainly about Ricardo's doctrine of comparative advantage. But that doctrine of comparative advantage has almost nothing to do with respect to the advantage that exists today by being able to access lower cost labor in other countries. That is not a doctrine of comparative advantage, it is a doctrine of absolute advantage that has to do with what governments will allow in their country with respect to the right, or not allow, rather, the right of people to organize, the requirement that there be a safe workplace, the prohibition against child labor, and a range of issues, most of which we have settled in this country over the last century.

It is interesting to note that there are some who care very little about those kinds of issues: the issue of the right to organize, safe workplace, child labor, environmental standards, and so on. But the ability to pole vault over those issues that we have settled in this country and move to another part of the world in which those issues are not even considered, let alone settled, does indeed lower labor costs for those who want to access that kind of labor. But it is not in my judgment, something that is in the interest, the long-term interest, of this country and I think in many ways, abusive labor practices abroad in some countries encourage outsourcing and drive down American wages, and represent fundamentally unfair trade. And that's what we're going to talk about a bit this morning.

Let me, just for a moment, mention something that I've mentioned often because it is so descriptive of the problem: Huffy bicycles. Huffy bicycles have 20 percent of the American marketplace, you can buy them at Sears, or Wal-mart, or K-mart. And Huffy bicycles used to be made in Ohio. The workers in Ohio made \$11 an hour producing Huffy bicycles, but they don't produce Huffy bicycles anymore. Huffy bicycles are now made in China. The workers in Ohio were fired because \$11 an hour was too much money to pay for people who construct bicycles. Those that construct bicycles now, for Huffy, earn 33 cents an hour and work seven days a week, 12 to 14 hours a day. The Huffy bicycles used to have between the handlebars on the front fender, a little metal decal of the American flag. My understanding is the last job performed by the workers at the Huffy plant in Ohio was to remove that little American flag decal and put a globe, a decal of a globe on it, on existing inventory to be sold later. And that is now what exists on the front of a Huffy bicycle, a little decal of the globe rather than the American flag. Why? Because the bicycle is produced in China. Why? Because \$11 an hour was too much to pay American workers.

So the question, it seems to me, is: is this fair? Have we not moved so fast in globalization that the rules have not kept pace? Is that not the case? Is outsourcing bicycles to China, for example, really what Ricardo had in mind with the doctrine of comparative advantage? The answer to that is, of course, no. This is not anything of the likes of which Ricardo was talking about in his doctrine, and so the question is, what do we do about all this?

Well, the AFL-CIO has filed a petition under Section 301 of U.S. trade law, which requires the President to impose trade sanctions on countries that abuse their own workers if those abuses have harmed the U.S. economy. The petition alleges that China's own abusive labor practices have cost American workers 727,000 jobs, and that's a conservative estimate. To my way of thinking, this seems like pretty strong evidence of economic harm. We will hear today from the lawyer that was involved in that filing and two other witnesses.

But the point of this hearing is to talk about China, we will have future hearings in which we'll talk about other countries and labor practices and whether, in fact, this approach to outsourcing and basically ignoring the things that we have settled in the past century in this country, whether the absence of those things, such as the right to organize and minimum wages and safe workplaces, and so on - whether that really matters. In my judgment, it does, and in my judgment our country is injuring itself and is not doing what it needs to do for our own self-interest by allowing this kind of trade to continue without protest and without challenge.

Let me make one final statement before I call on my colleague, Congressman Miller. Those of us who speak of this are almost always called protectionists, some sort of xenophobic, isolationist stooges who just don't get it. Everybody else gets it, we don't. I reject that completely. I believe that trade pacts must be mutually beneficial. We are rushing to do trade agreements that are not mutually beneficial in my judgment. They have a lot to do with international commerce that benefits stockholders of international corporations, but in the long run, which weaken this country. Because this country's job basis is inevitably weakened when we take workers who were producing bicycles and say 'you're out of a job' because we're going to produce them elsewhere for 33 cents an hour. And so, we'll look forward to some interesting testimony and I appreciate very much the witnesses being here.

We're joined by my colleague, Congressman George Miller, from California from the U.S. House of Representatives, and let me call on Congressman Miller for some opening comments.

**Rep Miller:** Thank you very much, Senator Dorgan, and thank you to the Policy Committee for holding this hearing. I think this is an important hearing. It is really the first time that I know of where we have had an opportunity to air the issues around the questions of fair trade, certainly with respect to China and since the signing of those agreements with China. The AFL-CIO petition raises fundamental questions as to human rights, worker rights, and the questions of fair trade between our nation and China. It documents persistent and prevailing violations of workers' human rights in China. And it does so in a manner that raises the most serious questions about whether or not this is, in fact, fair trade.

It's very difficult to believe that no matter how efficient our workers may be, no matter how productive they may be, that if every time that a Chinese worker seeks to organize, or seeks to air a grievance, that the state steps in on behalf of employer against the employees, whether or not we can prevail or continue to have fair competition. I think that the issues that will be raised this morning are very, very important, not only to the issues of workers, but to the question of maintaining a productive economic base in this country. I look forward to hearing from the witnesses. Thank you.

**Sen. Dorgan:** Congressman Miller, thank you very much. There's no one more assertive or more forceful in the House on these issues than Congressman Miller from California. We appreciate very much you being here today.

We have three witnesses today. Mark Barenberg is professor of law at Columbia University. Professor Barenberg prepared a petition that has been filed by the AFL-CIO with the Bush administration on March 16 of this year, and that petition contends that Chinese labor abuses have undermined U.S. workers, and seeks to have retaliatory tariffs imposed on imports from China. The administration has 45 days to decide whether to accept that case.

He's an expert on international labor law. He has a Master's Degree from the London School of Economics and a J.D. from Harvard. His publications include, "Legal Consequences of China's Entry Into the WTO," published in the year 2000 and "The Enforcement of International Labor Rights and U.S. Law," published in 2002.

Professor Barenberg, thank you very much for being with us and your entire statement will be made a part of our hearing record and you may summarize. Why don't you proceed?

**Prof. Barenberg:** Thank you very much, Senator Dorgan. I'm very grateful for having the chance to speak with you about this problem: how the Chinese government abuses its own factory workers and how that hurts working families in the United States.

First let me say in addition to my legal training and my economic degree, I also have experience in China. I was a visiting professor at Beijing University and I did field work in China, on conditions in the factories. I visited a lot of factories, and interviewed a lot of workers and managers. And also last year, I was an independent expert for the International Labor Organization and their first major study of corporate codes of conduct. And that gave me the opportunity to interview managers for U.S. multi-nationals operating in China and the managers were speaking under a pledge of anonymity so I got a rare story about what really goes on in China's factories.

As you mentioned, the AFL-CIO filed a petition two weeks ago. I was the principal author of that petition. The petition shows, first, that China persistently denies the fundamental rights of its workers, and second, that China's violations of worker rights lower wages and production costs in China, and as a result, displace hundreds of thousands of manufacturing jobs here in our country. The trade legislation enacted by Congress, Section 301, requires the President to take action under these circumstances. The AFL-CIO demands that the President impose trade penalties against China, but as you mentioned, this is not a protectionist measure. The penalties would phase out as China increasingly enforces basic worker rights. It's become necessary to put in place these kind of material incentives because for decades, the international community has been urging China to respect worker rights, but China has simply stonewalled.

The action that the AFL-CIO demands does not violate the rules of the World Trade Organization. I'm happy to explain that legal point, if time permits. Now, I got involved in this project because I was distressed by what I saw in during my research in China and what I've learned from other researchers. I also got involved because I'm distressed about what's happening

to working families in this country.

