



MADE IN CHINA

# CHINA ★ INC.

HOW THE RISE OF  
THE NEXT  
SUPERPOWER CHALLENGES  
AMERICA  
AND THE WORLD

**TED C. FISHMAN**

# CHINA, INC.

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CHALLENGES AMERICA AND THE WORLD

Ted C. Fishman

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New York London Toronto Sydney





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## INTRODUCTION

# THE WORLD SHRINKS AS CHINA GROWS

CHINA IS EVERYWHERE THESE DAYS. POWERED BY THE WORLD'S MOST rapidly changing large economy, it is influencing our lives as consumers, employees, and citizens. The words **MADE IN CHINA** are as universal as money: the nation sews more clothes and stitches more shoes and assembles more toys for the world's children than any other. But moving up the technological ladder, China has also become the world's largest maker of consumer electronics, pumping out more TVs, DVD players, and cell phones than any other country. And more recently, China is ascending even higher still, moving quickly and expertly into biotech and computer manufacturing. No country has ever before made a better run at climbing every step of economic development all at once. No country plays the world economic game better than China. No other country shocks the global economic hierarchy like China.

Even a casual glimpse at the news tells us that something large looms in China. The nation is making parts for Boeing 757s and exploring space with its own domestically built rockets. China has between 100 and 160 cities with populations of 1 million or more (America by contrast has 9, while Eastern and Western Europe combined have 36.). China is buying oil fields internationally and also signing exclusive oil and gas supply deals with Saudi and Russian companies. China is buying the world's scrap metal, as well as enormous amounts of steel, to fashion into products sold globally. The country is relentlessly positioning itself for ever-higher levels of industrialization. It's exporting computers with Chinese brand names. There are giant capital flows from industry to China now. It's where the world is investing. China is laying down fiber-

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optic at a rapid rate. China, which tried mightily and tragically to leapfrog from an agrarian economy to an advanced industrial state under Mao Zedong, now leapfrogs over many of the technologies of mature industrial states. Its phone system is more wireless than wired, and many of its big cities will soon have the most advanced rapid-transit systems in the world. Here are two metaphors, both true: China is drinking milk these days. The tallest starting center in the NBA, Yao Ming, is Chinese.

In the past, China's enormous population was hard to feed and employ. Now China's one-fifth of humanity must be seen anew: as the biggest market ever. As the customers of Citibank, Disney, Nokia, GE, Toyota, and Microsoft. As the critical mass in the coming order.

But even if you don't read the business pages, the impact of China's boom is hitting home in all sorts of ways both subtle and obvious that can be felt in our everyday reality:

- Mention an interest in China to your old friend who owns an industrial toolmaking shop and he confides that his factory, which was started by his father and has bought a comfortable suburban life for three generations of his family as well as good wages to hundreds of workers, "is getting killed by the people over there."
- Talk to your family plumber, and first he complains that he spends all day replacing broken Chinese parts, and then he takes from his bag a Chinese part he says is better, sheepishly adding, "They're actually pretty darn good now, and all we can get these days without spending a fortune."
- Run into a parent of a freshman from your daughter's high school class, a mom you've seen for years at holiday concerts in which your two girls both play viola. The mom immigrated to the United States from China in 1995 to study solid-state physics and is now a researcher at the local medical school. She says she's going back to China to join a friend's business that develops software for MRI machines and other high-tech medical devices. What about her research at the hospital? She says the opportunities in China now are too big to miss and she does not want to blame herself later.
- Mention this story to another friend, a world-famous researcher who studies the lives of cells, and he tells you that American uni-

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versity biology departments now exist, in essence, to transfer knowledge from old Jewish men to young Chinese women.

