S. HRG. 112–192

MANUFACTURING IN THE USA: HOW U.S. TRADE POLICY OFFSHORES JOBS

HEARING

BEFORE THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDRED TWELFTH CONGRESS

FIRST SESSION

SEPTEMBER 21, 2011

Printed for the use of the Joint Economic Committee

U.S. GOVERNMENT PRINTING OFFICE

71–032 WASHINGTON : 2012

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

JOINT ECONOMIC COMMITTEE

[Created pursuant to Sec. 5(a) of Public Law 304, 79th Congress]

SENATE

ROBERT P. CASEY, JR., Pennsylvania, *Chairman*
JEFF BINGAMAN, New Mexico
AMY KLOBUCHAR, Minnesota
JIM WEBB, Virginia
MARK R. WARNER, Virginia
BERNARD SANDERS, Vermont
JIM DEMINT, South Carolina
DANIEL COATS, Indiana
MIKE LEE, Utah
PAT TOOMEY, Pennsylvania

HOUSE OF REPRESENTATIVES

KEVIN BRADY, Texas, *Vice Chairman*
MICHAEL C. BURGESS, M.D., Texas
JOHN CAMPBELL, California
SEAN P. DUFFY, Wisconsin
JUSTIN AMASH, Michigan
MICK MULVANEY, South Carolina
MAURICE D. HINCHEY, New York
CAROLYN B. MALONEY, New York
LORETTA SANCHEZ, California
ELIJAH E. CUMMINGS, Maryland

WILLIAM E. HANSEN, *Executive Director*
ROBERT P. O'QUINN, *Republican Staff Director*

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00002 Fmt 5904 Sfmt 5904 C:\DOCS\71032 DPROCT

CONTENTS

Opening Statements of Members

Witnesses

Submissions for the Record

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00003 Fmt 5904 Sfmt 5904 C:\DOCS\71032 DPROCT

MANUFACTURING IN THE USA: HOW U.S. TRADE POLICY OFFSHORES JOBS

WEDNESDAY, SEPTEMBER 21, 2011

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
Washington, DC.

The committee met, pursuant to call, at 2:03 p.m. in Room 216 of the Hart Senate Office Building, the Honorable Robert P. Casey, Jr., Chairman, presiding.

Senators present: Casey and Klobuchar.

Representatives present: Brady.

Staff present: Gail Cohen, Will Hansen, Colleen Healy, Jesse Hervitz, Dan Neumann, Christina Forsberg, and Robert O'Quinn.

OPENING STATEMENT OF HON. ROBERT P. CASEY, JR., CHAIRMAN, A U.S. SENATOR FROM PENNSYLVANIA

Chairman Casey. The hearing will come to order.

We want to thank our witnesses for being here, and I want to thank Vice Chairman Brady for being with us again today. We appreciate the time that folks spent arranging the hearing, as well as the time the witnesses spent traveling here.

I will start with an opening statement, and then we will—and after Vice Chairman Brady's statement I will introduce our witnesses, and then we will get into the testimony.

Today's hearing is the third in a series that the Joint Economic Committee is holding to determine the best strategies for revitalizing manufacturing in the United States.

Previously we have focused on the need for a comprehensive national manufacturing strategy and examined policies, including making the Research and Development Tax Credit permanent. And by the way, that has bipartisan support.

We have also looked at skill building and how to prepare our workers to compete and win in a global economy. And with today's hearing we will examine the impact our trade policies have on manufacturing and how we can reform those policies to support our manufacturing sector.

Manufacturing is a vital part and an essential part of our Nation's economic health. Though the share of the workforce employed in manufacturing has been cut in half since the 1970s, manufacturing provides high-paying jobs, accounts for more than two-thirds of research and development carried out by United States industries, and makes up more than 10 percent of the Gross Domestic Product.

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00005 Fmt 6633 Sfmt 6633 C:\DOCS\71032 DPROCT

Growth in the manufacturing sector has played a key role in the recent economic recovery. In the first eight months of this year, the manufacturing sector has added 192,000 jobs, about 17 percent of the private sector job gains during that period.

And manufacturing's employment impact extends beyond those workers employed directly in manufacturing itself. Research has shown that employment multipliers are higher in manufacturing than in other sectors of our economy.

Trade policies can have a major impact on the health and vitality of the manufacturing sector. Unfortunately, for far too long our trade policies have failed our workers and our businesses, stacking the deck against U.S. manufacturers.

There are three key areas where U.S. trade policy needs to be changed, in my judgment:

Number one, we cannot continue to enter into so-called "free trade agreements" which leave our companies and our workers exposed to unfair trading practices.

Number two, it is long past time to crack down on currency manipulation by our trading partners, including, but especially, China.

Three, we must do a better job supporting individuals and communities adversely impacted by international trade. NAFTA and other NAFTA-style Free Trade Agreements have cost the United States jobs, and certain communities have borne a larger share of those job losses.

I have seen it in Pennsylvania. When NAFTA took effect in January 1994, more than 875,000 Pennsylvanians were employed in manufacturing. Today, the same manufacturing sector in Pennsylvania employs some 575,000 workers—a loss of more than, more than 300,000 jobs.

On top of NAFTA-style Trade Agreements, unfair trade practices by other countries have also led to job loss in the United States. The U.S.'s unwillingness to crack down on currency manipulation by China, South Korea, and others has made it more difficult for U.S. companies to export their products, costing our country lots and lots of jobs.

A new report by the Economic Policy Institute, so called EPI, finds that the U.S. trade deficit with China has cost our country 2.8 million jobs over the past decade, including 1.9 million manufacturing jobs. The Pennsylvania numbers translate into almost 107,000 jobs lost from 2001 to 2010 as a result of the trade deficit with China.

This same report, the EPI report, cites China's undervaluation of the yuan as a major cause of the U.S. trade deficit with China, which grew from $83 billion in 2001 to $273 billion in 2010. Currency manipulation must be dealt with, and it should be dealt with this year.

We know that, when a job is lost because of global trade, that job is usually gone forever. That is why support specifically tailored to trade-impacted workers is so important. Workers who lose their jobs as a result of trade often have to find new work in a new industry or occupation. Making matters worse, the skills of trade-affected workers often do not easily transfer to new positions.

A report released this week by this Committee showed that trade-impacted workers are out of work longer and experience larger wage loss than other workers. To find new employment, education, and job training programs are critical for these workers.

In 2009, Congress made improvements to the Trade Adjustment Assistance Program. These changes expanded access to workers in the service sector and to workers whose jobs were offshored to other countries such as China and India, which do not have trade agreements with the United States.

In a little over two years—May of 2009 to June of 2011—the expansions to TAA enabled an additional 185,000 displaced workers to benefit from the program. The expansions to Trade Adjustment Assistance expired in February of 2011. The amendment we're considering now in the Senate, the so-called Casey-Brown-Baucus Amendment, which we introduced yesterday, retroactively extends the Trade Adjustment Assistance Program through 2013, continuing most of the improvements that were made in 2009. I am confident that we will be able to pass a TAA extension if not this week, very soon.

To regain our balance on trade, we also need a new approach. Part of that requires looking at trade agreements through a different lens, a lens that is focused on job creation, economic fairness, and manufacturing strength.

Three questions should guide us:

Will the Agreement create a substantial number of jobs?

Second, will the Agreement create a level playing field for American businesses and workers?

Third, does the Agreement provide new opportunities for American manufacturers to export?

We are not going to rebalance our trade policies overnight, but we need to be crafting smarter policies. We also need to be vigilant in enforcing these same policies. We are fortunate today to have a great panel of experts who have both deep knowledge of trade policy and a commitment to helping us better understand it.

I want to thank them for their presence here and their testimony, and I would turn the microphone over to our Vice Chairman, Congressman Brady.

OPENING STATEMENT OF HON. KEVIN BRADY, VICE CHAIRMAN, A U.S. REPRESENTATIVE FROM TEXAS

Vice Chairman Brady. Chairman Casey, thank you for convening this important hearing.

It is long past time to debunk the myth that the economic freedom to trade leads to offshoring of U.S. jobs. The facts are just the opposite.

It is the absence of an aggressive, proactive trade agenda that leaves America falling behind its global competitors and places our manufacturers at a severe disadvantage when competing for the 95 percent of the world's consumers that live outside our borders.

For American manufacturing, trade means jobs. America is the third largest exporting nation in the world, and our share of global manufacturing has essentially held steady through the past 30 years. The concern is that our share of the world's market in manufacturing has declined significantly while the Chinese share has exploded upward.

If you examine what America sells and ships overseas, it is manufacturing that accounts for the bulk of U.S. sales abroad. Much of these sales are in advanced technology and capital goods such as computers, electronics, scientific instruments, and aerospace equipment—along with chemicals, oil, and coal, machinery and equipment critical to the production of finished products. These are high-value items, creating high-paying jobs, and requiring high-value research and development.

Trade is important to American workers. Not only is one of every five American manufacturing jobs tied to sales overseas, workers in the most trade competitive industries earn an average compensation package of $86,000 a year—which is nearly 50 percent higher than they would earn in the least trade-competitive industries according to a report by the National Association of Manufacturing.

Thanks to technology, communications and the internet, more and more small- and midsized manufacturing firms in America are competing successfully in the global market.

Make no mistake, the world has changed. It is no longer enough to simply "Buy American." To grow jobs and remain the world's largest economy we must "Sell American" as well. Yet, when American manufacturers compete around the world, they often find themselves at a disadvantage: victims of an isolationist trade agenda in Congress and saddled with significantly higher product costs due to excessive regulation and an increasingly outdated tax code.

The bottom line is that America is falling behind. While for the past four years Congress has removed America from the global trading field, our competitors in Europe, China, and the Western Hemisphere have not. They have taken smart advantage of America's benching itself to the sidelines and they established trade agreements that lock in growing overseas markets and lock out American manufacturers.

Today there are 238 bilateral or regional free trade agreements in force around the world. The United States is a part to a mere 11.

Today our competitors are negotiating more than 100 market-opening trade agreements. The United States is currently participating in only one: the Trans-Pacific Partnership.

If we want our manufacturers to secure new customers and create new jobs here at home, we must get America back on the trade field, fighting for a level playing field so our manufacturers can compete and win.

This cannot happen as long as the White House continues to delay submitting the three pending agreements with South Korea, Colombia, and Panama. These countries already sell many of their products into America with low or no border taxes. It is time to turn this one-way trade into two-way trade and secure an estimated $13 billion of new sales for American manufacturers, for American agriculture, and American service companies.