I learned about a factory in China that seals the bottoms onto running shoes. The workers there are exposed to open vats of toxic chemicals that spill out onto the factory work floor, where workers work in bare feet. That work used to be done in the United States but the company moved its equipment to China and saved some money by not bringing along the safety controls. There was no need to. When the workers got very sick and complained, they were simply fired and sent back to the countryside and Chinese authorities stood by and did nothing even though they were aware of these flagrant violations of safety standards.

At another U.S. owned factory in China, I saw workers making magnetic devices who were exposed to moving machine parts without machine guards that are used in most other countries in the world. China's workers suffer the highest rates of lost limbs from industrial accidents in world history. Lost fingers, hands, arms. The factory workers are typically young women from the countryside. Very young, 18, 20, 22 year-olds. They've never held a job before. They live in cement block barracks, eight to a room or twenty to a room. If the factory manager demands that they work 12 hours days or 18 hour days with no day of rest for months at a time, they have no choice.

When they first come to the factories, the workers have to pay the factory owners to get a job. They pay for work permits, they pay so-called deposits that range up to one year's salary. Their salary is withheld for months at a time. The factory takes their ID documentation. They go into debt to the factories. If they quit work, they lose this money or they go into default on the debts. So they are locked into their jobs. They are bonded laborers, which is a form of forced labor under international law.

The workers are temporary migrants, not permanent migrants because in China it is illegal for peasants to move permanently outside of their home villages. There's an internal pass system in China that's a lot like the apartheid system in South Africa and a lot of Americans don't know that the clothes and toys and computers they buy from China are made in this kind of system.

In South Africa, workers were locked into the Bantu stands, the dirt-poor homelands and were allowed out to work out to factories and mines only on a temporary basis. In China, workers are locked into their dirt-poor villages and they are allowed out to work in factories only on a temporary basis. And when they go to the factories, they don't have any civil and political rights; they are outcasts in their own country.

The young women are under the absolute control of the factory managers and the private security forces that enforce the will of the factories. Trade sanctions were the right thing to do to change things in South Africa and they are the right thing to do again to change the factory system in China.

The managers of several well-known multi-national corporations told me on condition of anonymity, that 80 percent of their contractors in China keep double or triple books to hide the fact that they are not paying minimum wages. But these same U.S. companies, when they make

public statements rather than speaking anonymously, say they're paying minimum wages and the media and think tank researchers often take these official statements at face value.

I talked to workers that weren't paid for six months or a year at a stretch, and when they were paid, they got half of what they were promised. That's routine in China today. When you calculate the overtime hours, the wages withheld, the wages that are penalized, when you take into account the excessive fees that the workers have to pay for room and board in the cement block barracks, when you take into account the wages that are simply paid less than what the workers were promised, you find that factory workers in China typically make much less than China's own minimum wages.

There's not much that the workers can do about it. If they complain, they'll be fired. They lose the deposit they paid when they started work. They lose the wages withheld by the factory. They risk being thrown in jail by the public security forces that is China's political police. Then they might have to pay a ransom to get out of jail. And after ransoming themselves out of jail, the police may send them back to their village since they don't have any right to live in the factory zones without a job.

It's becoming more and more common for China's factory workers to threaten to commit suicide simply to get the pay they've earned. And this has become so widespread that the Chinese have coined the phrase "tiaolou xiu," which means 'jump protestors,' referring to the people who threaten to commit suicide because the working conditions are intolerable.

Amazingly, a lot of local governments have made it a crime to threaten to commit suicide in order to get paid. This shows just how unremittingly China denies worker rights. Of course, I wasn't permitted to talk to the many workers who are serving long prison sentences for exercising their rights of association, for trying to organize a group protest about their working conditions or trying to organize a free trade union that isn't controlled by the Communist Party. Many are held in psychiatric prisons. Many are denied medical care. Many are beaten. Many are given electrical shocks or other torture.

So U.S. workers today have to compete with factory workers who are forced to work under these lawless working conditions. The United States has lost 2.8 million well-paying manufacturing jobs since President Bush took office, which is a staggering number, completely unprecedented. President Bush released his annual economic report last month. In that report he says that U.S. manufacturing is in fine shape. To prove the point the President listed six manufacturing sectors that are high-tech and pay especially high wages. And the President says that jobs in these sectors have grown at a good pace. Those sectors include rubber and plastic products, electronic products, electronic equipment and instruments, transportation equipment, and printing. But the President's report only gives data in those sectors up to the year 2000. This chart shows the jobs record in the President's showcase sectors after 2000 - the record on jobs in the high wage sectors that the President himself listed as the model of economic success. As you can see, in the last three years, jobs in these sectors have fallen anywhere between 10 and 30 percent.

Now China's become an export powerhouse in high-tech computers and electronics, and machine parts, auto parts - not just low-tech toys and garments. The U.S. trade deficit with China's now

the largest trade deficit the United States has ever had with any country. The President's economic report defends the trade deficit with China. He says that China still doesn't produce enough computers and electronic equipment to do much damage to American workers, but the facts tell a different story. Since the President took office, the electronics and computer sector in the United States lost more than a half million jobs - a half million high paying jobs in just one sector. And imports from China equal almost half of the loss in U.S. output, so Chinese imports account for up to a quarter million jobs lost. The President may think that that loss is negligible, but the quarter million workers who are affected and their families and communities certainly don't.

The President also neglects that China's capital spending for new factories is going through the roof. China's in the middle of a frenzy of factory building, and that's closely connected to China's all-out denial of worker rights. Investors flock to China to take advantage of the low labor costs, and enterprises there are able to roll back profits and build new factories since the workers get such a small slice of the pie.

So the President has forty-five days to decide whether to accept the AFL-CIO's petition and launch an investigation. If he denies the petition, he has to publicly state his reasons. In order to deny the petition, he'd have to publicly declare either that China doesn't persistently violate its workers' rights, or that China persistently violates its worker rights, but that this has no effect on U.S. jobs. Either declaration would contradict the overwhelming evidence presented in the AFL-CIO petition. The petition shows that China's violation of worker rights gives manufacturers there a cost advantage ranging between 10 percent and 43 percent of overall production costs. And that illegitimate cost advantage displaces approximately 727,000 jobs, as you mentioned, Senator Dorgan. And these are very conservative estimates and they don't take into account the other harms caused to U.S. workers - workers who can't find new jobs, workers who find new jobs but earn much lower pay, the displaced workers who lose their health insurance, their pensions, their homes because they can't make mortgage payments. Displaced workers suffer increased rates of heart disease, of divorce, depression, and suicide.

Now there's a myth about China in the United States. The myth is that wages in China are set by a free market and wages are low only because there's so many impoverished peasants who want to work in the factories. But China's all-out denial of worker rights gives China an additional increment of cost advantage in its manufacturing sector, above and beyond any legitimate comparative advantage, and that increment is an illegitimate advantage. It's that additional illegitimate increment that the petition challenges. We don't challenge China's legitimate comparative advantage.

And if I can make a final point and speak in a less lawyer-ly way, it amazes me when corporations and think tanks say that wages are almost nothing in China only because of the laws of supply and demand - the free market. A worker whose paid half of what she'd bargained for and dares to assert her rights will be fired, lose up to a year's wages, be thrown in jail, be forced to return to her village, and be blacklisted from factory jobs. If she tries to organize her fellow workers to protest or form a labor union, she's imprisoned after a fake trial or no trial at all, beaten and tortured. Could those kinds of government practices have no effect on the bargaining power and wages of the worker? It would be astonishing if they didn't have an effect.

I'm happy to answer any questions and I thank you again.