- Cross the street to the all-night city convenience store run by a family of Palestinian immigrants, and notice that behind the counter where cigarettes were once sold is a wall of no-name Chinese accessories for dozens of different brand-name cell phones—batteries, car adapters, earphones, and cases—none for more than \$12. They're selling great, the man at the cash register says.
- Meet a smart old high school friend who always wore thick glasses, but whose nose is now bare. He teaches English at a giant private language school in Shanghai but is home to show off the results of his \$600 laser eye surgery, performed, he says, in an ultramodern Chinese clinic for a tenth the price the procedure would cost at home.
- Grab breakfast at a diner in St. Joseph, Michigan. One table over sit four men, each somewhere between the ages of thirty and sixty. They look as if they are dressed for factory work, but at 10 a.m. they sit and discuss the layoffs in the local disc-brake and machining factory of Bosch, the giant German auto-parts manufacturer that is rapidly building up its capacity in China. The company is laying off thousands of workers at its plants throughout the state, it says, to stay competitive. The men lament that there are few places to turn for new jobs. Whirlpool, Clark Equipment, and other once-solid manufacturers used to thrive in the area, but now their factories are shuttered or just shells of their former selves.
- Notice that the Armani emporium on Via Manzoni in Milan, the Italian fashion capital, revises its list of sister stores worldwide to include Shanghai.
- Head for a dim sum lunch in Chinatown and see on the corner a somewhat bewildered young Chinese man, squat, strong, and weathered, looking as though he has come to work the American railroad boom a century too late. He leans on a large bundle, wrapped in a plastic tarp and tied with cellophane ribbon, that probably contains all his worldly goods. He is one of China's untold millions of rural migrants, but has somehow—perhaps with the help of a smuggler—found his way far past China's thriving ports. He will now compete for work on the low rung of America's domestic economy.

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- A contractor shows you the home of a client who has renovated her master bath. He's replaced a long, old Formica countertop with an expanse of midnight blue marble, as ornately beveled as one might find in a Venetian spa. He sees your eyes widen and recommends the same for you, saying it's Italian, it's expensive, but it's worth it. After you complain about the price, you follow the contractor in his truck to a lumberyard. Inside are giant crates of precut granite for kitchens, bathrooms, and living room mantels. Everything on them is finished and glued. If you can work with one of these tops as is, the contractor tells you, the counter will cost \$450, not \$8,000. The yard's owner comes over. He says buy fast, because the crates only stay in the store a day or two before he sells out. He's been carrying the counters for a year. "A guy from China came by and said he had three quarries where they cut the stone and finished it. I tried it out. Now I can't get enough."
- Wake up in Santa Barbara, California, one morning to a sky that looks as though it is painted a shiny white. The morning's newspaper reports that the sunlight is playing tricks on a dust cloud that has drifted over the Pacific from China. The cloud contains particles of loose earth from deforested land mixed with arsenic and other industrial pollutants from the country's factories.
- Buy a real pair of Levi's jeans at Wal-Mart. They are cheaper than the new pair you bought twenty years ago.
- Get invited to a "purse party" by an officemate who says she is friends with the host, a United Airlines stewardess. Her apartment, decorated with paper lanterns and silk pillows, is piled high with the latest Louis Vuitton and Prada handbags, Burberry coats, North Face parkas, leather Timberland jackets, Ralph Lauren tops, and Chanel scarves. On her table is a valise with glistening Rolex, Bulgari, and Cartier watches. "Take a Coke from the cooler," she says. "Look around. Make an offer. Think cheap, it's all knockoffs." Leave with a North Face for \$20 and sharp new watch for \$35. She's doubled her money. You never look at a designer label the same way again.
- Pull your Honda Civic up to the gas pump. At \$2.30 a gallon it costs \$30 to fill the tank.
- Drive through Houghton, Michigan, a remote town on the state's



chilly Upper Peninsula. Stop by the student bookstore at Michigan Tech. On the Local Authors table is a book titled *Being a Graduate Student in the U.S.*, written by two of the university's Chinese students. The cashier reports that the book sells well in China. Stop an Asian student on campus and ask how he heard about Michigan Tech. His university in Beijing has a strong relationship with the school and his professors told him about it, he tells you. When asked how he likes studying there, he says Michigan is cold, the food is bad, and it has been hard to blend in, except with the 140 other Chinese students. The technological education, however, is excellent.