Every day we delay hurts our manufacturers. Europe, China, and Canada have moved aggressively to enter into their trade agreements with these three countries in order to land customers and contracts in these growing economies. They take market share away from American companies as we speak.

There is bipartisan support for these sales agreements today. We can pass these agreements today. As the President is fond of saying these days, send Congress these agreements so we can, quote, "pass these bills now."

As in the title of the hearing today, trade is not the cause of offshoring jobs; it is the antidote. Landing new customers overseas, making our tax code more competitive, reducing the price of disadvantage from excessive regulation and mandates will strengthen the hand of America's local manufacturers and create good-paying jobs here at home.

Final point: It is time to stop blaming trade agreements for the loss of manufacturing jobs in America. Technological breakthroughs over the past two decades have made American companies more productive. Like many countries, we are manufacturing more with fewer workers. The needed time to locate manufacturing facilities overseas is not a function of trade agreements but the need to be closer to their customers to successfully compete against Europe, against China, and the rest of the world for these sales.

An estimated 95 percent of the products produced in U.S. manufacturing facilities overseas are for customers overseas. Absent a trade agreement with the host country, this at times may be the only competitive choice remaining for our companies.

So why aren't we making a concerted bipartisan effort to restore America's business climate so that American companies are no longer economically punished for locating their manufacturing facilities where the innovation is already occurring—here.

And while it does not fit on a bumper sticker, the fact is that America is running a manufacturing trade surplus with our trade agreement partners. Yes, a surplus. Yes, in manufacturing. Even with our NAFTA partners. That is because, when you level the playing field and you play by the same rules, American manufacturing and its workers win.

The fact is, our manufacturing trade deficit is wholly with countries with which we do not have a trade agreement. This is because our competitors have signed trade agreements in these markets and we have left our companies to face tariffs five times higher than these countries face when selling into the United States.

It is time to stop blaming everyone else. It is time to start leading again on trade.

With that, Mr. Chairman, I look forward to the testimony today.

[The prepared statement of Representative Kevin Brady appears in the Submissions for the Record on page 28.]

Chairman Casey. Thank you, Vice Chairman Brady.

What I will do now is provide very brief biographical sketches of each of the witnesses, and then we will go to our first witness.

I would first like to introduce Dr. Arvind Subramanian, who is here as a Senior Fellow jointly at the Peterson Institute for International Economics and the Center for Global Development. His expertise is in growth, trade, development, the World Trade Organization, and intellectual property issues.

His forthcoming book—I shouldn't say "forthcoming"—I have just seen it—his book, which is apparently just off the presses today, is entitled "Eclipse: Living In The Shadow Of China's Economic Dominance."

Previously he was Assistant Director in the Research Department of the International Monetary Fund.

Doctor, welcome.

Next we have Dr. Philip Levy, who is currently a Resident Scholar at the American Enterprise Institute for Public Policy. His work in AEI's Program in International Economics ranges from free trade agreements and trade with China to antidumping policy.

Prior to joining AEI, he worked on International Economics issues as a member of the Secretary of State's Policy Planning staff. He also serves as an economist for trade on the President's Council of Economic Advisers, and taught economics at Yale University.

Doctor, thank you as well for being here.

Third, Mr. Greg Slater is the Director of Global Trade and Competition Policy for the Intel Corporation. In this capacity he is responsible for trade and competitiveness issues affecting the company's business interests worldwide. In his role as a senior counsel at Intel, he also provides legal and policy advice on emerging laws and regulations that significantly affect the company's products and manufacturing sites.

In addition, he is responsible for all government agreements related to Intel's factory investments worldwide. Prior to joining Intel in 1997, he was in private practice here in Washington, DC.

And finally, Rick Bloomingdale—I call him "Rick" because I have known him a long time. I should say "Richard"—became the fourth President of the Pennsylvania AFL-CIO on June 1st, 2010. Prior to that he served as Secretary/Treasurer of the Pennsylvania AFL-CIO. He has held multiple positions prior to working with the Pennsylvania AFL-CIO, such as Project Staff Representative of Local 449 at AFSME International, and State Political Legislative Director for AFSME Council 13. He is a member of the Board of Directors of Drug-Free Pennsylvania Incorporated and Treasurer of the Keystone Research Center. He also sits on the Labor Advisory Board of the Union Standard Trust Mutual Fund.

Rick, great to be with you. I should say, as a matter of full disclosure, I have known him a long time and he is a friend of mine. So I just want everyone to know that.

So we will start with our first witness, Dr. Subramanian. Thank you. And as I mentioned in the anteroom, we are trying to keep everyone as close to five minutes as we can. For the record, each of your statements in full will be made part of the record.

Doctor.

STATEMENT OF DR. ARVIND SUBRAMANIAN, SENIOR FELLOW, PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS AND THE CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Dr. Subramanian. Thank you very much, Chairman Casey, Vice Chairman Brady, for inviting me to this important panel, which I think comes at a critical moment for the United States and the World.

I want to make a few key points, focusing on how the U.S. should engage with the international trading system, and China in particular.

The first point: Creating and maintaining an open trading system has been good for the U.S., good for the world, and good for China, and one of the major achievements of American global leadership.

Today the U.S. needs the system more than ever before. Why? As Vice Chairman Brady said, after the crisis it has become clear that U.S. prosperity depends upon transitioning from a growth model that is less reliant on consumption and more on investment and export, as outlined in President Obama's Export Initiative.

Sadly, at the time when the U.S. needs this most, it is also the time when public support for open trade is diminishing sharply—and especially among those traditionally in favor of free trade.

To be candid, Distinguished Members, current U.S. trade policy vision and strategy, if indeed there is one, is either unclear or ineffective, or both. The United States needs a new strategic vision which will have two planks: a domestic plank and an international plank.

International competitiveness begins at home. For the medium run, this means strengthening American technological capability, improving the education system, and creating a regulatory climate that fosters entrepreneurship and innovation.

The other domestic plank relates to the short run. Increased global integration can impose distributional costs domestically, especially on certain relatively low-skilled workers and communities. Protecting them is desirable, but it is also vital to shore up the fraying support for the important objective of keeping global markets open.

This requires an effective and strengthened social safety net to help those affected by trade and other dislocating forces so that they do not suffer overwhelmingly and so that they can be retooled and retrained to remain economically engaged and active. This safety net would be a worthwhile, even necessary, investment.

Then, the international plank. The U.S. must also engage internationally to maintain the current rules-based multilateral system not just to promote exports in manufacturing, which is very important as Chairman Casey said, but also to foster U.S. competitive advantage in tradeable services.

Now China will be a critical part of this engagement, not least because its policies—notably on the exchange rate, but also government procurement services, access to rare earths—will be critical for the United States. For example, my colleague Bill Kline estimates that China's exchange rate is undervalued by about 15 percent, and that, in current conditions of slack resources in the U.S., eliminating the undervaluation would add about 500,000 jobs to the U.S. economy.

But one thing I really want to emphasize here—and this flows from my book, which you so kindly introduced, Chairman Casey—is that China has just become too economically dominant for the United States to engage on its own. It is a sobering reality, but one that needs to be accepted.

Fortunately, the desire and concern to ensure that China will remain a force for good is shared amongst other larger trading countries. For example, all these countries have similar concerns on the exchange rate.

This provides an opportunity for the U.S. to embark on a new strategy which I would call “muscular multilateralism” which would bring together the U.S. and trading partners to engage with China on trade issues.

One concrete way to realize this muscular multilateralism is to move beyond the Doha Round and start a new round of trade negotiations which I call “the China Round” because I must emphasize that the Doha Round as we know it is dead and beyond rehabilitation. We need a new effort that focuses on the key issues: exchange rates, government procurement, services, technology, policy, and access to key resources, which are very critical for China’s trading relations with the U.S. and other industrial countries.

Achieving this will not be easy. It will not be quick. But it must be tried. And I believe that in the medium term China too will have an interest in investing in the open system.

As a corollary, I think we must be very—the U.S. must be very careful about engaging in bilateral regional agreements. In short, neither the Doha Round nor the U.S. acting on its own has worked. It is time for a new vision and strategy, time for what I call a muscular multilateralism.

Thank you very much.

[The prepared statement of Dr. Arvind Subramanian appears in the Submissions for the Record on page 30.]

Chairman Casey. I’ll tell you, you are only 11 seconds over. That is pretty good.

Dr. Levy.

STATEMENT OF DR. PHILIP LEVY, RESIDENT SCHOLAR, AMERICAN ENTERPRISE INSTITUTE, WASHINGTON, DC

Dr. Levy. Chairman Casey, Vice Chairman Brady, thank you very much for the opportunity to testify today on the importance of international trade to American wellbeing.

The United States has a proud bipartisan tradition of leading the world in economic integration. The country has benefitted enormously from the open rules-based trading system it helped create.

In difficult economic times, the remaining shortcomings of the system can become particular salient. There are countries who do not abide by the letter or spirit of global trade rules. There are important areas of commerce that remain uncovered by international agreements where we have yet to set rules to govern fair play. And many countries retain significant barriers against U.S. goods and services to their detriment and ours.

This just demonstrates that work remains to be done. U.S. leadership is more important than ever. A well-functioning, open trading system is critical to America’s future prosperity.

The United States is uniquely positioned to build and sustain such a system. Revising U.S. leadership in trade would not only lay the foundations for long-term U.S. economic wellbeing, it would also send a positive short-term signal to U.S. employers about an improved business climate and the prospect for new economic opportunities.

These are the conditions in which investors in the U.S. economy—both foreign and domestic—will create new jobs.

Why might we foresee a bright future for the United States in trade? While forecasts of economic variables can sometimes be sketchy, there are other trends in the world that are much more predictable. And I will rely on two.

The first is demographic. While the U.S. population is aging, it is doing so much more slowly than populations in the major surplus countries of the world economy—Germany, Japan, and China. As a general rule, an aged population will consume more and produce less. As much as China may currently appear an unstoppable juggernaut, the size of its labor force is set to peak and then begin to decline in the near future. This is an instance in which extrapolating from recent experience can be highly misleading.

The second long-term tendency related to the first is that those who have made loans will ultimately wish to be repaid. The United States has run a Current Account deficit for decades. The value of goods and services that we have imported exceeded the value we sent back in exchange. The difference can be thought of as IOUs issued abroad.

These IOUs ultimately are claims on future production of U.S. goods and services. When aging populations around the world cash in their IOUs, they will be providing a new net demand for U.S. goods and services. In such a world, the United States will rely heavily on the rules and sureties of a healthy global trading system.