**Sen. Dorgan:** Mr. Barenberg, thank you very much. We will ask questions when we've heard from all three witnesses, so we appreciate very much your testimony. Next we'll hear from Nicholas Lardy. Nicholas is a senior fellow at the Institute for International Economics, was a fellow with the Brookings Institution from 1995 to 2003, the director of the Henry M. Jackson School of International Studies at the University of Washington, where he was the chair of the China program from 1984 to '89. He's written numerous articles and books on the Chinese economy. His most recent book is *Integrating China into the Global Economy*. It was published in January, 2002. Mr. Lardy's comments will argue against the AFL's petition to have tariffs imposed on imports. We appreciate having your perspective, Mr. Lardy. Why don't you proceed. We'll include your full-text in the record.

**Mr. Nicholas Lardy:** Thank you very much Senator Dorgan. I appreciate the opportunity to appear before you today. It is true I do oppose the petition, but I certainly have not come here today before the committee to defend Chinese labor practices. I have no doubt that the denial of internationally recognized worker rights occurs frequently in China. And I would urge the Chinese government to ratify the conventions on freedoms of association and the right to organize and bargain collectively.

(Inaudible request by unknown to rearrange microphone positioning)

Yeah. The focus of my remarks will be rather on the economic case that is advanced in the 301 petition. I think the key contention that China's growing exports to the U.S. market are based on China's persistent denial of worker rights, which gives China-based producers an unfair comparative advantage, quite frankly, is not well founded. The fundamental basis for this contention is the petition's estimate that if China were to end its persistent repression of workers' rights that the average wage would rise by between 90 and 595 percent. I think this estimate is seriously flawed. It's based on a series of assumptions which may seem to be plausible, but they're poorly supported. And more importantly the results - the petition's estimated increase in wages which flows from these assumptions - is not plausible for the simple reason that labor productivity in China is too low to support the kinds of wage increases that the petition estimates. The estimated wage bill would lead to the bankruptcy of most Chinese firms, since the wage bill would exceed the entire value added for the average Chinese firm.

I'll just go through quickly, if you look at the average Chinese manufacturing firm, for a dollar of output that they sell, they spend roughly 66 cents on what we would call purchased inputs - raw materials, parts, components, electricity, and so forth. That leaves about 34 cents left over, what we call value added. In China this value added breaks down into four components. There's about 5 cents for depreciation - that's the money you spend to keep your capital stock from shrinking. There's about 13 cents in compensation - wages and benefits. There's about 4 cents in taxes, and there's about 12 cents in profit. The profit represents a return on capital, and of course finances additions to the capital stock. I think you can see, if the average compensation is taking 13 percent of the total sales, there's no way that wages can be increased from 90 to 595 percent. The firms would simply go out of business. Labor productivity...Wages are low in China, but



labor productivity is equally low, and the idea that wages could be raised by as much 595 percent is simply...is not congruent with economic facts.

Similarly, I would say the petition's best estimate that China's labor repression has displaced up to 727,000 U.S. manufacturing jobs is simply not credible. It's based on the assumption that wages would go up by about 340 percent. That's the midpoint of the 90 percent and the 595 percent. But as I've already noted, it's very unlikely that China's going to be able to raise the average wage by 340 percent. Labor is not that productive. There is no way firms could stay in business if wages on average went up by these magnitudes.

The petition repeatedly asserts its results are based on very conservative assumptions. In my judgment this is quite misleading because the results that flow from the petition's assumptions are largely devoid of any connection to economic reality.

I'd also like to spend a few moments looking at some of the parts of the Chinese economy that I think are mischaracterized and sometimes ignored, and I have a series of diagrams which I'd like to go through very quickly. I think the diagrams make it efficient to present the information. The first one simply points out, this is on page 2, the per capita GDP in China today, or at the end of last year, in real terms was roughly 7 times what it was in 1978 when economic reform began. And it was more than double the level of a decade ago in 1993.

In other words, real output in this economy on a per capita basis has doubled over the last 10 years. This economic growth has translated into substantial gains in living standards and wages. And I wanna go through this because the petition repeatedly asserts, for example at page 4, page 13, and page 44, that real wages have been going down in China in recent years, and particularly over the last decade. Well, if you look at the second diagram on page 3, the average real after-tax disposable income per capita of urban households was 5 times the level of 1978 and double the level of a decade ago. Similarly, rural per capita income, shown in the next diagram, has also increased dramatically. In real terms, it's about 5.5 times what it was in 1978, 60 percent greater than it was a year ago. If you turn to the diagram on page 5, I look at the average wage in state-owned manufacturing companies, and again the average year wage in 2002 was 3.5 times what it was in '78. Again, that's in real terms. It's twice the level that it was in 1992, a decade earlier.

Then I do look also at what's been happening to wages in manufacturing of different types of ownership - foreign-funded companies, state-owned companies, and collective companies. And as you can see from the diagram on page 6, basically wages have been rising by roughly similar amounts across all different forms of ownership, their nominal wages are up significantly, and in real terms wages have increased between 45 and 65 percent, depending on the form of ownership. And this is the decade over which the petition repeatedly asserts that average wages have fallen. I know of no credible evidence that average real wages in manufacturing have been declining or stagnating over the past decade.

Next I'd like to turn to the role of foreign affiliates, which is mentioned slightly in the...in the petition. And on...from page 7 you can see that the average foreign affiliate pays wages that are roughly 30 percent higher than those in state-owned companies and twice the level of collectively-owned firms. On average, foreign affiliates also have higher occupational safety and

health standards and observe higher environmental standards than do Chinese-owned firms. Yet if you look at the last diagram you will see that foreign affiliates are China's most dynamic exporting companies. Their share of China's exports rose from 1 percent in 1985 to 55 percent last year. Last year foreign affiliates - this is joint ventures and wholly foreign-owned companies - exported about 240 billion dollars worth of product from China.

The experience of these firms, which pay above average wages and have better health, safety, and environmental standards, I think casts doubt on the basic idea behind this petition - that China's comparative advantage arises from the denial of worker rights that in turn provides China with an unfair cost advantage. Foreign affiliates pay higher wages. They have better health, safety, environmental standards. Yet they've enjoyed the greatest success in contributing to China's export performance.

I'd like to take up one final issue, and that is the issue of Chinese imports. The petition is strangely silent on the subject of Chinese imports. There's a great deal of discussion in the petition of what is called the growth of Chinese exports, which it characterizes as a supply shock for the global economy, and there's a wealth of detail on the recent growth of Chinese global exports. However, the reader of the petition might gain the impression that Chinese labor costs are so low that foreign goods could not be competitive in China's market. That would simply be fundamentally mistaken. Over the last decade Chinese imports quadrupled, from about 104 billion dollars in 1993 to 413 billion dollars last year.

Since China joined the WTO in late 2001, its imports have increased by 70 percent. Last year alone, China's imports rose by 40 percent, and China surpassed Japan to become the world's third-largest importing country. China's global trade surplus last year was only 25 billion U.S. dollars. This was only about 1.8 percent of China's GDP, among the lowest trade surplus ratios of any country in Asia. In the first two months of this year, imports rose 42 percent over the same period last year, and China incurred a trade deficit of almost 8 billion U.S. dollars.

What I'm really trying to suggest is we not only have to look at the supply shock that China represents to the global economy, but we also have to look at the demand shock that it represents. Chinese import growth has been so rapid in recent years that it has become a major source of economic growth in Japan, Korea, Taiwan, and countries in Southeast Asia. China is also far and away the largest...the fastest growing among large export markets of U.S. firms. Yes, China is participating in the global economy. It certainly does in some sense represent a supply shock. It also represents a demand shock. Their imports are growing just as fast as their exports. They are ever more deeply integrated into the global economy.

My complaint is that the petition makes no reference whatsoever to this rapid growth of Chinese imports. It gives the impression that somehow this economy is so cheap that it can produce everything by itself. And it makes no reference at all to the creation of jobs in U.S. manufacturing as a result of our rapidly growing exports to China. Thank you.