- Stop at the auto supply store for windshield-wiper fluid. Half the store is now a showroom for small Chinese motor scooters, some of which look like half-Harleys, others like Ducatis. Most cost less than \$300.
- Attend dinner at the home of a discerning art collector. On the wall are four-foot-tall photographs of a ruined Chinese cityscape. Invest in contemporary Chinese art, the collector says, it's the most interesting in the world right now, and once the Chinese themselves start buying, the prices will go sky-high.
- Take a trip to Paris to see its famous attractions and to stroll the Champs-Élysées, the boulevard whose national character is usually guarded with jealous fanaticism by the French. Yet for the first time in history, "the most beautiful street in the world" is surrendered to a non-French cultural event, a Chinese parade with seven thousand costumed musicians, acrobats, and dragon dancers. That night the Eiffel Tower is lit red and fireworks fill the sky to celebrate the Chinese lunar New Year. The festivities come at a time when France is sharply critical of its Western allies, the United States and Great Britain. The show also coincides with a visit by Chinese political leaders to France to seal broad strategic and economic agreements.
- Decide at last to put your old film camera away and plunge into digital photography. Photo magazines all rave about a small new Nikon, an engineering wonder that can shoot fast, capture dimly lit scenes that would foil its best film rival, and costs half the price of similar machines a year ago. Loyal customers of Nikon trust the

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company for quality and innovative design. It is, after all, one of the marquee Japanese brands that helped build that country's reputation for manufacturing excellence. Holding the camera, then taking a round of test shots, confirms that this is another stellar product that only the Japanese could make. Inspect the camera more closely, however, and there in small print are the words "Made in China." A search on the Internet reveals that digital cameras from many Japanese, American, and Korean companies are made in the same Chinese factories.

- Visit an ailing elderly uncle who is home from rehab after yet another fall, but still unable to move about without help. He introduces you to Menardo, the caretaker sent by a nursing agency. Menardo is well dressed, his hair permed. On first meeting he says he is from the Philippines and has been working as a nurse for the last four months. Here in America he shares an apartment with his sister an hour away, but at home he owned a large house and had servants. He takes from his bag a brochure for his old business, a factory on Cebu Island that employed fifty workers making intricately woven straw and jute bags. He went out of business, he says, because Chinese manufacturers now sell similar bags for less than Menardo knew how to make them. It is all handwork, and his laborers made \$30 a week. Chinese workers, he complains, make one-third less and work longer hours. Now he empties bedpans. With his American wage, he hopes for a new start in business, but it is hard for him to think what to make that will ever beat the Chinese on price.

China's miracle economy can come at you in a lot of ways, from all directions. And once China comes into view, it is hard not to see it everywhere.

## The Supersized Workforce

Behind China's rapid economic ascendancy over the last twenty-five years is the basic fact of China's huge population. The numbers supersize nearly every facet of the country. China is home to close to 1.5 bil-

lion people, probably, which would make the official census count of 1.3 billion too low by roughly the population of Germany, France, and the United Kingdom *combined*. Put another way, China's uncounted multitude, were it a country on its own, would be the fifth largest in the world.

Surprisingly enough, China is not home to the cheapest workforce in the world. Even at twenty-five cents an hour, Chinese workers cost more than laborers in the poorer countries of Southeast Asia or Africa. In the world's most miserable corners, children carry rifles and walk minefields for less than a dollar a day. China is the world's workshop because it sits in a relatively stable part of the globe and offers the world's manufacturers a reliable, docile, and capable industrial workforce, groomed by government-enforced discipline.

The other great influence lately is the migration of hundreds of millions of peasants from the countryside now that the government allows them to leave. Indeed, the country's embrace of market capitalism over the last two decades and the end of government support for farmers are combining forces to all but evict peasants from the land. The migration is the largest in human history. It also has one of the least exact head counts: estimates of the number of people who have left for the cities to find work range from 90 to 300 million, numbers that even near the low end match the entire workforce of the United States. Move up in the range and the number tops the U.S. and European workforces combined. By 2010, nearly half of all Chinese will live in urban areas, some of them urban metropolises with populations of a million-plus that didn't even exist a few years earlier.