The prospect of the United States as a surplus country is hardly the only reason to support an open trading system. There is a natural tendency to equate exporting with economic success, but this sort of mercantilism was discredited long ago.

In the recent financial crisis, we saw the U.S. Current Account deficit decline at the same time that unemployment painfully rose. The simple arithmetic whereby exports are proportional to jobs gained and imports proportional to jobs lost is both theoretically unsound and empirically unsupported.

Yet international trade remains suspect in the United States, frequently seen as an affliction more than an opportunity. In my written testimony I discuss a number of popular misconceptions about trade, including the different role of trade when there is globally integrated production, and the misleading nature of bilateral trade imbalances.

In the interests of time, I would like to focus here on a third central misperception: the idea that there is a fixed number of manufacturing jobs in the world. If a manufacturing job is lost in the United States, it must be found somewhere abroad, the reasoning goes; hence, the "offshoring" of U.S. manufacturing jobs.

Yet, while U.S. manufacturing employment was falling in relative and absolute terms in recent decades, manufacturing output was rising dramatically. The difference in the employment and output trends is due to a major increase in manufacturing productivity, as Vice Chairman Brady referenced.

As production technology has advanced, many countries have seen manufacturing shift to less labor-intensive techniques. For the U.S. manufacturing jobs that have been lost to technological change, no amount of misdirected railing against foreign trade will bring them back.

So far I have argued that trade presents the United States with a significant economic opportunity and that many of the common popular objections to open trade are flawed. How then can the United States take advantage of this opportunity?

The country must reclaim its role as a leader in global trade liberalization. It can do so through multilateral bodies such as the World Trade Organization that Arvind referenced, or through regional groupings such as the TransPacific Partnership.

To have credibility in any of these fora, however, a prerequisite is the passage of the pending Free Trade Agreements with South Korea, Colombia, and Panama. Those agreements will benefit the U.S. economy directly by lowering barriers to U.S. exporters and stimulating economic activity. Even more important, however, will be the reassurance to countries around the world that the United States is a credible economic partner.

There is much more to a successful U.S. trade policy than passing the pending FTAs, but it is an indispensable first step. Then, serious work must be done to restore trade negotiating authority, or TPA, to the Executive Branch.

Once these two steps are accomplished, the United States will then be equipped to reclaim its position of global leadership in economic matters. In that position, it can work to shape global commercial rules and standards in a favorable way and ensure market access for the country's producers and employers. This will work to the benefit of all sectors of the U.S. economy, certainly including manufacturing. I thank the Committee for the opportunity to discuss these issues and look forward to responding to any questions you might have.

[The prepared statement of Dr. Philip Levy appears in the Submissions for the Record on page 43.]

Chairman Casey. Doctor, thank you very much. Mr. Slater.

STATEMENT OF MR. GREG SLATER, DIRECTOR, GLOBAL TRADE AND COMPETITION POLICY, INTEL CORPORATION, WASHINGTON, DC

Mr. Slater. Thank you, Chairman Casey, and Vice Chairman Brady, I appreciate the opportunity to appear before you and to discuss manufacturing and international trade issues.

Intel is a leading manufacturer of computer communications and network products. We currently have 44,000 employees in the U.S. We generated over $40 billion in revenue last year from sales to customers in more than 120 countries.

Even during the strained economic climate, Intel has continued to invest in the U.S. to stimulate economic and job growth. Since 2009, the company has announced plans to build two new factories in Oregon and Arizona, and upgrade manufacturing facilities in those two states, and in New Mexico, which will require $18 to $20 billion in investment, and create 15,000 construction jobs and thousands of more permanent jobs, all of which are sustained by sales overseas.

I want to briefly make four points today in support of the need for the U.S. Government to pursue an ambitious trade agenda, even as it explores ways to improve our manufacturing ecosystem at home. Each of these points is discussed in detail in my written submission.

First, many industries are highly dependent on market access overseas to maintain and create jobs at home, including ours. While Intel manufactures three-quarters of its products here at home, we generate more than three-quarters of our revenue overseas. And this operating profile is similar to that of our industry colleagues.

Our ability to export and sell to the 95 percent of customers overseas is critical to our earnings and has led to record earnings during these turbulent times, even as our economy has suffered. Robust FTAs are critical to market access and continued growth.

Second, we need to implement the pending FTAs with Korea, Colombia, and Panama as soon as possible. These three FTAs will provide significant benefits to the U.S. economy that USTR, USITC and others have documented. But every day that they are not passed, we fall further behind. For example, South Korea is our seventh largest trading partner, yet the U.S. share of the Korean market has declined over the last several years. China, Japan, and Europe all enjoy greater market shares now, and our share will continue to decline unless the U.S.-Korea FTA is implemented, because Korea continues to negotiate more trade agreements and already has trade agreements with India, Chile, Singapore, and others, and is negotiating additional ones, putting American companies and workers at a severe competitive disadvantage.

As a result of the EU-Korea FTA, EU exports to South Korea already have increased 44 percent from the time it was implemented on July 1st to July 20th as compared to exports during the same time period in 2010, while U.S. exports during the same period only increased 8.5 percent.

Similarly, if you look at the U.S.-Colombia trade, the Colombia market being a $32 billion market, our share is expected to drop considerably now that the Canada-Colombia FTA is in effect.

The U.S. share of Colombia's total imports of wheat, corn, and soybeans, for example, has already fallen from 71 percent in 2008 to 27 percent in 2010 because of the implementation of Colombia's Trade Agreement with Merkerser.

Third, we need to pursue and enter into other robust free trade agreements on an accelerated basis. Vice Chairman Brady already cited some statistics here. Let me just say that trade flow data shows how important these FTAs are to the U.S. economy. Trade with just the 17 countries with which the U.S. has an FTA accounted in effect for approximately $1.1 trillion, or nearly 34 percent of total U.S. trade. And yet, those 17 countries only represent 7 percent of the world economy.

U.S. exports have increased dramatically every time an FTA has been implemented. U.S. exports create and sustain U.S. jobs, and robust FTAs open up new markets to our exports and reduce the cost of doing business overseas. We need more FTAs to create more U.S. jobs.

Fourth, as has been mentioned already, USTR needs to improve these FTAs. It has done so, but it needs to further refine them to address a host of emerging domestic market preferences being used by governments to increase domestic R&D innovation, IP, and manufacturing. China is no longer the only country developing indigenous innovation policies. Moreover, FTAs also need to take into account the trade challenges that arise from rapid technological developments in a digital economy.

These include discriminatory national standards, which have been mentioned, as well as legitimate concerns around security, privacy, and intellectual property leakage such as trade secrets that are created in part by global data flows.

The TPP provides a great opportunity to effectively address these challenges, but we need to continue to make sure as, Mr. Chairman, you mentioned, that these agreements are looked at through the lens of how are they going to protect and create more U.S. jobs.

Intel thanks you for this opportunity to testify. We look forward to working with you to develop a more aggressive and robust trade policy to create additional U.S. jobs.

[The prepared statement of Mr. Greg Slater appears in the Submissions for the Record on page 50.]

Chairman Casey. Thank you, Mr. Slater.

Mr. Bloomingdale.

STATEMENT OF MR. RICK BLOOMINGDALE, PRESIDENT, PENNSYLVANIA AFL-CIO, HARRISBURG, PA

Mr. Bloomingdale. Good afternoon, Chairman Casey, Vice Chairman Brady, and Committee Members:

My name is Rick Bloomingdale. I am President of the Pennsylvania AFL-CIO, a federation of unions representing over 800,000 union workers.

It is an honor for me to testify today on behalf of policies that will help make the United States of America and Pennsylvania more competitive. I propose three steps to achieve this goal:

The first step is to establish a manufacturing policy that will put “Made in the USA” back in the forefront of the global economy.

The second step is to establish an effective assistance program for trade-displaced workers.

The third step is to capitalize on the contributions that unions can make to revive our manufacturing foundation.

The first step to revising America’s manufacturing foundation is to put “Made in the USA” back in the forefront of our global economy. I travel around Pennsylvania quite extensively and talk with Union members, unemployed workers, and local business leaders who wonder why our trade policies seem to encourage outsourcing and discourage hiring Americans.

Our policy of free trade instead of fair trade has caused the flight of millions of family-sustaining jobs. NAFTA is an example. It was promoted as a way to create hundreds of thousands of jobs in America. However, our manufacturing jobs continue to decrease and our trade deficits with Canada and Mexico continue to increase.

NAFTA is only one example of bad trade policies that have contributed to Middle America's declining incomes. The trade deficit with China has eliminated or displaced 2.8 million jobs in America, 1.9 million of which were in manufacturing. In Pennsylvania, the trade deficit with China has eliminated or displaced 107,000 jobs.

At a recent meeting with Chinese wind industry representatives and government officials, I was told that I was the first American whom they had heard say that we want to bring manufacturing back to the United States. They said everyone else seems to want to manufacture in China. I just hope they were being polite to me.

The point is, most countries have trade policies that aim to protect their citizens and their economies. To protect American citizens and America's economy we must secure more balanced trade policies to promote our manufacturing. Manufacturing must come back to the United States. Manufacturing is the foundation of a strong economy. It is the highest multiplier of ancillary jobs in our economy. Manufacturing creates a demand for raw materials, creates a demand for transportation to move raw materials and finished products, and it creates a demand for commercial media to communicate the availability of products.

Manufacturing creates a demand for wholesalers and retailers. All of these foregoing demands are satisfied by a supply of workers. America has a great supply of workers, great in numbers and distinguished by a great work ethic and great accomplishment. However, too many Americans are not employed, especially in manufacturing, as they should be.

Now, too many Americans vie for jobs that yield less disposable income and a downward spiral of demand-side recession begins on Main Street. Demand decreases, businesses close, unemployment increases.

America's economy is ailing because products made in the USA are decreasing. One way to help restore America's manufacturing foundation is for the United States to legislate trade policies that are more balanced.

The second step to reviving our manufacturing foundation is to properly assist trade-displaced workers. So long as American workers lose their jobs to outsourcing, it is vital to our best national interests to continue the Trade Adjustment Assistance Program.

Trade-displaced workers also deserve training programs for jobs in demand that will support a family. The question has become: Which jobs will be in demand that will support us?

This brings us to the third step to revive America's manufacturing foundation: Capitalizing on contributions that unions can make.

