ALLIANCE FOR american manufacturing

January 13, 2020

The President
The White House
Washington, DC 20500

Dear President Trump:

On behalf of the Alliance for American Manufacturing (AAM) – a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers – I write to share our views on the phase one trade agreement with the People's Republic of China.

We appreciate how difficult it has been for U.S. negotiators to secure commitments on access to China's market, commodity purchases of American exports, and intellectual property protections. However, for American manufacturing and its workers, the phase one agreement is completely inadequate. The agreement does not level the playing field for American workers in the U.S. or global market. With nearly all the major structural issues left unresolved – including industrial subsidies, overcapacity, state-owned enterprises, predatory investment, currency manipulation and misalignment, cyber intrusions, worker rights, environmental rules, and tax policy – we urge an immediate resumption of negotiations and sustained economic pressure.

We wish to highlight several issues that are of immense importance to American workers and U.S. manufacturing companies:

- Industrial Subsidies. The most notable omission in the phase one deal is addressing the massive financial support provided by Beijing to Chinese firms deemed important to its economic and security interests. According to the Peterson Institute, "China now devotes more than three percent of its annual output to direct and indirect business subsidies — a share of the economy that is roughly equivalent to what the United States spends on defense." China's persistent non-market behavior has an enormous, negative effect on markets worldwide, including significant harm to U.S. exporters, import-competing industries, and their workers who are forced to compete against these subsidies. If China's subsidies are not addressed in a meaningful manner, the United States' ability to maintain or strengthen its steel, aluminum, glass, paper, cement, solar, electric battery, shipbuilding, and other important sectors will be compromised.

- State-Sponsored Overcapacity. Driven by subsidies and other non-market actions, China continues to increase production beyond what its own market or the global market can consume across a range of industrial sectors. Steel and aluminum are just the tip of the iceberg and more attention must be paid to dangerous overcapacity concerns in many other industrial sectors. It is necessary for the United States to secure transparent and enforceable commitments by China to eliminate excess production and industrial overcapacity.

- State-Owned Enterprises (SOEs). New regulation implemented by Beijing appears to give China an even greater role in the decision-making and control over its SOEs. According to news accounts, this "provisional" regulation requires a Communist Party entity within each corporate

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structure to review business decisions before they are presented to the board of directors or management. China's SOEs receive massive subsidies and are often deeply aligned with Beijing's broader economic and security goals as parts of its military-civil fusion strategy. This is yet another indication that China is moving further away from its commitments and cementing its status as a non-market economy.

- Restricting Predatory Investment. China's state-owned, state-subsidized, or state-supported enterprises have begun setting up assembly operations in the United States. Backed by deep government support, two such firms – China Railroad Rolling Stock Corporation (CRRC) and Build Your Dreams (BYD) – have begun securing lucrative, U.S. taxpayer-supported contracts to supply our major cities with transit rail cars and electric buses. Their ambitions are sizeable, that is to establish a substantial foothold into our market as a means of expanding into private sectors such as the freight rail and passenger automobile markets. Congress approved, and you signed into law, restrictions on the use of taxpayer dollars to award taxpayer-funded contracts to such firms. These restrictions do not take effect for two years, and more attention and action must be directed to this developing issue to protect established market participants, our supply chains, and American workers against these predatory threats.

- Monitoring the Phase One Agreement. We must vigorously monitor China's progress in complying with the phase one agreement. If promises are not kept, tariffs should be promptly restored, including those that were scheduled to take effect in December 2019. China has a long history of making oversized promises, only to abandon them when the attention shifts elsewhere. Similarly, any future deal that does not include a strict and automatic enforcement mechanism – with meaningful repercussions should China renege – will have limited to no value.

Your administration deserves credit for recognizing our nation's flawed economic relationship with China and for taking strong measures to prompt negotiations, something no previous administration has been willing to do in such a comprehensive manner. For far too long, seemingly endless dialogue with China proved that polite requests to curtail its predatory, state-driven industrial policies do not yield meaningful results. Left to its own devices, China has repeatedly demonstrated that it is unwilling to hold up its end of the bargain. While the phase one deal falls short, the use of tariffs under Section 301 of the Trade Act of 1974 have proven to be an effective and appropriate tool to trigger negotiations with China.

Those who have criticized the use of tariffs fail to understand what is at stake. These same "experts" assured us that China would reform when it entered the world trade system in 2001. Since that time, China's predatory economic behavior has fueled an unprecedented $5 trillion bilateral goods trade deficit, including a record $419.2 billion in 2018. Our communities have shed more than 54,000 manufacturing facilities. A staggering 3.7 million jobs, largely in manufacturing, have been lost because of this massive trade imbalance, impacting every state and nearly every sector of our economy. These trends are unsustainable and put the future of our economy, national security, and country at risk.

This is a long-term process that will require a sustained, bipartisan commitment on the part of all U.S. policymakers, including both the current and future administrations. The United States cannot afford to revert to its previous posture of endless dialogue and polite requests for reform. American workers and U.S. manufacturing companies need a deal that is comprehensive, specific, enforceable, and backed by strong and automatic penalties if Beijing fails to live up to its words – as has repeatedly been the case

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under previous administrations of both political parties. It is essential that we maintain pressure on China, using the leverage of remaining Section 301 tariffs to immediately resume negotiations on a phase two agreement.

We recognize your administration's efforts to date, but the phase one deal is completely inadequate and leaves much work to be done. It is of the utmost importance to the American manufacturing sector to secure a results-oriented, enforceable agreement that rebalances our lopsided bilateral trade relationship, allows our industrial base to recover lost ground, addresses China's growing overcapacity in key sectors, immediately halts the theft of our intellectual property, and protects our economic and national security for future generations.

Sincerely,

Scott N. Paul
President
Alliance for American Manufacturing