What these numbers mean is that the productive might of China's vast low-cost manufacturing machine, along with the swelling appetites of its billion-plus consumers, have turned China's people into what is arguably the greatest natural resource on the planet. How the Chinese and the rest of the world use that resource will shape our economy and every other economy in the world as powerfully as American industrialization and expansion have over the last hundred years.

What the American Workers  
at the Harley Motorcycle Plant Knew

China's effects on the world are so great—and potentially explosive—that paradoxically it has been hard for those charged with seeing the big picture to grasp them. That, anyway, was the impression of workers and executives at the Harley-Davidson plant in Milwaukee when a trio of the most important economic officials in the Bush administration came to visit in the late summer of 2003. United States Secretary of Labor Elaine Chao, Secretary of the Treasury John Snow, and Secretary of Commerce Donald Evans arrived by bus to trumpet an upturn in the economy with one of America's iconographic companies in the backdrop. They assumed that "Hog" makers, the leather-jacketed, flag-flaunting individualists who produce America's last big motorcycle, would cheer the administration's self-described pro-business tune.

But the crowd was decidedly chilly. A cold front was blowing in from China. The United States had lost 2.9 million manufacturing jobs over the previous five years. Wisconsin had lost ninety thousand, or one in six, of its manufacturing jobs since 2000.<sup>1</sup> The Harley crowd had a strong opinion as to why. The companies they grew up around were fading, with orders and jobs heading overseas. Challenged on China, a puzzled Elaine Chao could only offer that U.S. National Guard soldiers serving in Iraq would be guaranteed their jobs when they returned. John Snow seemed to confuse his references to the Chinese currency, the *yuan*, with the Japanese *yen*. The astonished audience grew edgy. More than taxes, more than budget deficits or the cost of the war on terror, speakers from the floor said, China was the top issue in their economic lives. For the assembled, how the country competed with China would determine if Wisconsin could hold on to the manufacturing base it had fought to rejuvenate.

The secretaries' tour took them throughout the Midwest to dozens of stops. All along the way they met the same angry questions on China, throngs with bullhorns full of fury. Among the angry were workers and managers alike, from the left and the right. Perhaps the most vocal were the Republicans' core constituency, small and midsize manufacturers struggling under the weight of the growing productive power of the world's most populous country.

Those events occurred only eighteen months before the publication of this book. Today, China's economy no longer takes government leaders by surprise. What they choose to do, now that they are informed, remains to be seen, especially since the popular reactions to China keep shifting rapidly—and often on the basis of competing American political and economic agendas. China is at one moment our greatest threat, the next our friend. It is siphoning off American jobs; it is essential to our competitive edge. China is the world's factory floor and it is the world's greatest market opportunity. China's industrial might saps opportunities from the developing world, but its hungry economy pulls poorer countries upward. China exports deflation; it stokes soaring prices. China will boom; it will bust.

The truth about China is that, like all big countries, its contradictions are real. There are no easy answers in sight, just giant forces of change.

### What the Numbers Tell Us—and What They Don't

By every measure, China's economy is growing rapidly. For nations, annual economic progress reports come in the form of the gross domestic product, the sum value of all goods and services traded in a nation's economy. In 2003, China's GDP was \$1.4 trillion. By that measure, China was the seventh-largest economy in the world. The economy of the United States is still by far the world's biggest; with a 2003 GDP of \$10.1 trillion, it is seven times the size of China's. (The world economy can also be measured by its own GDP; it totaled \$36.4 trillion in 2003.)