Unions can help revive America's manufacturing foundation in four ways:

First, unions are in a unique position to satisfy manufacturers' demands for properly trained workers. TAA recipients have told us that they want to be trained for jobs that exist now so that they can get back to work. That is why it is essential that we work with local business organizations to determine what skills they need so that we can get people back to work.

For instance, while working with the Manufacturers Association of South Central Pennsylvania, we found that small machine shops needed trained machinists and tool and die makers. Unfortunately, those small businesses could not do their own training, so we tried to find some state and federal funds to help get people trained.

Now the South Central Manufacturers Association has a terrific apprenticeship program that serves both union shops and nonunion shops. One of the biggest improvements that we could make in job training is matching job needs with that training.

Manufacturers must invest in current and future workers because they increase premium on skills and high rates of retirement. Better wages and benefits would enable manufacturers to compete for the most talented new workers. Also important, a revival of manufacturing unions could ensure that workers have the voice and dignity on the job that helps attract and retain workers.

Second, skill-based manufacturing unions can also spur innovation in America, including in new markets spawned by ongoing technological innovation—for example, robotics and the emergence of a clean economy.

In Pennsylvania, we have begun a partnership with Carnegie Mellon University to examine the future of work and job growth trends. Pennsylvania AFL-CIO, with some of Pennsylvania's great engineering universities, currently seek how to provide workers with the skills they need to develop, manufacture, and commercialize new technology spinoff products.

Third, unions block the low road. That is, unions make it harder for companies to compete using low-wage strategies that are a dead-end game for America because low-wage countries can always beat us at this game.

The fourth way by which unions can help revive America's manufacturing foundation is by enabling middle class wages to keep pace with global marketing. The role is simply an update in globalization of the national argument circa the 1930s that collective bargaining helped lift us out of the Great Depression.

At present, the broken link between wages and productivity growth means that countries such as China and Mexico cannot consume their own manufacturing output, so they must sell it to us.

Union revival in America and union growth in our trading partners can help get us to a global New Deal, Made in the USA. I believe one of the best ways to revive U.S. manufacturing was the help of labor unions that have a central role in skill development and innovation. To distill my point to a sentence:

We can't get to a high road in American manufacturing, and we can't rebuild the American Middle Class without the help of broadly based high-road manufacturing unions.

Thank you very much for your time.

[The prepared statement of Mr. Rick Bloomingdale appears in the Submissions for the Record on page 62.]

Chairman Casey. Thanks very much. I will start the round of questions, and then Vice Chairman Brady will follow me.

I wanted to start with two experiences I had traveling across Pennsylvania, just two products, two companies that get to the question—and I will get to China currency in a moment because I think that is an important topic—but this whole problem of intellectual property theft, or infringement.

One is Martin Guitar in the Lehigh Valley, the eastern side of our state. They have been making guitars for I think it's 150 years. Only the trained eye could detect or ascertain what has happened to their product, but they have got some folks in China who have basically stolen that product and made phony knockoff guitars in China. That is one example.

The second was Zippo Lighters. People across the country know that product from north central Pennsylvania. I visited there and they were able to show me the same problem just in a different product. Folks in China have produced a knockoff product.

I would ask I guess either of our first two witnesses if you have any advice for—and maybe Mr. Slater does, as well, and Mr. Bloomingdale—if you have advice for any manufacturer who is confronted with that kind of infringement, any advice you would have for those who face that kind of infringement. Much of it is persistent, and much of it is without any remedy, or at least any actionable remedy that they can turn to.

Is there anything you could tell us by way of advice for those companies?

Dr. Subramanian. Thank you, Senator Casey, for that question. I used to—in fact, I was one of the people who drafted the Intellectual Property Agreement in the GATT and then the WTO, and it seems to me that China has clear obligations not just on the rules of intellectual property, but in terms of their enforcement.

So I think that the U.S. needs to be much more proactive about bringing many more disputes to the WTO vis-a-vis China in relation to enforcement of intellectual property rights. I think there are a couple that are in the pipeline already, but I think the U.S. needs to be much more proactive in bringing these cases to the WTO.

Chairman Casey. Is there anything about that process, though, that you think needs to be improved, amended somehow, or do you think it is just a matter of making sure that more of those actions are brought in front of the WTO?

Dr. Subramanian. I think I would just make two observations. One is that I think the general reading of the WTO dispute settlement process is that it is a little bit slow, but finally the judgments are good. It works reasonably well, as these things go.

And second, the virtue of bringing a body of cases is that then you create, you know, a clear kind of impression that China is falling short in terms of adhering to its international obligations. And I think that opprobrium of being in violation of clear international norms which the world community abides by, that is a pretty powerful weapon we have, the rest of the world has, vis-a-vis China.

Chairman Casey. Dr. Levy.

Dr. Levy. Thank you, Chairman.

I think I would raise a couple of points. First, I am not a lawyer but we do have provisions such as Section 3.37, which provides some recourse when there is clear evidence that someone's intellectual property rights are being violated. And I agree with you completely that that is important and unacceptable when that is happening.

I guess in addition to what Arvind just said, I would say I think we probably do need a strengthening of global trade rules along these lines. I think China made quite a few—undertook quite a few obligations when it joined the WTO, or the GATT at the time. I think the problem is there have been some questions, for example, of do they need to go about—what is the level of enforcement domestically that they need to undertake? Do they need to do any sort of extraordinary measures relative to the kind of enforcement difficulties that many developing countries have. And that is giving them something of an out.

So I think this is the kind of thing where if we had successful new global negotiations, it is certainly a point that U.S. negotiators would want to stress.

And the last point I would mention is, I think we sometimes—there is a question about enforcement of why we don't do more at the WTO. My experience has been that it is sometimes the case that complainants are less than willing to be the public face of a complaint against China. That is probably not as true when it is a small U.S. manufacturer competing, but for the larger ones who would have the resources to press a case like this, that may be an obstacle.

Chairman Casey. Thank you for that. I will ask one more question before my time runs out.

I would ask Mr. Slater or Rick Bloomingdale about the impact as you see it of China's currency policies, from your own vantagepoint, or from your own observations or experience.

Mr. Slater. Well for us it is a wash. It's neutral, because we have raw materials going into China. We've got product coming out of China. And we are in probably a different position than some other industries. And so it is not—and I think one of the other witnesses said this—we would much rather focus the efforts on some of these indigenous innovation policies that are hurting companies, and the counterfeiting problem.

Mr. Bloomingdale. In terms of the currency manipulation, obviously—and I am not an expert on currency or anything like that—but I do see the impact in Pennsylvania. You mentioned Martin Guitar and the theft of intellectual property, but you also see more and more like tools and things made in China coming over.

In Pennsylvania we make Channellock Pliers, up in Meadville, Pennsylvania, but more and more you are seeing knockoffs, counterfeits. I do not know how much of that is due to their currency manipulation or the fact that, you know, we cannot sell Channellocks in China, but they can sell their stuff here. I mean there seems to be an imbalance somewhere, and I think we really need to figure out a way to address that so that our products, which are the best in the world, can compete globally.

Dr. Subramanian. Can I——

Chairman Casey. I am two minutes over. I will get back to you.

Dr. Subramanian. Okay.

Vice Chairman Brady. Thank you, Chairman.

I have a China question as well that I would like to make in our second—are we going to go to a second round?

Chairman Casey. Oh, sure.

Vice Chairman Brady. I will reserve that.

I want to thank all the panelists here. There are a broad range of opinions, but this is critical. And each is coming from their personal experience and their organizational educational studies.

I wanted to ask Mr. Slater, you are a job creator. Your company is a job creator in America. You are competing in the global marketplace. Much of your sales is overseas in a growing area. Much of your workers are here in America. You do have some manufacturing facilities close to the customers, but you continue to make, and have announced multibillion dollar manufacturing facilities here in America close to the innovations, the R&D that you as a company invest in very heavily.

So the question is: For a company like yours, how hard is it to make that—financially to make the choice to manufacture in America? Is our tax structure punitive for companies like yours? Is it harder without trade agreements to have a level playing field to compete against, as you do compete around the world? Do we make it tough for companies to make that manufacturing decision here at home?

Mr. Slater. Thank you. There are multiple component sets. I will try and be brief.

The corporate tax rate is definitely a disadvantage. We have the second-highest rate in the OECD. It is painful. There is at least a billion dollar cost difference between setting up a manufacturing facility here in the U.S. and one overseas.

We are able to take that pain, if you will, because we have the talent here, and the intellectual property here, and the innovation here, and that can compensate for the additional cost.

But we are a leading manufacturer, and as such make more profit than some of our colleagues. And so the tax difference may hurt others more than they hurt us. It certainly hurts us, but we continue to manufacture here because of the reasons that I mentioned.

Vice Chairman Brady. Can I go back a minute? Did you just say it costs you one billion dollars more to locate that manufacturing plant here than in some other locations?

Mr. Slater. At least one billion dollars.

Vice Chairman Brady. A billion?

Mr. Slater. Yes.

Vice Chairman Brady. And how much of that is due to wages, regulation, or tax costs?

Mr. Slater. Most of it is due to tax. Close to 90 percent—I do not have the exact figure; it is the high 80s, 90 percent of it is tax. Wages and raw material costs are a small fraction of the actual, the additional cost.

Vice Chairman Brady. Thank you, Mr. Slater. Therein lies the problem right there.

Dr. Levy, it is common to hear around Washington that trade is a race to the bottom. Yet with our Free Trade Agreements, the opposite seems to be true. When we insist on two-way trade, when our agreements insist on a level playing field, where there are rules for investment, environment, labor, where there is incentive to create rule of law and a higher standard of a number of issues, where expropriation is negligible, does it seem—am I wrong in believing that these agreements actually create a race to the top in the sense of establishing rules-based trade that actually raises the standard of business trade between the countries?

Dr. Levy. No, sir, you are not wrong at all.

I think you have it quite right, especially when we are talking about trade agreements between the developed world and the developing world.

Frequently what the developing world is seeing as an opportunity is the chance to commit to these kinds of higher standards. They are trying to do this as a way to promote their own growth and to attract investment. That has often been a major foreign policy goal of the U.S. We have devoted substantial sums to try to get Colombia to develop in a more positive way.

So these agreements, such as the one with Colombia, have this effect. These countries undertake often more onerous rules in this respect, and in exchange they grant us greater market access, which means that they are a very beneficial policy from the U.S. perspective.

Vice Chairman Brady. All right. Thank you, Dr. Levy.

Yield back.

Chairman Casey. Thanks, Vice Chairman Brady. He was on time with his questions. I was over.

