

Testimony of

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“Trade, Foreign Policy and the American Worker”

Mr. Chairman and distinguished members of the subcommittee, I want to thank you for taking the time to study trade, foreign policy, and the American worker, and for inviting me to testify on behalf of the Alliance for American Manufacturing. I am honored to be before this subcommittee to discuss an issue of such importance to our economy and our national security.

First, I would like to introduce the Alliance for American Manufacturing and our perspective on this topic. We are a brand new partnership formed by some of America’s leading manufacturers and their workers to explore challenging public policy topics such as trade, as well as health care, retirement, energy, currency valuation, and other issues of mutual concern. AAM works in a cooperative, non-partisan way, bringing together labor and management, Democrats, Republicans and independents, to work for one goal: strengthening American manufacturing and therefore our nation’s economic and national security. Our mission is to provide policymakers like you with useful analysis of the issues, as well as innovative policy ideas to move us toward effective solutions.

In the past, international trade has been a “below the radar” issue for most Americans, but as the problems grow worse, that appears to be changing. Our nation’s flawed trade policy surreptitiously contributes to the anxiety and uncertainty many Americans feel about their jobs, their future, and perhaps most importantly for them, their children’s future. Effective and meaningful trade policy can make a difference to the American people in the following ways:

- Whether tomorrow brings the layoff notice or the holiday bonus;
- Whether their community has a top-notch public school, or one that is struggling to keep its doors open because the town’s factory—its largest source of tax revenue—shut down and shifted production to the People’s Republic of China;
- Whether the jobs of the future for their children will be flipping burgers or careers in nanotechnology and advanced manufacturing; and

- Whether their nation will have an industrial base that can supply the critical materials that allow us to defend our nation, or if we will be forced to depend on the goodwill of other nations to do that for us.

For policymakers, the choices on trade are often presented as absolutes: you are an enlightened “free trader” or a jingoistic “protectionist.” Trade produces many “winners” and a few unproductive, unskilled and unfortunate “losers” who must be retrained for the jobs of the future. You’ll hear arguments asserting that free trade is a “no brainer” and a “win-win.” These labels are not helpful. In fact, they are misleading and divert our attention from the real truth: open markets *can* benefit everyone—investors, consumers, companies, and workers—but only if the rules are fair and only if those rules are aggressively enforced and appropriately enhanced.

Free trade is a theory that exists only within the confines of 19th and 20th Century economic textbooks, not in the real world of the 21st Century, where labor arbitrage and the mobility of capital and investment encourage a race to the bottom, rather than strategies that will support sustained economic growth and broadly shared benefits, in industrialized as well as developing nations. You may hear from some theoreticians who will tell you that the trade deficit is somehow good for our economy, that this “churning” of the workforce is the product of efficient capitalism, and that all of the layoffs and shifts of production abroad are inevitable in a 21st Century where the world is really “flat.”

The reality is vastly different. One-way trade relationships with countries that disregard the rule of law as well as their international commitments have simple yet devastating consequences: lost American jobs and a declining manufacturing and innovation base. Conscious policy choices and crimes of omission—the unwillingness of our trade bureaucracy and the World Trade Organization to enforce the rules or to apply new ones that were never negotiated—are damaging U.S. workers and businesses in every state in the nation. Our nation has lost more than 3 million manufacturing jobs over the past six years. More than 40,000 manufacturing facilities have shut down. And our annual trade deficit stands at more than \$764 billion.

The Role of China

The largest single source of our trade woes is China. The U.S. trade deficit with China skyrocketed for the sixth consecutive year in 2006, reaching a record high of \$233 billion, nearly one-third of the overall U.S. trade deficit. The sheer size and structural nature of this deficit raises serious questions about its causes, including to what extent the deficit is driven by government interventions in the Chinese economy.

In particular, China maintains numerous policies including state-sponsored subsidies aimed at promoting investment, exports and employment. Those policies have a direct role in increasing the U.S.-China trade imbalance and negatively affect the health of our domestically based manufacturers, service providers and farmers.