But there are some extenuating circumstances regarding China's economic numbers. As with nearly all economic statistics from China, their reliability is suspect. The Chinese have incentives to fudge. In the past, the complaint was almost always that officials nudged their numbers up, to show they were doing a good job. Now, a chorus of doubters argue the numbers are unduly *low*. China's central planners are increasingly directing development funds more aggressively to locales officially designated as poverty zones. Thus China's east-coast jurisdictions, already the overwhelming beneficiaries of economic reform, mask their own high growth rates so that government resources don't go elsewhere. Depressed provinces have corollary motives; they work to hold on to

their label even if business is starting to percolate. Perhaps for that reason, the numbers that the central government collects from the provinces do not match the figures that regional and local governments report in their own literature. China's economy is 15 percent bigger, judging by local numbers. The statistical disparities have troubled or embarrassed the central government so much that it prosecuted for fraud twenty thousand local officials who had a hand in producing them.<sup>2</sup>

Furthermore, the official numbers include only China's legal economy. Its underground economy, made up of businesses both unsavory and more mundane that lack a government stamp (and tax bill), is enormous but uncountable.

China's seventh-place ranking may also be too low because China pegs its currency to the dollar. The world's other major currencies go up and down against the dollar depending on market conditions. Usually a country with China's strengths would see the value of its national currency rise, but China uses the massive power of its foreign currency reserves to keep the world price of the yuan marching lockstep with the dollar no matter what its market price might otherwise be. If the dollar had not dropped against the Euro or other world currencies over the last few years, China's place would be a notch or two higher.

Some analysts already see China's place as much higher. They take into account how much a dollar actually buys in the country, which, all things considered, is a lot more than it buys in the United States, Europe, Japan, and most other places in the world where it's worth spending a dollar. Some goods—Japanese machinery, Saudi oil, French fashions, Swiss pharmaceuticals, and an hour of time from an American marketing professor—have standardized global prices. But the supply and demand that govern most of China's economy—its labor, food, rent, bricks, doctors, China-made clothes and entertainment—fall into their own local balance. In China, one dollar buys about what \$4.70 does in Indianapolis. The disparity, misleadingly labeled "purchasing power parity," is reconciled in the U.S. Central Intelligence Agency's estimation of China's place among the world's economies. China's \$1.4 trillion economy, in the CIA's calculations, looks more like one with a GDP of \$6.6 trillion. Put another way, it makes more sense to think of China's economy as closer to two-thirds the size of the U.S. economy than it is to one-seventh.

And then there is China's rate of growth, its velocity into the economic future. For the most part, countries want to add as much as they can to their GDP. Over the last twenty-five years, China's economy has grown so fast and so large that it has taken on the mythic qualities of one of Mao's showcase farms. The United States, the country against which all others tend to measure themselves, has long had the strongest economic growth among the large industrialized democracies that make up the G7.<sup>3</sup> Growth in the United States is also comfortably above the average of the membership of the Organization of Economic Co-operation and Development, the world's inner clique of thirty leading democratic, market economies that together account for two-thirds of the world's economic output. From 1982 through 2002, GDP growth in the United States averaged 3.3 percent. For U.S. politicians, those years with rates above 4 percent are blockbusters, those above 2 percent are comfortable, and years showing anything less amount to political poison. In Latin America, which is often seen as China's rival in low-cost manufacturing, economic progress over the last quarter of a century has been, on average, worse than it was in the region during the Great Depression.<sup>4</sup> In China, however, a growth rate twice as high as that of the United States would now be seen as a calamity. Chinese officials themselves say the country must grow at *better than 7 percent a year* to create enough jobs to busy those regularly entering the job market.

China is so committed to economic growth that the Chinese often talk as though they can will it to happen. It is a necessary optimism that pervades official Chinese communication.\* Orville Schell, the author of *Virtual Tibet* and the dean of the school of journalism at the University of California, Berkeley, draws a parallel between the unity of focus the Chi-

\*Not just through the press and government communiqués, but in casual conversation. In the fall of 2003, as China was on course for yet another bell-ringing economic quarter, a Chinese diplomat new to Washington, D.C., but who had spent nine years as an economic analyst at China's embassy in Tokyo, offered his understanding of the Chinese government's prescription for Japan, still struggling against years of bad economic news, deflation, and a weak stock market. "All Japan needs to do," the diplomat said emphatically over sushi and sake at a Japanese restaurant in Georgetown, "is to follow China's model and stimulate economic growth. First they ought to get their growth up to around seven or eight percent, and then they should push their stock market up. Then they can be more like China. We know we need economic growth to keep everything together, so we make a point of it."

nese have demonstrated for anticapitalism and now for capitalism.<sup>5</sup> Schell argues that in both instances there is a willingness to suspend logic and see only bright tomorrows. Both cases lead to excess. In its capitalist present, China has been willing to overlook the dark side of modernization, seeing economic progress as the solution to all the country's challenges.