I wanted to—oh, Doctor, did you want to make a point when I was wrapping up?

Dr. Subramanian. A point about currency?

Chairman Casey. Sure. Sure.

Dr. Subramanian. On the currency, I want to make two observations, Senator Casey and Vice Chairman Brady.

One is that, while Dr. Levy is absolutely right in saying that, you know, we should export more and not import is outdated, I think the difference is that, at a time when we have slack capacity and unemployment in the U.S., the trade deficit does matter for output, the deficit and jobs.

The second point I think is actually a very important point. If you listen to Dr. Slater, and in fact that is the kind of general position of American—corporate America, that basically the exchange rate for them is a bit of a wash, and to me that explains why the U.S. has not been able to be more muscular on China currency. Because the domestic political support for that is not very strong.

So that is why I have always argued that, because the China current affects many, many other emerging market countries as badly—Mexico, Brazil—you know, Brazil is imposing antidumping duties against Chinese currency; India, Turkey, South Korea—the U.S. has tended to rely too much on wanting to do this alone and not having the domestic support, and has not spent enough I think effort, diplomatic effort, in mounting a coalition on the exchange rate, which in my view could be more effective and more legitimate in some ways. Because it is not just the U.S. saying, oh, China is manipulating its currency, but a multilateral coalition that is saying that.

Chairman Casey. Let me just ask you as well, just to follow up on that: In your testimony, Doctor, you say—and I am quoting from, I do not have a page number here, but: "For a number of domestic reasons, China will want to change its exchange rate policies," and then you go on to describe why. Can you sum that up very quickly, why you think on their own they may be moving in that direction?

Dr. Subramanian. Well I think——

Chairman Casey. I am not sure I buy it, but it is encouraging.

Dr. Subramanian. But I want to—you know, I do not want to be too kind of rosy-eyed about that, but I think there are at least three kinds of pressures on China which might want to change on its own.

One is that it is facing high inflation, and so they need to appreciate the currency to bring down the cost of imported goods.

Second, China discovered in the global financial crisis in 2008 that because it was so dependent on foreign markets its economy threatened to collapse because exports completely, the bottom went out under exports, and they were able to offset it because they could bring in a fiscal package to offset that.

Had they not had the fiscal capability—for example, had they been like the U.S. in that situation—it would have been very difficult for them. The exposure created huge vulnerabilities.

Third, I think there is a constituency in China that wants to internationalize the currency, and, you know, to make the Renminbi a reserve currency to rival the dollar. And so these are three powerful forces which act toward China wanting to act on its own.

But the caveat of this is that it ain't gonna happen very soon. It is going to be very gradual. And that is why any additional external multilateral legitimate pressure that we can bring upon that, it would accelerate that process.

Chairman Casey. I wanted to move to another topic—I know we are short on time—to Rick Bloomingdale on Trade Adjustment Assistance.

Just as someone who has spent a lot of time on the ground in Pennsylvania talking to workers and representing them and advocating for them, but also working with a lot of good companies, how do you view it in terms of the impact that it can have, especially at these times? And for those who do not know, one of the things we are trying to do now is to keep in place some of the enhancements that were put in place in 2009.

Mr. Bloomingdale. Thank you, Senator Casey. You know, one of the most frustrating things with somebody, and I mean everybody here understands it, we Americans are tied up in our work. You know, we are a nation of workaholics, as it were. And when somebody loses their job, something they have been doing 20, 30 years, I mean that is a tremendously unnerving and potentially destructive thing when somebody loses that job.

And to have something to fall back on, some kind of training assistance, especially if it is trade related, because I think as was mentioned earlier a lot of those jobs will not be coming back. So to get those folks the training that they need in order to go on with their lives and get back to leading productive lives, and raising their families, is critical.

But one of the biggest issues—and we just spent the summer talking to a lot of folks who were using TAA, and what is good for the system, and what works in the system. And by the way, our State got huge marks for our rapid response team, the Governor's group that goes in and works with factories that are closing down, to make sure that people know what benefits are available to them. But what they are really looking for is to get back to work.

And they want to find, first of all, what the work is going to be. Because if your steel mill just closed down, are you going to be able to go to Martin Guitar and make a guitar? Probably not. I mean, that is a whole different skill, woodworking versus metalmaking. Although, you know, there are jobs in, like I said, tool & die, and small manufacturing and machinists.

So we really need to find a way to match those jobs, that training with those jobs that are available. For young workers, for instance, you know, we have a lot of linemen retiring for the utility companies. It is hard to climb poles when you are in your late 50s, early 60s. So those jobs, we need to find kids, young men and women who are willing to climb poles when it's 30 degrees outside, and get our electricity back on.

So matching that training is critical. If there is some way to do that in the reauthorization of the law, or the passage of the new law, to work with again our local business organizations—we work with the South Central Manufacturers Association all the time; we work with the Philadelphia Workforce Investment Board—matching those skills with the jobs that are available is critical in order to get people back to work.

Chairman Casey. Thanks.

Vice Chairman Brady.

Vice Chairman Brady. Thanks, Chairman.

China is an important trading partner with us and is becoming increasingly more important as a customer source for many American companies.

I think we have made a mistake, focusing in Congress almost solely on currency. Yes, that is an issue. Clearly it needs to rise. Although, with quantitative easing ourselves and having devalued our own dollar by about 15 percent, it is hard to come to that issue with clean hands.

We do need to continue the pressure on. I agree with Dr. Subramanian. It has got to be a multinational effort to be successful in that area.

My question is: Rather than to focus simply on currency, shouldn't we be looking at the broad range of barriers to full trade in China? It seems to me, listening to our companies, it is protection of intellectual property rights. It is indigenous innovation. It is directed lending, subsidies to certain companies. Restrictions on raw and rare exports. It's a closed capital account. There are a number of those barriers, some obvious, some becoming much more subtle going forward.

If we are to insist that China plays by the rules, shouldn't we be examining the whole broad range of barriers that really stop American companies from fully accessing the China markets?

And, Doctor, I will just go down the line, if you would like.

Dr. Subramanian. Vice Chairman Brady, I completely agree with that, although at this stage the exchange rate has particular salience. I think the issues you have identified are much broader and very important, and I think we need to engage China on that.

The question is: How? How do we do that? And my very strong plea to you would be to do this multilaterally, because lots of countries out there have very similar concerns. And that would be my——

Vice Chairman Brady. I agree. I agree. Thank you. And I also think we need some metrics. You know, there have been commitments made in dialogues with the U.S., but no real way of measuring. You know, IPR protections, for example. And there may be some progress at the national level, but is it being done at the provincial level, but probably not. So we need I think a different way of measuring.

Dr. Levy.

Dr. Levy. I agree completely with you that we should be focusing on these other issues. I think that the analysis that we have to make in our economic diplomacy is, first of course what is the impact on the U.S. of these policies? But also, how likely is it that we are going to be able to bring about change?

And we need to be cognizant of the fact that we do not get to present an unlimited number of top issues in negotiations with the Chinese. And if we dilute our requests too broadly, we achieve absolutely nothing. And I think what experience has shown is that policies such as indigenous innovation, rare earth, some of the investment policies, exactly the ones that you mentioned, are perhaps more open to change. It doesn't make them easy, but a much better focus of U.S. policy.

Vice Chairman Brady. Thank you.

Mr. Slater. The metrics would make the nonbinding commitments made in the GCCT and SNED have more bite. So I agree with that point.

The other point is, there has been multilateral collaboration with Europe and Japan on specific issues when they come up, like government procurement linked to domestic IP. It would be nice to take a more holistic approach with those same governments. Here are the principles, whether they are reflected in WTO commitments or not, that need to be lived by. Here is what we are going to hold you to. Instead of doing the whack-a-mole game with Japan and Europe.

Vice Chairman Brady. Thank you.

Mr. Bloomingdale.

Mr. Bloomingdale. Well, like I said, currency manipulation is not a real area of expertise that I have, but again we continue to look at policies that China has. They have, obviously, lower wage rates. We have all heard about the suppression of workers' rights. Those kind of things that tend to unbalance the fairness of trading.

And again, you know, the AFL-CIO's position is we are not opposed to trade, we just want fair trade. And some of the things you mentioned earlier, Vice Chairman Brady, about having environmental protections, labor rights, all those things are critical in promoting fair trade.

Vice Chairman Brady. Thank you. Can I ask a final, with 30 seconds left. You know, we worked hard to move China into the WTO rules-based trading system because it's like basketball. There is a reason a college team, a college the size of 1,500 can compete against a college of 50,000 on a basketball court. It is because they play by the same rules.

We have been very successful in taking China to dispute issues and settling in advance. Looking back, for America, was it wise to move China into the WTO?

Dr. Subramanian. Oh, unquestionably. Absolutely no doubt about that. Unambiguous positive. The question is: Was it enough? Has China kind of reversed a little bit on that? And what do we need to do going forward? But to continue that process.

Dr. Levy. Yes, it was absolutely the right move.

Mr. Slater. We have benefitted a lot from that, personally, our company. We just need to move them to WTO-plus now.

Vice Chairman Brady. Absolutely. I understand. Thank you. Yield back, Mr. Chairman.

Chairman Casey. Senator Klobuchar.

Senator Klobuchar. Very good. Thank you very much, Chairman, and Vice Chairman. It was nice to take a little break from the Google hearing. There is a lot going on in there.

It is good to be here on such an important topic. I wanted to say first, I head up the Subcommittee on Commerce on Innovation, Competition, and Export Promotion, and I have been really focused, despite the fact that my State is actually doing much better than the rest of the country when it comes to the unemployment rate where it is about two points below the national average, and a lot of it has to do with exports. Our Ag exports are up 22 percent. And then we are now first per capita for Fortune 500 companies.

But on the other hand, I have seen the small- and medium-sized businesses trying to get a piece of that, and make sure that we are letting them export, and helping them when they cannot have full-time experts on Kazakhstan in their company, I have really come to be a big believer in the Foreign Commercia Service group that works in the Commerce Department in terms of the vetting they can do of customers for such a small price and the advice they can give them on where their products could sell.

I don't know if anyone wants to comment about that, but it seems to be worth its price. And it is not that expensive. I don't know if you want to say anything, Dr. Subramanian? No? Anyone?

[No response.]

Okay, thank you, Mr. Bloomingdale.

Mr. Bloomingdale. I will comment on that. A good friend of mine is the CEO of a small manufacturer represented by the Mine Workers who makes stainless steel exam tables. Through the efforts of the Department of Commerce and our State Department of Economic Development, it has had tremendous success exporting more and more of her quality-made exam tables—even though she has dealt with some counterfeiting with some other countries.