**Sen. Dorgan:** Mr. Lardy, thank you very much. And finally we will hear from Huang Ciping, who is the director of the Wei Jingsheng Foundation, which is a Chinese human rights NGO well-known on the world stage. She serves as secretary general for the Overseas Chinese

Democracy Coalition. Born in Shanghai, she has a physics degree from the University of Science and Technology in China. She also has an advanced degree in engineering from the U.S. She became a human rights activist after the 1989 Tiananmen Square massacre, and she's been detained in China for a number of days in an undisclosed location when she was visiting her parents in China. And she has been very active in a range of these issues, and we invited her to testify to give us her perspective. Miss Ciping, thank you very much for being with us today. You may proceed.

**Ms. Ciping:** Thank you. My name is Ciping Huang I am the Executive Director of the Wei Jingsheng Foundation. We promote democratic progress in China, especially workers' rights. Thank you for this chance to talk about Chinese workers' situation. Which, of course, I am going to emphasize the workers' side (coughing). Excuse me. The workers' side instead of to paint a gory picture of the cheaper, cheaper, the cheap goods that will be produced by Chinese workers.

I think it would be interesting to say how I got involved with workers' rights. That was back in 1998. In April, I visited China. At that time, (coughing) excuse me, China had a lot of workers' uprisings to ask their, you know, to ask their rights, their benefits. And I met with a many groups of people and they basically told me same story over and over again. And they said, they have protestors for their wages yet the government say, you know, the government never responded. And then when the protestors grow out of scale the government say 'we'll promise everything you ask' and then they simply arrest the workers' leaders and dismiss the masses. They never cashed out anything they have promised. And that's the point, that's a turning point for myself, to pay attention to the workers' rights. And of course now, with the Mr. Wei Jingsheng, who has paid a lot of effort to provide workers' human rights. And legal, and giving legal advices: that's another reason I've been involved in this field.

One thing, I was really shocked in my 1998 visit in China is my friends and my classmates. They were very worried, especially the females because by the time they are thirty years old they are going to lose their job and they, it is basically the end of their lives. And apparently over the last few years the situation has been worsened.

So here I want to give a brief picture of the workers' situation inside of China. They are grossly underpaid and lack the basic protections such as pensions and health insurance. They earn very low wage from fifteen to thirty cents an hour and receive brutal treatment and a lot of punishment, which become excuses to take away their deserved salaries. And many, especially those young girls, had to work twelve to sixteen hours a day, seven days a week. And many of those Chinese state-owned enterprises would lay off those workers in their prime age in the forties and fifties and for women they could be as low as thirties. For the workers who stayed on their job, they still have a very difficulties because their salary could be hold, their wages could be hold and unpaid. The factory conditions is very poor and even dangerous; like it was just described by Professor [Barenberg] of the Columbia here. And Chinese factories' workers not only be penalized in that sometimes you know, they cannot gain it. Their rights of freedom, their rights of association, and the unionization was also taken away so therefore they cannot make a collectively bargaining to protect their own interests. And what had happened to them often do not even fit into Chinese, China's own labor laws, not mention to the international standard. And the Chinese government has been turning a blind eye on that systematically and purposefully.

In year of, in year of 2003 there were over thirty million laid-off workers in China and their lives are very hard. Many could not even afford the basic housing and food and many had to go suicide as last resort after they exhausted all their possibility.

Take as example on October 1<sup>st</sup>, year 2003, which is the Chinese National Day, and a laid off worker from Hubei had to pour gasoline on himself and light up in Beijing's Tiananmen Square. And those kind of cases happen every day. There is an estimation of hundreds recorded and oh, I just provide the side information that we have Chinese labor union website which we collect those kind of information.

China further reduced labor costs by system of government engineer labor exploration. The use of internal cost control prevent the migrant workers from moving their permanent residence of their villages to the factory towns and cities. There are about more than one hundred million migrant workers in Chinese cities and they do the hardest, the dirtiest, and the most dangerous jobs. Yet, they are treated as second-class citizens and live in lowest level of the metropolitan community and their children have hard time to go to school. It is exactly like what had happened in South Africa.

So another thing, I would say on the basis of those cheap goods and those many lives and of the Chinese workers and there were many accidents. Take as example: more than 10,000 accidents of being poisoned at work associated accounted for countless injuries and deaths. In the summer for year 2003, over thirty migrant workers from a city of ShaoXing , Zhejiang was dead because of long hours of outdoor working in extremely hot weather. And those kind of cases you heard of very very often inside of China. Also they never get a chance to pass into the international community, yet and many young girls work to their death and then when they are incapable to work any further, to have so-called high productivity they get a fired by the factories.

The migrant workers usually work long hours or with very low pay. I mean pay, the low pay even less than the city workers. And so in that sense, when they ask to pay the salary they get abused, they got scold, and they even got beaten up. And that is one of the reason why some of them, many of them I should say, would be driven to suicide.

There is very little help from the government and there is no independent labor union to protect their rights. As a result their rights are often severely violated. They have no place to go for justice. Migrant workers are required to pay for temporary residence costs which is a very costly to live in the city, just for their rights to work. And then they got locked up, especially those young girls who often just very tame and that's what the factories prefer. They would get locked up in the factories in the daytime and locked up in the dorm in very, very small and terrible environment in the night. And sometimes a fire would break out and you would hear of dozens of workers even more than hundreds who would die collectively in such kind of a disaster. I think that some of them did get reported outside of the China.

The year, the year of 2003 was one of the worst years for workers health and safety. Unfortunately, this trend has been continued over the last few years with so-called economic growth. One Chinese government's own report revealed that accidents and deaths at work, at

work increased by 16% in comparison to year 2003. There are more than 130,000 deaths from injury January to October 2003. Most accidents could be avoided if proper health and safety measures were taken. One of the worst accidents is was the explosion of a natural gas well in Kaixian, Chongqing at last year right before Christmas. Over 1,000 people died upon that and over 10,000 were injured. And a little town near by that well basically was a deserted as a ghost town.

The death rate from underground coal mines remains to be the highest in China than the world combined. It was estimated there were at least 5,000 miners dead from those underground accidents each year. And this does not even include the ones that we will never be able to collect information of.

Chinese manufacture workers are not permitted to organize a independent union to defend their basic rights and raise their wages. They are not permitted to strike. The full force of the state terror: beating, imprisonment, psychiatric internment, and torture is against all workers' attempts to exercise their rights of association - their rights of, their human rights.

Chinese government that control the media did all they could to cover up and not report workers' protests. It is believed thousands, maybe even more than ten thousands workers' protests have taken place annually. But yet unfortunately you have rarely heard of this outside of China. Such as over twenty laid-off workers were arrested during a protest staged in Hubei in February 2004. Laid-off workers were jailed for four months and house-arrested for six months because he established a laid-off workers association. And I also want to emphasize there were some lawyers who were conscious and tried to educate the workers tried to help the workers to try to learn the legal manner for approaching their rights. And yet, even those lawyers got imprisoned because of this and this is very much a concern.

China's labor repression have cost millions of manufacture jobs from various countries and, of course, United States. And safeguards for human rights of Chinese factory workers is common interest of workers in all countries as well as fair business competition. Here I want to emphasize the Chinese government has successfully created unfair trade under the umbrella of free trade. Also they enter...the WTO, they do not really carry out what they have promised what they should have done. Also, instead they used it for their own advantage including being able, exporting into the U.S. market freely while still control and restrict the import of the American goods.