Not all of China's own economic experts are as blithely confident that sheer desire for growth can insure it. To the contrary. Recently, Chinese economic planners have worked hard to throw ice on their countrymen's most heated expectations. Overenthusiasm, they know, leads to economic bubbles. But controlling the power of the exuberant Chinese economy is difficult. If history were predictive of China's present, the country's economy would have burst long ago. If bubbles burst when investors chase too many projects that have no real economic value—too many factories chasing the same hot markets, too many construction projects for the local market to fill, too many bad bank loans to unsound enterprises, too many high-flying stocks in companies with no history—then China deserves to be in shambles. Instead, every time the worst is predicted for China's economy, it seems to grow faster, create stronger industries, import and export more, and attract more foreign investment money.

Since China set about reforming its economy a generation ago, it has grown at an official rate of 9.5 percent.<sup>6</sup> Countries in the early stages of economic reform often come up fast, but not like China. The country is closing in on a thirty-year run during which its economy has doubled nearly three times over.<sup>7</sup> *The surge has no equal in modern history.* Neither Japan's nor South Korea's postwar booms come anywhere close. Given the United States' recent rates of economic growth, it would take the U.S. twenty-five years to double. If the United States, which boomed in the eighties and nineties, had grown at China's rate since 1978, the U.S. economy would now be roughly its current size plus two Japanese economies added on. Nicholas Lardy, an economist at the Institute for International Economics, notes that China grew mightily even during the worldwide economic doldrums of 2001–2.

Thus does China's growth give it a place in the world economy that is far greater than its size. China still only makes one-twentieth of everything produced in the world, but on the world stage it plays the role of a new factory in an old industrial town. It can spend, it can bully, it can



hire and dictate wages, it can throw old-line competitors out of work. It changes the way everyone does business.

Americans tend to focus on the huge inequality in trade between the two countries. It is a worry Americans help to create by buying ever more from China's humming factories. In 2003, the Chinese sold the United States \$152 billion more in goods than they bought. Contrary to common wisdom, the trade deficit with China does not mean that Americans are spending down the national wealth at a much faster pace than ever before. So far, most of China's gains with American buyers have come at the expense of the other countries that once lured American dollars, especially other Asian economies. Americans—and the world—get more stuff in the bargain. China is winning because it can make what others did for less money. It turns once expensive items, such as DVD players, power tools, and leather jackets, into affordable impulse items that call out from store shelves. Many of us who feel our homes are running out of closet and floor space because of piles of cheap toys, consumer electronics, tools, shoes, phones, and clothes don't realize that although these items may once have come to America from other countries, the current glut is because China is now the leading manufacturer of those goods and beating everyone on price. The U.S. garment industry, for example, was fading long before China started winning orders at the expense of other Asian and Latin American factories.

The American furniture industry is another story. Its strength has been sapped almost entirely by China alone. It shows how China can come after the specialty businesses of any country and decimate them in short order. (Now it is overtaking all global manufacturers in wooden furniture, too, a convenient trend that will give the world bookshelves and armoires in which to store its other China-made purchases.) From the year 2000 until 2003, China's exports to the United States of wooden bedroom furniture alone climbed from \$360 million to nearly \$1.2 billion. Over the period of China's \$840 million rise, the workforce at America's wooden-furniture factories dropped by thirty-five thousand, or one of every three workers in the U.S. trade. China now makes 40 percent of all furniture sold in the United States, and that number is sure to climb. And American furniture jobs will continue to fall.

Yet one irony of China's success in the U.S. furniture market is that Chinese factories have done a better job of delivering to American