But those kind of programs are extremely beneficial to our small manufacturers and can go a long way towards opening up markets for our small manufacturers that employ lots of folks in Pennsylvania.

Senator Klobuchar. The other thing I wanted to—I will start with you, Mr. Bloomingdale, that I have really noticed in going around my State, is that there actually is a need for more workers in certain areas.

We had a recent state-wide survey. Forty-five percent of manufacturers in Minnesota said that it is difficult for them to attract candidates to fill their firms' vacancies. I know that sounds unbelievable at this time, but they cannot find a welder at AgCo in southern Minnesota because there are not enough people getting those type of two-year technical degrees.

Alexandria Tech in the western part of our State has a 96 percent placement rate right now. And I think one of our issues here is how we get high school students and then workers who have been displaced workers who don't have jobs to look at some of these two-year technical degrees which can tend to be more tailored to where the needs are. They are no longer your grandpa's tech schools. They are running the computer systems that are running the assembly lines, that run Boise Cascade Paper Mills. Or they are learning to do the robotics that make the medical devices in Minnesota with the really quite well-paying job. And that is what I have become really focused on that as part of our way out of this rut, is making sure that we have the skilled workers to fill the jobs we have.

I know I came in on the tail end of that discussion about skill training, but if you want to go at it again with how we integrate with our tech schools.

Mr. Bloomingdale. And it is not only integrating with our tech schools, but it is working, as I mentioned earlier, matching skills with training, the very thing that you just talked about, and how we get those kids into those programs is huge.

Too often our high schools focus totally on sending kids on to college and not into a four-year degree program. We go through the same things in Pennsylvania where some companies and some organizations, along with the labor movement, have started apprenticeship programs for manufacturing in order to get kids, young men and women, and older displaced workers, certified for those expanding jobs. You may have a need for welders. We do, too, but also tool and die makers, machinists, folks that run robots, not just make them but run the robotics.

Senator Klobuchar. That is exactly right. And not just fix them when they break, it is running them day to day.

Mr. Bloomingdale. And even, you know, we still have some garment manufacturing in Pennsylvania. People to repair sewing machines, which is something you would never think about, but it is critical that we get those people into those training programs. Because, you know, those kinds of jobs will be around because they are here.

Senator Klobuchar. Right.

Mr. Bloomingdale. It is hard to export a maintenance guy overseas.

Senator Klobuchar. Exactly.

Dr. Levy.

Dr. Levy. Yes, I just wanted to agree and say I think you have hit upon something very important here. Actually a decade ago when I was teaching in Connecticut in the midst of a downturn, there were similar stories in the Hartford Current about manufacturers who could not fill positions. And it seemed very, very odd but I think it is evidence of the fact that part of what we have seen in the manufacturing sector is significant change, technological change, where there are new skills' demands. And this is the major challenge of how we get our workforce to have these skills.

Senator Klobuchar. I think part of it is going to be working with our high schools around the country to make that transition, if students are interested, to show them where those jobs are.

A lot of these two-year degrees are in community colleges, and technical colleges throughout the country.

The other thing I have found amazing is how they can work, the Mayo Clinic can work with their local colleges to say, okay, now we are going to need more nurses in this area in one year. Because they know. So then they can quickly revamp that curriculum to get those nurses. So it is just making that a much higher priority so students are getting degrees that they can actually use.

Okay, very good. Thank you very much. I now get to return to fun land over there.

Chairman Casey. Senator Klobuchar, thanks very much.

I want to thank our witnesses. We are just about done, but I wanted to do something before. I want to make sure this gets into the record.

Vice Chairman Brady had to go to a vote, but I wanted to make sure that the written testimony submitted by the American Apparel and Footwear Association, which is testimony for today's hearing, dated September 21st, 2011, I want to make sure that testimony is made part of the record.

[The prepared statement of the American Apparel and Footwear Association appears in the Submissions for the Record on page 70.]

Chairman Casey. And then secondly, the statement of Daniel J. Ikenson, Associate Director for the Herbert Stiefel Center for Trade Policy Studies, at the Cato Institute in Washington. His statement, as well, will be made part of the record for today's hearing.

[The prepared statement of Daniel J. Ikenson appears in the Submissions for the Record on page 73.]

Chairman Casey. I know we have to go, and I know the time is short, but I wanted to ask kind of a broader question about we are going to have a lot of debates in the days and weeks, and maybe even months ahead, on trade policy.

You heard here both at the witness table from our witnesses and also from the Members of Congress who have been here today different approaches to trade, and different strategies, but I would hope no matter the outcome of any vote on a specific trade deal that we can get away from this ongoing battle we have where we have both sides marshalling their forces. We go and have a vote on a trade deal, and it goes up or down, and then we move on to something else.

We have to figure out a way I think to arrive at a policy that is bipartisan, that is shared by business and labor, and any interested party, so that any trade deal, any agreement can be judged against that policy.

Unfortunately, the United States of America does not have a trade policy. We have periodic battles and different philosophies about trade deals. And I am not saying that is unhealthy all the time, but I would rather us agree on the foundation and then we can have a big debate and a big fight about what comes on top of that foundation.

But I just want to leave it open for the witnesses. We will have more questions in writing, but anything before we adjourn? Any point you want to make before we adjourn?

Dr. Subramanian, maybe will just go left to right.

Dr. Subramanian. I agree entirely with what you just said, Senator Casey. I think it is getting a little bit more worrisome than just a lack of policy, because actual support, the kind of bipartisan centrist support for open trade, if you look at the polls, that is fraying. And that I think needs to be salvaged quickly with a concerted bipartisan effort so that at least we are agreed on the basic policy that open markets internationally are good for the U.S. and good for the world. And that is something that we work towards.

We can debate the mechanisms, the means, the forums, the instruments, but that basic consensus is too valuable to lose.

Chairman Casey. Dr. Levy.

Dr. Levy. I would agree with that point, and very much commend your push towards trying to achieve a bipartisan consensus on this. It is something that used to apply in trade policy about two decades ago, and it has been very, very unfortunate that we have moved away from this and it has become as fractious as it has.

Chairman Casey. Unfortunately I think we are going to have to have a vote on these agreements first in order to begin that conversation, and that conversation, by the way, could take a lot of years. But we will look forward at least after the big fight coming up.

Mr. Slater.

Mr. Slater. I really like the idea of a trade policy. And here is one reason why. There are a number of issues that are what I call interface issues, where they involve more than USTR. They involve the DOJ and FTC, if it is an issue that crosses over between intellectual property and competition, which are are seeing more and more of.

There is the SOE, the State-Owned-Enterprise issue that we tend to tackle with specific agreements, rather than apart from the agreements where it is a calmer environment, an environment where the different views and the data can be considered and the judgment is not rushed.

So the interagency process should happen apart from FTAs and develop this trade policy, and then it would be a much cleaner—I think a cleaner process.

Chairman Casey. Rick Bloomingdale.

Mr. Bloomingdale. Senator, thank you.

I agree that we need a trade policy, but I also, as I mentioned in my testimony, we need a manufacturing policy. Because what we have seen, and whether Americans are right to blame trade or not, we have seen a decline in their incomes. They have seen a decline in their incomes over the last 20 years, since some of these big trade agreements that were highly politicized since NAFTA passed, and since then we have seen declining incomes, a decline in our manufacturing base, whatever the cases. So that we need to make sure that, whatever policies we have, in order to trade with other countries, that it be fair and have those protections for workers, have the retraining for workers, have those things that are necessary to make sure that America's middle class continues to exist and grow, rather than to decline as incomes decline.

So I think however we get to a trade policy, we have got to make sure it is one that treats the American workers fairly and provides a level playing field. Because if they have a level playing field, America's workers are the best in the world.

Chairman Casey. I couldn't agree more. Thanks very much everyone. We are adjourned.

[Whereupon, at 3:21 p.m., Wednesday, September 21, 2011, the hearing was adjourned.]

SUBMISSIONS FOR THE RECORD

PREPARED STATEMENT OF REPRESENTATIVE KEVIN BRADY, VICE CHAIRMAN, JOINT ECONOMIC COMMITTEE

Chairman Casey, thank you for convening this important hearing.

It is long past time to debunk the myth that the economic freedom to trade leads to offshoring of U.S. jobs. The facts are just the opposite. It is the absence of an aggressive, proactive trade agenda that leaves America falling behind its global competitors and places our manufacturers at a severe disadvantage when competing for the 95% of the world's consumers that live outside our borders.

For American manufacturing, trade means jobs. America is the third largest exporting nation in the world, and our share of global manufacturing has essentially held steady through the past 30 years. The concern is that our share of the world's market in manufacturing has declined significantly while the Chinese share has exploded upward.

If you examine what America sells and ships overseas, it is manufacturing that accounts for the bulk of U.S. sales abroad. Much of those sales are in advanced technology and capital goods such as computers, electronics, scientific instruments and aerospace equipment—along with chemicals, oil and coal, machinery and equipment critical to the production of finished products. These are high-value items, creating high-paying jobs and requiring high-value research and development.

Trade is important to American workers. Not only is one of every five American manufacturing jobs tied to sales overseas, workers in the most trade-competitive industries earn an average compensation package of $86,000 a year—which is nearly fifty percent higher than they would earn in the least trade-competitive industries, according to a report by the National Association of Manufacturing.

Thanks to technology, communications and the internet, more and more small- and midsized manufacturing firms in America are competing successfully in the global market.

Make no mistake, the world has changed. It is no longer enough to simply "Buy American." To grow jobs and remain the world's largest economy we must "Sell American" as well. Yet when American manufacturers compete around the world they often find themselves at a disadvantage—victims of an isolationist trade agenda in Congress and saddled with significantly higher product costs due to excessive regulation and an increasingly outdated tax code.

The bottom line is that America is falling behind. While for the past four years Congress has removed America from the global trading field our competitors in Europe, China and the western hemisphere have not. They've taken smart advantage of America's benching itself to the sidelines and established trade agreements that lock in growing overseas markets and lock out American manufacturers.

Today there are 238 bilateral or regional free trade agreements in force around the world. The United States is a party to a mere 11.

Today our competitors are negotiating more than 100 market-opening trade agreements. The United States is currently participating in only one: the Trans-Pacific Partnership.

If we want our manufacturers to secure new customers and create new jobs here at home we must get America back on the trade field, fighting for a level playing field so our manufacturers can compete and win.