When China became a member of the World Trade Organization, proponents argued that it would herald in a new age of opportunity and expand market opportunities for U.S. companies. Unfortunately, China continues to follow a policy of export-led growth to build up its own manufacturing base at the expense of other countries. Almost 60 percent of China's exports come not from Chinese firms, but from foreign-invested enterprises. Many of these companies set up operations hoping to serve the Chinese market, only to find a web of policies and practices to limit their opportunities there but incentives to export their products back to their home countries.

Just a few months ago, the director of the Chinese Government's State-owned Assets Supervision and Administration Commission (SASAC), announced a new policy that raises serious questions of governmental control, involvement and intervention in a number of major industries. In industries ranging from telecommunications to steel to machinery and many others, China's leaders made it clear that the state will continue to exert its control, making it virtually impossible for American firms to compete.

China also has provided massive subsidies to its companies to give them an advantage over U.S. farmers, workers and businesses trying to sell their products to China, as well as flooding our market with their products. Company after company has been adversely affected by a Chinese government policy that simply needs to be described for what it is: cheating.

China needs to be held accountable. It agreed to certain conditions when it joined the World Trade Organization but, time after time, it has refused to grant the kind of trade access to its markets that we provide to it and has engaged in unfair and predatory practices to increase its exports. The result is one way free trade and, as noted above, skyrocketing trade deficits. Subsidies, dumping, currency manipulation, violation of labor rights, lax or nonexistent environmental enforcement are just some of the egregious practices that must be addressed.

The Importance of Enforcing Our Nation's Trade Laws

The inability, and in many cases the unwillingness, of policymakers in Washington to enforce current trade laws has allowed the deck to be stacked against U.S. manufacturers and workers. As a result, they have been forced to play by a different set of rules than their competitors. This has contributed to a loss of nearly three million manufacturing jobs since 2000 and the closing of more than 40,000 manufacturing facilities.

Quite literally, U.S. trade laws – including anti-dumping and countervailing duty laws – when enforced, level the playing field and allow individual companies, farms and even whole industries in America to remain competitive. Some critics argue, however, that these trade laws are shortsighted in this era of globalization and that the end results of these laws are limits on consumer choice and thus higher prices.

Now Congress is considering reauthorizing the President's authority to negotiate free trade agreements. Further intensifying the discussion is the World Trade Organization's Doha Development Round, the organization's agenda associated with lowering trade barriers around the world.

As debate continues, we should not lose sight of the stark reality that U.S. manufacturers and workers face when trade laws are not enforced. The consequences of illegal trading practices to American manufacturers and workers are severe. For example:

- A study that AAM will be releasing shortly found that from 2001 to 2003 American furniture manufacturers lost \$333 million in revenue as a result of wooden bedroom furniture dumped into the U.S. market from China.
- That same study examined the U.S. steel industry, which as a result of the dumping of hot-rolled steel from Japan, Brazil and Russia, lost more than \$2.6 billion in revenue from 1996 to 1998.

When other countries don't have to play by the same rules as U.S. manufacturers, the results are not only lost revenues, but also lost jobs and a loss of economic security for American workers, their families and their communities. The words of Bill Kortz, a longtime employee of U.S. Steel in Pennsylvania, say it best:

"We've had half of our mill shut down because of that dumping. The impact has been traumatic. For every steelworker here, we provide enough opportunity and employment for seven other surrounding people outside our industry just to provide products and services to help sustain us. If they do away with the trade laws, we're in trouble."

Michael Ursini, the president of a furniture company in Illinois, who has been forced to contend with illegally dumped imports from China, articulates the devastating consequences:

"We've seen at least a 50 percent decrease in the sales of our case pieces, and I would say most of that would have to do with furniture being made in China."