We support instead we support this 301 petition because we believe this is important to the welfare of both the American workers as well as the so many millions of Chinese workers and their human rights - including their rights of unionization to protect their own interests. This is also our opportunity to take away unfair business environment against the U.S. own companies and in the long run I believe that this is action for real globalization - equal, fair, and democratic society.

Thank you very much.

50:59

**Senator Dorgan:** Thank you very much for being here and for providing testimony. Obviously, our interest is in the United States economy, the opportunities in this country for workers to find work, we're also concerned about the well-being of workers around the world, if and when those workers are abused and you've raised a number of questions about that and assertions about it and I want to ask a series of questions. But first let me call on my colleague, Congressman Miller to inquire.

**Congressmen Miller:** Thank you very much. Thank you Mr. Dorgan and for all of your testimony. The only thing I might inquire. (inaudible) You talked about imports to China and your discussing this how, global?

**Mr. Lardy:** Globally, global, global yes.

**Congressmen Miller:** So that's oil, that's coal, that's scrap.

**Mr. Lardy:** Everything, everything.

**Congressmen Miller:** So, what would that tell us?

**Mr. Lardy:** Well, I think it tells us that China's a huge growing contributor to global economic growth. They're creating demand for a broad range of commodities, machinery, equipment, steel, raw material, as you say, including oil.

**Congressmen Miller:** Well, that goes without question. What does that tell us about whether or not they're systematically holding down wages through not providing people freedom of association or interrupting ordinary worker employer transactions? What, what, I don't get what the imports tell us.

**Mr. Lardy:** Well, I think the implication, certainly not stated, but one possibly mistaken implication from the petition is that China's a huge exporter and it's not importing because it costs of producing everything is so low they can make it cheaper at home than importing it. All I'm saying is that does not appear to be the case.

**Congressmen Miller:** Well, wouldn't their cost of production, wouldn't their cost of production and manufacturing because it is so low, attract additional imports.

**Mr. Lardy:** Eh, you'll have to explain.

**Congressmen Miller:** Well, if you are very good at, if you could reduce the cost of production of automobiles or airplanes, or toys, or garments, you would import additional electricity, you would import additional coal, additional steel, additional aluminum, additional component parts, because the assemblage of those or the manufacture of those parts would be attractive. That

would drive additional economic activity, which would include imports. That wouldn't necessarily tell us about the competitive nature of the manufacturing, right, other than...

**Mr. Lardy:** I don't have the data immediately at hand, but I can assure you that a very substantial portion of Chinese import is finished manufacture goods, you are correct, they buy lots of parts and components and they certainly buy some raw materials, but a huge portion of what they are importing is machinery and equipment investment goods that is going to...

**Congressmen Miller:** Granted, I don't necessarily disagree with that. But again the question is what is the prime mover of that? Obviously, China could, if it wanted to, could act like the United States over the last couple hundred years. It could just sell to itself for some period of time but has chosen not to do that, wisely, it has chosen not to do that, to seek world markets. But a lot of those imports, also if you read economic journals, now suggest that after the crisis in Asia, the financial crisis in Asia, that a number of these countries have now decided that what they really are, are part of a network and that they are now importing components and products to China for re-export. That they see that as their future, if you read Malaysian journals and Indonesian journals, that this is now a decision about how to treat their relationship with China, maybe even including Korea and Japan.

**Mr. Lardy:** Well, that's certainly part of it, but the key point is, Congressman Miller, that they are importing mostly very high value added parts and components. The best example is semi-conductors. In 2002, their imports of semi-conductors were more than thirty billion U.S. dollars. I believe last year, their probably something on the order of close, I haven't seen the final numbers but they will be something close to forty billion dollars. Eh, that's an industry that pays very high wages and China's imports are fifteen times its domestic production. So, in other words to sell us a lot of inexpensive consumer electronics and other items that have microprocessors and semi-conductors in them, they are importing them from the rest of the world, so the assembly takes part in...

**Congressmen Miller:** You also have the world's leading manufacturers of those products going to China for the purposes of export. Taiwanese semiconductors, considered one of the most efficient most productive advanced producers, made a decision to go, I think last year or eighteen months ago, to go for the purposes of export. What was it that they couldn't do in Taiwan that they could do in China?

**Mr. Lardy:** I don't believe they are going to be exporting any significant amount of semi-conductors that the...

**Congressmen Miller:** That's not what their announcement says. That's not what their competitors say. I mean that's their own discussion.

**Mr. Lardy:** No its not. They're trying to meet the demands, this gigantic demand for semi-conductors in China. That's why they've gone, first of all the main players in this game right now are not Taiwanese companies, it's a Semi-Conductor Manufacturing International Corporations, is the leading company, and its not a Taiwanese company.

**Congressmen Miller:** Well, I don't know, maybe you are reading different business journals than I am but more and more, top flight, cutting edge manufacturers are saying that they are going to China and they are going to China for the purposes of export. We all know people went there and have gone there for the idea of selling into the Chinese market but over the last two years you've seen more high end people going there for the purposes of export to hold on to a competitive advantage.

**Mr. Lardy:** I don't think the data bear that out. If you look at the data you will find that over half of what's produced by foreign companies in China is sold in the domestic market and has not changed significantly over the last few years.

**Congressmen Miller:** Let me ask you this, when you talk about affiliates, what are you discussing there?

**Mr. Lardy:** A hundred percent foreign owned companies or joint venture companies and the Chinese definition is the foreign ownership must have at least a twenty-five percent ownership stake in order to qualify as a joint venture.

**Congressmen Miller:** And they're selling? Your argument that they are doing what?

**Mr. Lardy:** Well, most of what they are producing in China is sold in the Chinese market. Sales...

**Congressmen Miller:** Sold to?

**Mr. Lardy:** Firms...

**Congressmen Miller:** Well again you have more and more manufacturers demanding that their suppliers go to China to manufacture for their, for them, in China. In many instances again for export of for the Chinese market. So you have the situation where you are selling to your own, you're selling to your affiliate, if you will. If you are producing automobiles you are insisting that more and more of those components now be in China even if you're producing in the United States, you're asking component makers to go to China to produce those components for export to the United States.

**Mr. Lardy:** Yeah, there certainly is some of that, I agree.

**Congressmen Miller:** And so it's sort of like, you know when we were doing a lot of trade with Mexico, but a lot of the goods were in Mexico for seventy-two hours or what have you as they were assembled and sent back to the United States.

**Mr. Lardy:** Well, I think...

**Congressmen Miller:** I am just trying to pull this apart, because when you get all done with your economic figures, as to the growth of economic activity, the question still remains is



whether or not, there is a systematic denial and manipulation of wages and benefits that provides a competitive advantage and a burden to the American economy, that's all, I'm just trying to point this out. You know when you say, and I don't know the answers to these, that's why I'm asking. When you suggest that rural income has gone up over the last ten years or what have you, we also know that a hundred million people were exceded, were told to leave and have left, in fact more than that now, and have gone to the urban areas. So, I don't know if your figure is telling me. I don't know what it's telling me. In Mr. Dorgan's country they used to say the American farmers double their productivity every ten years because half of them were driven off the land. And I don't know what's going on and what your figures are telling me in terms of rural activity, in terms of contention on the underlying petition of the AFL-CIO.

**Mr. Lardy:** I'm just trying to deal with what I think is the mistaken idea that real wages are declining anywhere in China for any significant period of time. It is the fastest growing economy in the world over the last two and a half decades and average incomes, wages, living standards have gone up dramatically.

**Congressmen Miller:** And if those wages and living standards were artificially held down even with the growth because of these kinds of activities, is that fair?

**Mr. Lardy:** Eh, no it would not be fair.

**Congressmen Miller:** Would that not then place a burden on trade with America, on the American economy.

**Mr. Lardy:** Well, I think the question is, what's the size of the burden, and I think the suggestion that wages, if labor repression were ended that wages would be 90 to 595 percent higher is not sustainable because labor productivity is not high enough to pay ...