That can't happen as long as the White House continues to delay submitting the three pending agreements with South Korea, Colombia and Panama. These countries already sell many of their products into America with low or no border taxes. It's time to turn this one-way trade into two-way trade and secure an estimated $13 billion of new sales for American manufacturers, agricultural businesses, and service companies.

Every day we delay hurts our manufacturers. Europe, China and Canada have moved aggressively to enter into their own trade agreements with these countries in order to land customers and contracts in these growing economies—they take market share away from American companies as we speak.

There is bipartisan support for these sales agreements today. We can pass these agreements today. As the President is fond of saying these days, send Congress these agreements so we can "pass these bills now."

As long as the White House delays and our global competitors bolster their economies through free trade agreements, we should not be surprised if both American and foreign manufacturers decide to build new factories and create new manufacturing jobs outside of the United States.

Trade isn't the cause of off shoring jobs—it's the antidote. Landing new customers overseas, making our tax code competitive, and reducing the price disadvantage from excessive regulation and mandates will strengthen the hand of America's local manufacturers and create good-paying jobs here at home.

Final point: It's time to stop blaming trade agreements for the loss of manufacturing jobs in America.

Technological breakthroughs over the past two decades have made American companies more productive—like many countries we are manufacturing more with fewer workers.

The need at times to locate manufacturing facilities overseas is not a function of trade agreements, but the need to be closer to the customers—to successfully compete against Europe, China and the rest of the world for these sales. An estimated 95% of the products produced in U.S. manufacturing overseas are for customers overseas. Absent a trade agreement with the host country, this may be the only competitive choice remaining for our companies.

Why aren't we making a concerted, bipartisan effort to restore America's business climate so that American companies are no longer economically punished for locating their manufacturing facilities where the innovation is occurring?

And while it does not fit on a bumper sticker, the fact is that America is running a manufacturing trade surplus with our trade agreement partners—yes a surplus, yes in manufacturing—even with our NAFTA partners. That's because, when you level the playing field and play by the same rules, American manufacturing and its workers win.

Our manufacturing trade deficit is wholly with countries with which we do not have a trade agreement. This is because our competitors have signed trade agreements in these markets, and we have left our companies to face tariffs five times higher than these countries face when selling into the United States.

It's time to stop blaming everyone else and time to start leading again on trade.

Mr. Chairman, I look forward to the testimony today.

Congressional Testimony

A muscular multilateralism to engage China on trade

Arvind Subramanian

Senior Fellow, Peterson Institute for International Economics and Center for Global Development

Testimony before the Joint Economic Committee of the United States Congress, hearing on "Manufacturing in the USA: How Trade Policy Offshores Jobs"

September 21, 2011

This testimony draws upon my forthcoming book, "Eclipse: Living in the Shadow of China's Economic Dominance," my article in Foreign Affairs with Aaditya Mattoo, From Doha to the Next Bretton Woods" and my forthcoming paper with him, "A China Round of Trade Negotiations."[1] Underlined text indicates links to supplementary material.

Summary and Recommendations

1.In the post-World War II period, open trade, by lowering prices, increasing consumer choice, and promoting exports, has been a force for economic prosperity for the United States. Creating and maintaining an open trading system, which has helped countries around the world to improve their living standards, has been one of the major achievements of the United States and its global leadership. Trade with China has also been, on balance, good for the United States, and overwhelmingly good for China.

2. But increased global integration can impose distributional costs domestically on certain relatively lower-skilled workers and certain communities. Certain aspects of China's trade, notably its exchange rate policy, have also had adverse effects for the US which are pronounced in the current climate of high unemployment and under-utilization of resources.

3. For the United States, international competitiveness begins at home. For the medium run, this enatils strengthening American technological capability and leadership, improving the education system, and creating a regulatory climate that fosters entrepreneurship and innovation. For the short run, the best way of coping with the adverse effects of trade is to strengthen the social safety net through assistance for those affected by trade and other technology-driven developments. This would also shore up political support for open trade at a time when this support is dwindling even amongst those traditionally in favor of free trade.

4. The United States must also engage internationally to maintain the current rules-based multilateral system. This is especially critical if the United States is to transition toward a growth model that is less reliant on consumption and more on investment and exports, and meet the export goals set by President Obama. Moreover, United States has substantial comparative advantage in tradable services, which could be further exploited through market opening abroad.

[1] "A China Round of Multilateral Trade negotiations?" forthcoming Peterson Institute for International Economics.

5. China will be a critical part of this international engagement. But China has become too economically dominant for the United States to engage with China on its own. That is one of the major changes that has occurred in the world economy over the last decade. Fortunately, the desire and concern to ensure that China's rise will remain a force for good is widely shared amongst other industrial and developing countries. This provides an opportunity for the United States to lead a collective effort—muscular multilateralism—to engage with China on trade issues. Moreover, because China's economic development has benefited enormously from an open trade system, it will have a stake in preserving it.

6. A concrete way to realize this is to move beyond the Doha Round to start a new round of multilateral trade negotiations—a possible "China Round"—that would focus on the issues—exchange rates, government procurement, services, technology policy, commodities, and climate change—which are particularly crucial for China's trade relations with the US and with other large trading nations.

1. Background

Benefits of trade

Weak economic conditions in the United States, including slow economic growth, high and persistent unemployment, shrinking manufacturing sector, stagnating median income, and worsening conditions at the bottom of the income spectrum, are once again raising questions about the role of international trade. Concerns about trade in general and trade with China come from different quarters.

But before we examine these concerns, it is worth emphasizing the important and first-order fact about trade. Growing trade has been associated with and led to sustained increases in the economic prosperity of the United States and the world. In fact, China is the best example of a country that has reaped the opportunities created by trade and propelled itself to an astonishingly dynamic growth trajectory (Figures 1a, b, and c). These opportunities owed in no small measure to the fact that the United States exercised leadership and created an open economic system after World War II.

Keeping that system open continues to be in the interest of the United States. It is a testament to the key positive role of open global markets that even those who have raised concerns about its possible adverse effects, would reject call for any reversal of the process of trade liberalization and a retreat into protectionism by the United States. As Paul Krugman (2008; 107) wrote: "Just to be clear: even if growing trade has in fact had significant distributional effects, that is a long way from saying that calls for import protection are justified."

The benefits from trade for the United States are several. As Broda and Weinstein (2006) showed in an important paper that trade increases the range of products available to consumers. The benefits from this increased product variety from U. S. imports has been an important source of gains from trade to consumers which they estimated at 2.6 percent of GDP.

Grossman and Rossi-Hansberg (2008) showed that offshoring could enhance productivity and lead to greater profits and employment. More recently, Bloom, Draca, and Van Reenen (2011) showed that although trade decreased employment in sectors more exposed to Chinese import competition, productivity, patenting, R&D and IT all rose in firms who were more exposed to increases in Chinese imports. They estimate that China could account for around 15% of the overall technical change, and that this effect appears to be increasing over time. This suggests that increased import competition with China has caused a significant technological upgrading in firms in the affected industries through both faster diffusion and innovation.

My colleague Gary Hufbauer (Bradford, Greico and Hufbauer, 2005) has estimated that trade adds about $1 trillion to the US economy, which is about twenty times the costs, stemming from job and earnings losses.

Costs and concerns

Even if the overall benefits of trade are positive, they can give rise to a number of adverse effects. And even if the costs are relatively small in magnitude their impact tends to be concentrated on the relatively less-skilled and concentrated geographically.

Samuelson (2004) argued that the rise of developing countries such as China and India could compromise living standards in the United States because they move up the technology ladder and provide competition for US exports, which reduces their price to the detriment of the United States.

Krugman (2008) has focused on the impact of imports from developing countries, and China in particular, on the distribution of income in the United States and wages of less-skilled workers. His conclusion is that, "It is likely that the rapid growth of trade since the early 1990s has had significant distributional effects," and more specifically that "it is probably true that this increase (in manufactured imports from developing countries)...has been a force for greater inequality in the United States and other developed countries" (Krugman 2008, 134-135).

Blinder (2009) has drawn attention to the employment and wage consequences of the outsourcing that has been facilitated by technological change and trade in services. He estimates that between 22 and 29 percent of all US jobs will be offshored or offshorable within the next decade or two.

And recently, Summers (2008a and b) has highlighted the problems stemming from increasing capital mobility. Hyper-mobile US capital creates a double whammy for American workers: first, as companies flee in search of cheaper labor abroad, American workers become less productive (because they have less capital to work with) and hence receive lower wages; the "exit" option for capital also reduces its incentive to invest in domestic labor. Second, capital mobility also impairs the ability of domestic policy to respond to labor's problem through redistribution because of an erosion in the tax base as countries compete to attract capital by reducing their tax rates.

The empirical evidence on these various concerns tends to be mixed. A still unresolved question is the relative contribution of technological progress, which has favored relatively skilled workers, and that of increasing globalization in causing the distributional changes that have been observed in the United States.

Edwards and Lawrence (2011) [2] dismiss Samuelson's concern because they show that the products exported by China and other emerging market economies are still substantially less sophisticated than US exports. Therefore, they argue, there is not a significant amount of trade competition on the export side between the US and the emerging markets.

In a recent paper, Autor, Dorn and Hanson (2010) show that rising exposure to Chinese imports increases unemployment, lowers labor force participation, and reduces wages in local labor markets. They estimate that it explains one-quarter of the contemporaneous aggregate decline in U.S. manufacturing employment. Transfer benefits payments for unemployment, disability, retirement, and healthcare also rise sharply in exposed labor markets. The deadweight loss of financing these transfers is one to two-thirds as large as U.S. gains from trade with China. They estimate that rising exposure to Chinese import competition explains about 16 percent of the U.S. manufacturing employment decline between 1991 and 2000, and 27 percent of the decline between 2000 and 2007.

Spence and Hlatshwayo (2011) argue that almost all the increase in employment of 27.3 million jobs in the United States between 1990 and 2008 was in the non-tradable sectors because of much faster productivity growth in the manufacturing and tradable sectors. Edwards and Lawrence (forthcoming), however, argue that the decline in the share of manufacturing in employment is almost entirely due to faster productivity growth in manufacturing. This productivity growth reduces employment but it also leads to a fall in prices which does not lead to an adequate increase in demand for manufacturing goods so that aggregate spending on manufacturing does not offset the productivity growth. They strongly suggest that the productivity increase is overwhelmingly a result of technology rather than trade and globalization.