In industries as diverse as garlic, honey, computer chips, cement, ball bearings, steel and many, many others, American businesses and workers—who are highly productive and efficient—are facing a torrent of subsidized products made by workers overseas who are paid artificially low wages in deplorable conditions. There is nothing free about that sort of trade. American workers and businesses need rules that are fair to everyone, and they need those rules enforced.

The reality is that enforcing the law works. Imposing clear and direct penalties on those who cheat or break the law is vital to ensuring that there is a level playing field around the globe. The rules of international trade are just that – rules, not suggestions. The time is long overdue for the U.S. to enforce our trade laws and hold our trading partners accountable for their unfair trading practices. It is time to stand up for American workers and American manufacturers. Americans should expect—and deserve—nothing less.

Our National and Economic Security Depend on a Strong Manufacturing Base

Manufacturing has been the engine that drives the American economy for more than a hundred years, and it will continue to be well into the 21st century. America's future growth, security and leadership in the global economy will depend on the strength and viability of our manufacturing base.

Manufacturing in the United States generates about \$1.4 trillion, or 12 percent of our gross domestic product. Manufacturing is responsible for nearly two-thirds of private sector research and development in the United States. Over the past two decades, manufacturing productivity has increased at twice the rate of the rest of the private sector.

Manufacturing directly employs 14 million Americans and supports eight million more. Each manufacturing job supports as many as four other jobs, providing a boost to local economies. For example, every 100 steel or every 100 auto jobs create as many as 700 new jobs in the rest of the economy. This contrasts with the retail sector, where every 100 jobs generate 94 new jobs elsewhere, and the personal and service sectors, where 100 jobs create 147 new jobs. This multiplier effect reflects how manufacturing's linkages run deep into the economy, providing the means that translate improvements in manufacturing productivity to the economy as a whole.

Manufacturing is a vital part of the economies of most states. As a share of gross state product (GSP), in 2001 manufacturing was among the three largest private-industry sectors in all but 10 states and the District of Columbia. Manufacturing is the largest sector in ten states and in the Midwest region as a whole. It is the second largest in nine states and the third largest in 21 others.

But the extraordinary pressures of unfair trade practices, rising health care and energy costs, and illegal foreign currency manipulation have conspired to plunge manufacturing into deep crisis. Unless Congress and the Administration respond to these issues now, we may not be able to count on having a strong manufacturing base in the future.

We depend on domestic manufacturing to supply our advanced materials for equipment like the Joint Strike Fighter, the Bradley Fighting Vehicle, the Abrams Tank, and our naval fleet. If we continue to lose our manufacturing base, our nation's military could lose its primary source of strategic resources, and we as a nation would become dangerously dependent upon foreign sources of supply.

The Congress and the American people have become all too aware of the limitations that dependency on foreign sources of energy creates for foreign policy and national security purposes; it makes no sense to exacerbate that problem by depending on China and other nations to supply our critical defense needs. Just as our nation is seeking to achieve energy independence from the Middle East, we should also avoid becoming more dependent on others to supply our national and homeland defense.

AAM believes that America's leadership in the information age does not mean that we have to accept defeat when it comes to manufacturing. On the contrary, the nation that has the ideas and innovation, as well as cutting-edge technology and manufacturing, is the nation that will win the global economic battles of the future. That is why we look forward to working with you to ensure that we put into place policies that will allow manufacturing to thrive well into the 21st Century.

As Federal Reserve Chairman Ben Bernanke stated on Feb. 28, 2007, "I would say that our economy needs machines and new factories and new buildings and so forth in order for us to have a strong and growing economy."

Contrary to popular misconceptions, the industrial age is not over. In fact, just the opposite is true. From nanotechnology, and robotics, to lasers and biotechnology, we are on the cusp of incredible advances in manufacturing. America must be the nation that leads the world into the next stages of development. Manufacturing is, and will continue to be, an integral part of the "new economy." With manufacturing, the new economy will thrive. Without manufacturing, much of this new economy would not even exist.

Mr. Chairman and members of the subcommittee, thank you again for the opportunity to testify today. I am happy to answer any questions you may have.