**Congressmen Miller:** What would that test be from your point of view?

**Mr. Lardy:** You'd look at what the profitability of these companies is. How much could they raise wages?

**Congressmen Miller:** But, that would be, that would be the answer?

**Mr. Lardy:** Well, it certainly would be one approach. In other words, if you go...

**Congressmen Miller:** So, if you engage in enough imprisonment, or enough of these practices, and you probably said you're not here to defend those but a little bit of that is okay? I mean that can't, that can't be the answer.

**Mr. Lardy:** No, I'm not saying, I didn't say a little bit of it is okay. I am just saying that I find the argument that if all of this were eliminated then wages would go up between 90 and 595 percent to be implausible because these workers productivity is not high enough to pay...

**Congressmen Miller:** Do you not find it implausible that this activity has an impact on the United States? You're talking about the degree of that impact, in your testimony.

**Mr. Lardy:** I'm not here to give you an estimate of what the impact is...

**Congressmen Miller:** No, no, I'm not asking, but you are not arguing that it does not have an impact.

**Mr. Lardy:** No, I haven't argued that.

**Congressmen Miller:** Mr. Barenberg, your argument is that in fact it is so wide spread and systematic that it has a significant impact on jobs in the United States and manufacturing decisions in the United States.

**Mr. Barenberg:** That's right and Mr. Lardy keeps referring to these large numbers, at the high end of our estimate of how wages would rise if China stopped this persistent repression of its workers. But our estimate is that wages are repressed by forty-seven percent to eighty-five percent because of these violations. Now wages in China are twenty-five percent to sixty percent below the minimums set by the Chinese government itself. So the lion's share of this illegitimate cost advantage that China has, is simply from China not paying its own minimum wages...

**Congressmen Miller:** The argument always is, when we have trade agreements before us and as we now look at trade agreements in South America or even Morocco, or other places, is that these countries have the laws, they enforce their laws therefore you don't have to worry because the minimum wage is enforced and workers can organize. But the fact of the matter is, that's simply not true in the United States, I mean in China.

**Mr. Barenberg:** That's right and its eh...

**Congressmen Miller:** Partially, in the United States, but we won't get into that.

**Mr. Barenberg:** Mr. Lardy says wages, real wages rose by forty-five and sixty-five percent, over the last decade in China. Now, he says there's not sufficient productivity in China or profits to pay for higher wages. Labor productivity in the last fourteen years in China, rose by four hundred percent, four hundred percent. So, even under Mr. Lardy's own numbers a forty-five percent increase in real wages bears an enormous wedge between the rise in productivity and the rise in wages. Now, we have marshaled many accurate sources of data showing that real wages have stagnated, and you know we, if the President accepts the petition and orders an investigation there will be a public hearing, and I relish the opportunity to present that data in that public forum. But as I say, even if Mr. Lardy's numbers are right, they show that China's workers have not been compensated for the productivity that's driving the export boom in China.

**Congressmen Miller:** Ms. Ciping, if I might ask you, I think we have to ask the question, and that is, and your testimony would suggest that these practices are very widespread. I've attended a number of international conferences on China and at almost every conference, people raise the

question, the most recent has been over the last year and a half, two years, the questions of workers' protests taking place in China, officially not reported, unofficially documented throughout China, by international press and by people who have been in the area and also widely reported as to then the interruption of those protests and actions taken against those workers. This has not been a secret. This has been going on, since we started... prior to our negotiations with China, prior to the passage of our trade agreements and I guess, but the fact is that it continues even with the trade agreements in China, even with its admission to the WTO. This practice really hasn't changed at all.

**Ms. Ciping:** Not at all, as a matter of fact Chinese government has issued a decree. Now they, even say few months ago, especially before they have a major event and they all say so and so are not allowed to report and workers uprisings are often the ones you are not supposed to report. So, we do receive phone calls even from China that say look we are really desperate and we need to get that kind of news out into the international society. Yet systematically, Chinese government would not allow this kind of report.

And another thing I want to say, I just want to say, you know, I think everyone would understand, would agree that the prison labors should not be, which obviously not allowed to be in the United States, the fact is even so, still, there is, I could even witness to say the prisoner labors has been important to the United States but also, you know those girls who are locked in the factory. They are not only locked up physically but also their ID's were taken away, they are virtually half way of the prisoners. So, in that sense I agree with the Professor Barenberg about his estimation. Thank you.

**Congressmen Miller:** Well, unfortunately, I witnessed some of this, but it wasn't in China it was in the Northern Marianas and the U.S. territories where young Chinese women who had come to work in the garment factories in Saipan were locked and kept in the compounds. Were not allowed to go out, wages were doctored, time cards were doctored, overtimes were doctored, meals, and they were all obviously, also, clearly threatened with being sent back to China and their families would be informed. Many of these women were in serious debts to acquire those jobs, to acquire the work permit in Saipan. In discussions with those women, again they made it very clear, that this is what you, many of us have to do if we were to work in China.

**Ms. Ciping:** Some of their measures are very outrageous against those young women. To give an example, they worry about the productivity to be ruined because of their pregnancy or what, so the factories, this is a positive way to do it for them, they would provide female sanitary aid if you could show that you did have monthly cycle. They physically forced inspect your body to make sure you have good health to go otherwise they could lay you off in the event that they saw you in trouble.

**Congressman Miller:** Thank you very much. I'll withhold and go for a second round.

**Senator Dorgan:** Congressmen Miller, thank you. Eh, Professor Barenburg, Section 301 of our trade laws require the president to impose trade sanctions on countries that abuse their workers if those abuses harm our economy. How long has this provision been in Section 301 of our trade laws?

**Mr. Barenberg:** It was added in 1988.

**Senator Dorgan:** And has it previously been triggered?

**Mr. Barenberg:** No it hasn't, this is the first time.

**Senator Dorgan:** So, the filing that you've been involved in with the AFL-CIO is alleging what in concise form?

**Mr. Barenberg:** It's alleging that China has persistently denied its workers fundamental rights, and those rights are specifically enumerated in Section 301, workers right of association, workers right of collective bargaining, rights against child labor, rights against forced labor, and rights to minimum wage, maximum hours, and occupational safety and health. And when Congress put those into the law, Congress said explicitly that the concern was that U.S. companies would move production offshore to take advantage of workers whose basic rights were denied at the cost of jobs to U.S. workers. That was the concern, and this is one of the interesting aspects of the case for me was that this has lain dormant in the law but in a sense congress throughout this period, has codified a vision of economic development. Congress said, it's not enough that their be high rates of economic growth that Mr. Lardy has referred to, if the reward only goes to a narrow privileged elite in the developing country. That's what Congress said when it passed this law.

**Senator Dorgan:** Why was the complaint only with China, with respect to this particular filing?

**Mr. Barenberg:** Well, we looked at the global situation and there is no doubt that many countries around the world deny worker rights, but we found that no country denied workers rights as comprehensively and unremittingly and with these methods that we outlined in the petition as China does. China is unique in operating this system of internal pass controls within the country. These workers coming into the factory are migrant workers they are not international immigrants. They are migrants from the impoverished inland provinces to the regions where the factories are located, but they are treated like undocumented immigrants.

**Senator Dorgan:** Mm, hm.

**Mr. Barenberg:** They have to get the certification of the government to move temporarily, to the factory regions. So it's the only country that operates this since the fall of apartheid it's now the only country that operates this, it's the only country that combines that with bonded labor. It's the only country that combines those two methods with violent systematic repression of any unions that operate independently of the Communist Party. China's unique.

**Senator Dorgan:** So, the contention of the petition that you worked on, on behalf of the AFL-CIO, alleges that China abuses its own workers and those abuses have harmed our U.S. economy, is that correct?

**Mr. Barenberg:** Yes.

**Senator Dorgan:** Let me take it from the general to the specific if I might. Let me describe Huffy Bicycles just for a moment. The National Labor Committee for Workers and Human Rights has issued a report on that and let me ask Mr. Lardy, if for example Huffy Bicycles were made in Ohio by U.S. workers making eleven dollars an hour and they are now made in Shenzhen, China with workers working thirteen and a half to fifteen hours shifts, seven AM to eleven PM, in most cases seven days a week, ninety three hours a week for sixteen dollars and sixty-eight cents a week. The question is, in the specific, if in fact that exists in China and the U.S. workers lost their jobs so that that could exist in China, is that not first of all abusive of workers rights in China, ninety three hour work weeks, seven days a week, twelve workers housed in each room, two meals a day and so on. Is that not abusive and if it is abusive has that not harmed American workers? So, if you take it from the general to the specific, in a circumstance like that, is this not a good case given the filing of the AFL-CIO?

**Mr. Lardy:** Well, I would certainly agree, and I said in my opening sentence or two that there is no doubt workers in China are denied internationally recognized rights and I am certainly not here to dispute that.

**Senator Dorgan:** And if that is the case, if workers in China are denied the basic rights that we have determined to be basic rights of workers internationally. And if companies, as my colleague Congressman Millar says, are moving more and more to China with their production because you can move technology and capital quickly and you can then access instead of eleven dollar wages you can access people that make two or three percent of that. Is that not then something that harms our economy?

And it is interesting to me that this is kind of a long forgotten piece of Section 301 but one that I think is none the less important because it seems to me that our trade agreements should be mutually beneficial. We should aspire to make these agreements mutually beneficial. I think that is described as mutually beneficial between countries rather than between corporations or corporations on the one hand and countries on the other. And I think we have gotten far far away from that.

If I might let me, let me ask a couple of questions about the prevalence of these issues. I read a fascinating article and a tragic article in the Washington Post some while ago. The title of the article was "Worked Til They Drop." And it shows the story of Lee Chun Mei. In fact I have a chart, I have talked about this on the floor of the Senate, who died. She was working at a toy factory in China. Let me just recount this just for a moment, as I show you, why don't you put it right over here if you would? Thank you, show you a chart about this story and let me read just a paragraph or two.

"On the night she died, Lee Chun Mei must have been exhausted," the story says, "Coworkers said she had been on her feet for sixteen hours, back and forth inside the Veinmen toy factor, carrying toy parts from machine to machine. Long hours were mandatory. At least two months had passed since she and other workers had enjoyed even a Sunday off. Factory food was so bad she said she felt as if she had not eaten at all. 'I want to quit she told her roommates, I want to go home.'

Her roommates had fallen asleep when Lee started coughing up blood. The found her in the bathroom a few hours later curled up on the floor moaning softly in the dark, bleeding from

her nose and mouth. They called an ambulance but she died before it arrived.

The exact cause of her death remains unknown, but what happened to her last November in this industrial town in Southeastern Guangdong Province described by family friends and co-workers is an example of what China's more daring newspapers have called, "goulassie." The phrase means overworked death and applies to young workers who suddenly collapse and die after working exceedingly long hours day after day after day. And I made this point on the floor of the senate because it describes a labor condition in some parts of China in factories in which output is sent to the United States in ways that none of us would condone, I don't, I mean Mr. Lardy makes the point that there is more and more trade with China, I agree with that, I think, I would ask you Ms. Wong Ciping it is probably the case, I've been to China a number of times, it is probably the case that – and likely the case from my own observation – things are better in China. Are they better than they were 25 years ago? Seems to me they are. Probably not better for this young woman who was worked to death. But, But in the aggregate have things improved marginally? In my judgment, the answer is probably yes, but there still exists in China substantial amounts of abuse of workers. Respond to that please.

**Ms. Ciping:** Well, I would say it this way. Yes in China there is a very small minority now even very rich. And the people in the cities are relatively better off. However, remember China is the nation that predominately have this farmer or peasants population. And those are the ones that it's very, very hard to survive. I'm not here – you know, the work, the work is very difficult. But to those who (indecipherable) so even more difficult. The reason they come out of their home village and not be able to return home for a long time and even years is because they need to make money to pick up their family. So in that sense as a matter of fact their situation is very, very minimal – very, very poor. As a matter of fact in our opinion their condition had not even improved. Those peasants in the countryside are very poor as a matter of fact and in our opinion the parity in China will be a major factor for uprising and or even unfortunately a revolution could be leading down the road.

**Senator Dorgan:** Mr. Lardy, we have about a one hundred and thirty billion dollar merchandise trade deficit with China at the moment, and we are increasingly an economy that is a sponge for their toys and their shirts and their shoes and their trousers and their trinkets. And then also high tech products as well, and it seems to me self evident that China has an export policy, they also have a policy that is low wage policy inside of China in order to attract firms to construct manufacturing plants in China, and do that with the purpose of export especially to the United States. Just the, the very fact that we have a one hundred and thirty billion dollar a year - the largest ever trade deficit with any other country - seems to on its face be evidence of that strategy. Would you agree with that?

**Mr. Lardy:** No, Senator I would not. I think it really reflects something different. I think it reflects the fact that China has a very open environment for foreign direct investment and a lot of assembly activity is moving to China. And that's why much of what we are buying from China, in fact the vast majority we used to buy from Honk Kong, Taiwan, South Korea, to some extent Southeast Asia, and even Japan. In other words China has liberalized its foreign direct investment environment, its attracted a lot of foreign firms there that are - so, the goods we're buying from China we predominately used to buy from other countries. So I, I think it really reflects the reallocation of productive factors on a global basis. And we've had a lot of discussion

about, about wages being the big driver. There are many, many countries throughout the globe that have lower wages than China. And whether or not it's due to the labor oppression, I have no idea. But you don't become a successful exporter just from low wages, you have to have other things as well. And China has put in place policies that have proved to be quite successful. You mentioned the movement to being a high tech exporter. But 85 percent of the content of those goods is imported. Take the lap top computer, the software, the microprocessors, etc, is all imported. China is making the plastic case that holds it.

And it, I don't see why we are worse off that we buy these good predominately made in China today when we use to buy them five years ago from predominately made in Taiwan. The price is going down for consumers, the demand is still there for the high value internationally produced parts and components, and the assembly of the product has simply moved from Taiwan to China. I don't see that even though our deficit goes up as a result, I don't see that it reflects any net loss to the United States.

**Senator Dorgan:** Well, but the net loss is always computed in jobs when you have a one hundred and thirty billion dollar trade deficit, and in your home state for example with the Boeing airplane manufacturing company. One would hope that with a company like China, when we make something that they desperately need – they have what 1.4 billion people? – they need, they need the airplanes. They have a powerful demand for airplanes. In fact what China has been aspiring to happen is for Boeing to build their airplanes in China instead of buying their airplanes from the United States. We make, I think the best airplanes in the world, of course we are competing with Airbus for that distinction, but I think we make the best airplanes in the world, and my hope would be that a country like China with whom we have a very large trade deficit would understand their responsibility to buy those airplanes here.

But I don't think that is part of their strategy. Their strategy is an export strategy and to convince American firms to move to China to access low wages. And I think the evidence of the import of low wages is, is I mean, again I refer to Huffy Bicycles. Why on earth would Huffy Bicycles decide to move to China to make bicycles? You know the Wright brothers were making bicycles in Ohio, I mean they were bicycle repair people in Ohio. And we have a pretty good tradition of making bicycles in this country. But seems to me the reason you would move to China is accessing 33 cent an hour labor by people you can work seven days a week, twelve, fourteen hours a day. Is, am I missing something here?

**Mr. Lardy:** Well I, again I think you're focusing on the export side of China, you're not focusing on the import side. If wages are so low, why aren't they producing everything? They're not. They're importing this year more than they're exporting.

**Senator Dorgan:** Except if they were importing so much, why would we have one hundred and thirty billion dollar merchandise trade deficit with China?

**Mr. Lardy:** They're, well –

**Senator Dorgan:** They're not importing enough from this country.

**Mr. Lardy:** I'll give you an example. I would, I would argue that in today's world, the way

production is now done that it's very difficult to judge, I would not put very much weight on bilateral trade figures. For the, I'll just give you a simple example. Intel for example makes a lot of wafers in the United States. They ship them to other places in Asia, the final, the final product goes to China. It's recorded as an import from Singapore or Taiwan or somewhere else. But yet the wafer, the fab, the semiconductors were actually made in the United States. It's very high value added industry, and we're doing very well, but those exports never show up in U.S. data. It's part of the thirty billion of Chinese semiconductor imports in 2002 but it doesn't show up in U.S. data as being sold to China, it shows as being sold to Singapore or to Taiwan or to –

**Senator Dorgan:** Yea I mean but the fact is, it is an American export. Congressman Miller.

**Mr. Lardy:** So I think these, these bilateral figures increasingly have very little economic content.

**Congressman Miller:** If I might just jump in for a minute here. Obviously this is a very complex issue in terms of trade. The issue of trade, the globalization of trade is very complex, and, it, it's multi faceted and there's many, many aspects to it. But the fact is you can pick up a paper almost any day in the United States and you will have manufacturers, some large, some small, some medium size who will tell you simply they're going their because of the cost of labor, benefits, health care, and all the rest of that, they've made a decision that to maintain their activity they are going to China. And that's happening all across the country. It's happening all across the Midwest, it's happening on the west coast, it's happening elsewhere. Now you can argue that the American standard of living is too high, that the middle class is too big or too rich or whatever you wanna do, but the fact of the matter is, that's happening.

And the question raised in this petition, is whether or not that, that comparative advantage and those wages that have caused people to make that decision is, is in fact maintained by a systematic effort by the government to disenfranchise and deny workers the ability to, to obtain better benefits, better wages, better working conditions through the activities of the states or, or its representatives. And the evidence has been overwhelming and compelling certainly for more than a decade. And the stories come at different times from different industries. If they are getting hit too hard, then they want to attack those trade practices. But in the case of labor it's kind of consistent, it's across the board, it's been documented time and again by non-governmental organizations, by governmental organizations, by the private sector, and others.

And so the question raised in this petition, is whether or not that places a burden on the American economy, whether that, whether that competition is in fact unfair. And whether or not the denial of those rights, which exists, is taking place. And that may all be taking place, and I, I believe it in fact is taking place, I think the petition points it out is taking place in a whirlwind of economic activity in China and the growth and all of the trade is taking place. But underneath that, is still this incredible behavior by China against its workers to provide that kind of advantage to the decision to whether or not some people can stay, can afford to stay in the United States or whether they must go elsewhere.

And that's, that's, all the things you say are accurate and included Mr. Lardy but the fact of the matter is when you look at the petition it goes to a very central, it goes to a very central point. Because if, if, if you can artificially hold down those wage increases or the changes in benefits or the, or the working conditions, then that's not fair trade. And I don't think that's what the American people bargained for, that's not what they set up to, to see happen. And the



question you are now seeing from the American people, is ‘what is it that you people doing, you policy makers, what, what, what are you paying attention to?’

It’s sort of like the series of questions now being asked before 9/11. This is about our economic security. These violations of workers rights and human rights in China are a matter of fact of evidence that has been documented for a decade or longer. And what we now see is an accelerating pace of the loss of jobs, of the loss of the manufacturing base. And I think the, the petition raises that rather clearly. And it’s interesting, I mean it will be interesting to see the reception this gets, when you see the reception that the petition on shrimp is getting where they, where they are turning themselves into a pretzel, to try to say there is some other reason other than it’s simply a different manufacturing process. That China or Vietnam or countries in South America or Southeast Asia have the ability to farm and grow shrimp and they don’t have to don’t have to go out on the boats and look for them one by one with a net.

But this goes to the basic human rights of these workers and the competition that that presents to, to American workers and whether or not that is unfair. So we can keep talking about the universe of economic activity around China, but at some point you got to ask about those competitive parts.

I have people coming into my office to tell me competitively, labor wise they really need to go to China but they will not go and have their intellectual properties extracted from them as they have been told they will have to do if they are going to get a license to produce. Now we have heard that from glass makers, we’ve heard that from aircraft makers, we’ve heard that from the media companies.

And so there’s a lot of activity that’s going on underneath this generalized image of the economic growth in China. And I think this petition for the first time really beings to pierce that veil of secrecy if you will, or that, or that that conspiracy of silence as people kind of look the other way while these workers are paying a horrible price for trying to participate in what there believed to be is the beginning of capital, of capitalism and the free market system in their country. And it’s obviously having a rebound on the, on the economy of the United States and the security of American workers.

**Senator Dorgan:** If I might just make this point. The, those who predict such things, predict that China will become a world-class powerhouse with respect to the economy of China. And I don’t doubt that at all. I mean I think China is growing a very large economy and growing it rapidly and is going to become a significant part of, a much more significant part of the world economy.

But I think that, that China needs to understand that the circumstance of world trade, will require, will require, and should have already required China to deal with these abusive labor practices. And it’s my hope that this petition that is filed under section 301 will receive the kind of attention it deserves.

I don’t wish China ill. I do feel very strongly that the abuse of Chinese workers is wrong and must stop. And I really believe that Congressman Miller has put his finger on it to say that I think all of us in our office have had businesses and many businesses come in and say they didn’t have much choice but to outsource, to move our jobs where we could access labor rates that are a tenth or 1/20 the labor rates we’re paying in the United States. If, and if that’s the case because companies like China are putting people twelve in a room and working them twelve hours a day, seven days a week, and firing them if they want to organize, then that’s abusive.

And I just, the purpose of this hearing is to begin looking behind the curtain just a bit on some of these issues of international trade, and begin taking a look at what is going to effect the

manufacturing base of this country in the future. No country is going to long remain a strong world-class economy if it doesn't have a manufacturing base. It must retain some basic manufacturing base. And I really worry about what is happening to our manufacturing base in part because of unfair competition.

And let me just make this final comment. I agree that the, the world is now globalized. This has marched very quickly, much more quickly than I would have thought. But I also believe strongly that the rules for globalization have not nearly kept pace with the pace of globalization itself. And the absence of these rules are what is persuading thousands, tens of thousands of people to march in streets around the world where the OECD and others begin to have these conferences about trade. Why are people so angry and exercised about this? Because the rules have not kept pace. And there must be rules, rules about what our fair labor standard practices, standard practices that are fair to everyone, what about environmental requirements, and you know those basic kinds of rules that we have dealt with for a century in this country.

We've had people die in the streets in this country as a result of the battles that were waged over those very issues. So, this hearing is very interesting, Mr. Lardy, thank you for, you offer one perspective, and it's, it's an informed perspective about world trade. Mr. Barenberg you, you set out in a brief on behalf of the AFL-CIO and described to us this morning that brief with respect to abusive practices in China. And Ms. Ciping thank you for giving us your perspective about what is happening in China as well. We will continue these kinds of hearings in the future. We very much appreciate the witnesses coming today. Congressman Miller thank you for joining me. This hearing is adjourned.