On the impact of offshoring, the evidence is mixed. Amiti and Wei (2009) provide evidence for the effects of both service and material offshoring on domestic productivity growth. Using US Bureau of Labor Statistics data from 1992-2000, they find that service offshoring has a significant positive effect on labor productivity growth, accounting for approximately 10 percent of average growth in this factor. Liu and Treffler (2008) analyze the impact of not only offshoring but also inshoring--the sale of services produced in the US to unaffiliated buyers in China and India|. They find that the total net effect of inshoring and offshoring is positive. However, for those workers in industries exposed to offshoring and those workers who are less educated the effect can go either way.

Ebenstein, Harrison, McMillan, and Phillips (2009), find that offshoring has had large, significant effects on occupation-specific wages for routine workers. Expansion in offshore employment in low-income locations is associated with wage reductions for routine workers. However, offshore activity in high- income locations is positively correlated with routine wages.

A particular concern with trade arises in the current economic context characterized by large scale unemployment and under-utilization of resources in the United States. In this situation of insufficient demand, the US trade deficit represents a problem because it serves to reduce demand for domestically produced manufacturing goods. Insofar as some of this deficit is due to

[2] "Rising Tide: Is Growth in Emerging Economies Good for the United States?" forthcoming Peterson Institute for International Economics.

the currency policies of foreign trading partners such as China, the issue assumes particular salience.

Edwards and Lawrence (2011) estimate, for example, that eliminating the trade deficit in US manufacturing would result in a one-off increase in manufacturing employment of about 2 million jobs (or 12 percent of manufacturing employment in 2009 or 1.3 percent of total employment).

Similarly, my colleague William Cline (2010) estimates that the elimination of the Chinese currency undervaluation, which he and John Williamson (2011) calculate today at about 15 percent would improve the US current account deficit by about $60 billion and add about 500,000 jobs. The undervaluation estimate would be greater if the assumption that China could continue running a current account surplus of 3 percent of GDP were changed to assuming that the current account would need to be in balance. These estimates, of course, have uncertainty surrounding them related to underlying assumptions about the responsiveness of exporters and importers to price changes.

It must be noted that the Chinese currency has remained undervalued for some time. Figure 2 shows where the Chinese currency should have been under reasonable assumptions and where it actually has been. The gap between the two has been substantial and widening which has resulted in the steady accumulation of foreign exchange reserves from about $xx billion in 2001 to nearly $3.2 trillion today.

2. Domestic response to distributional consequences of trade

Exposure to trade, even if beneficial in the aggregate, creates distributional and political costs. Very few would recommend erecting trade barriers as a response to these costs. As Spence and Hlatshwayo (2011) put it: "In principal, one could restrict access to the domestic market by foreign suppliers. This generally falls under the heading of protectionism, risks reciprocal action, and sets an escalating pattern almost certain to cause more harm than good. Further, it raises prices for many goods for the whole population. It is not a good idea when carried out aggressively on a broad front. The G20 is right to caution repeatedly about widening protectionism. A preferable approach is to accept globalization but to look for domestic policies that will reduce the distributional impact at home." In short, international competitiveness begins at home.

What might these domestic policies be? Clearly, they would have to include policies that restore American competitiveness in the medium term by boosting the supply side of the economy. These include restoring the American lead in education, investing in R&D and infrastructure, and reforming the tax code.

In addition, attention must also be devoted to the temporary costs—economic and non-economic, to individuals and communities—that can arise from trade. In a recent Brookings paper, Davis and von Wachter (2011) find that the loss of a job during a recession leads to a life-time reduction in earnings (in present value terms) of 20 percent. Clearly, assistance in the form of support and training for those suffering dislocations must be addressed. Ideally, there must be a comprehensive strategy that responds to economic dislocation regardless of the causes—trade or otherwise—along the lines proposed by Howard Rosen (2008). This is supported by the analysis of Autor et. al. (2010) who suggest that there is greater reliance on the general safety net even where trade is the cause of dislocation. They show that in those areas in the United States that are affected by Chinese imports, the dollar increase in per capita social security disability payments was thirty times as large as trade adjustment assistance.

But if improvements in the broader safety net prove politically infeasible to implement in the short run, specific steps to deal with trade-related adjustment costs need to be considered. Strengthening the current TAA, for example, by extending coverage to workers in the service sector and to communities, affected not just by increased imports but also due to offshoring would be a good place to start.

Public support for free trade seems to be declining in the United States. Public support for free trade agreements is at its lowest point in thirteen years, according to the Pew Center. For example, in 2009, those who supported free trade agreements exceeded those against by a margin of 11 percentage points. In 2010, this was reversed with those against exceeding those in favor by 8 percentage points. Surprisingly, amongst republican leaning voters, the turnaround was even more dramatic: the margin in favor of free trade agreements was 7 percentage points in 2009 and in 2010 the margin against was 26 percentage points.

Public support for trade liberalization is stronger if assistance is provided to firms, workers, and communities affected adversely by trade. This assistance—whether targeted or as part of a more strengthened safety net—seems a worthwhile investment for the larger good of maintaining open markets globally especially at a time of fraying support for openness.

3. International response: Maintaining an open rules-based system

In fact, more than ever before the United States needs open markets internationally. The crisis has made clear that the United States needs to move away from reliance on consumption to reliance on investment and exports as a more sustainable growth strategy. The need for open markets will also be critical to achieving President Obama's goals of doubling US exports within five years.

There is another reason why an open system is in the interest of the United States. While all the focus of trade's impact is on manufacturing, my colleague Brad Jensen (2011) argues in his new book that there are enormous unexploited international opportunities for the United States in services. This analysis provides a fresh perspective on the offshoring debate that concerns services more than manufacturing.

For example, he shows that tradable services accounts for a larger share of employment (14 percent) than manufacturing (less than 10 percent); that tradable services delivers higher paid jobs that manufacturing ($56,000 in services versus $46,000 in manufacturing); that the United States has significant comparative advantage because tradable services are more skill-intensive than manufacturing and reflected in the fact that the United States has run consistent surpluses in trade in services compared to large deficits in goods; and that overseas markets for services still remain relatively closed, creating significant market access opportunities for the United States.

4. Engaging China: diminishing effectiveness of unilateral and bilateral approaches

In the current environment, one of the main sources of friction in international trade relates to China's exchange rate. My colleague Nick Lardy has observed that China's current account surplus has declined from its peak of over 10 percent in 2007 to 5.2 percent in 2010 but notes that uncertainty remains about its future evolution. Nevertheless, as noted above, the renminbi might be undervalued by about 15 percent against the dollar. At a time of slack resources domestically, eliminating this policy distortion could increase manufacturing jobs in the US.

For a number of domestic reasons China will want to change its exchange rate policies. These include: the need to re-balance growth away from foreign to domestic demand; to bring down high inflation; to avoid adding to the already high stock ($3.2 trillion) of foreign exchange reserves because of the additional losses that will accrue when the renminbi eventually appreciates; and to make the renminbi an international currency, which would require opening its capital account. But these changes might not happen quickly enough to help the unemployment and manufacturing situation in the US. So, how should the United States seek to change China's policy? My colleague C. Fred Bergsten (2011) has made a number of useful suggestions on the exchange rate in particular.

My main message, however, is that the United States cannot do it alone because China has become an economically dominant power, a position that will only get reinforced over time. In my book, *Eclipse: Living in the Shadow of China's Economic Dominance*, I construct a measure of economic dominance that combines GDP, trade and external financial strength. Based on some conservative assumptions, I project this forward to 2030. I find that China's economic dominance more imminent, broader in scope, and larger in magnitude than anyone currently imagines. China's dominance could be comparable to that of the British Empire in 1870, and the United States in the aftermath of World War II (see Figure 3 below). By 2030, China's GDP (average of market exchange rate and PPP exchange rate) and trade will be one and a half times that of the United States. One manifestation of such dominance relates to the currency. I predict that because of China's sharply rising GDP and trade, and the fact that it is the world's largest creditor, the renminbi might even surpass the dollar as the world's premier reserve currency by the end of this decade or soon thereafter (see my Financial Times article).

This dominance has already manifested itself in US-China relations. The United States has been consistently seeking to change China's exchange rate policy but with little success. That reason is intimately associated with China's economic dominance. The United States has threatened unilateral trade actions but has been unable to translate these threats into any meaningful legislative action. The initiative by Senators Chuck Schumer (D-NY) and Bob Graham (D-FL) in 2005 to impose across-the-board tariffs on imports from China never saw the light of day. And the bill passed by the House of Representatives in October 2010 is weak in that it would affect a small fraction of China's imports.

This inability to act also reflects the growing inter-twining and deepening of the US-China trade relationship. Action against China does not command broad support in the United States: labor may be in favor of tough actions against China's undervalued exchange rate, but capital—that is, US firms—are at best ambiguous. US firms that are invested in or do business with China are either vulnerable to Chinese retaliatory action, such as the threat of being denied access to Chinese government procurement contracts, or more broadly concerned about the consequences of escalating trade conflict and its impact on business conditions. The balance of power in the US-China relationship is especially striking given that it was only about a decade ago that the

United States was able to persuade China to open its agriculture, goods, and services market as part of China's accession to the WTO.

5. Multilateralism as the way forward

With China's growing size, the balance of negotiating power is shifting toward China. The key argument for multilateralism is that there will be enough combined heft among China's trading partners such that negotiating with China can be more balanced. This is particularly true in the case of China's exchange rate, where a number of emerging market economies have concerns similar to those of the United States. For example, emerging market countries such as Brazil, India, Turkey, Korea, Mexico, Vietnam and Bangladesh, feel the adverse effects of China's exchange rate policy even more so than the United States because they compete more closely with China than the United States and Europe, whose source of comparative advantage is very different from China's. In a forthcoming paper, Aaditya Mattoo, Prachi Mihsra and I show that there can be substantial competitive consequences for these emerging market economies especially in products where they compete more closely with China. Some of these countries have taken recourse to anti-dumping actions as a way of coping with import surges from China.

Forging a coalition with these countries represents an alternative way of engaging China rather than the bilateral route that so far has proved ineffective. This will not be easy because so far the affected countries have not been willing to speak up, mindful of their bilateral relationships with China. And, until recently, US diplomatic efforts have been insufficient because of the belief that it could deal with China on its own.

But one reason why multilateralism could work is because China would incur the opprobrium of working against not just rich but poor countries, and hence against the entire financial and trading system. More broadly, though, China—with its unusually high dependence on trade for improving living standards and completing the process of catching up with industrial countries—will have a vested interest in an open trading system and hence acting, even leading, to preserve it. And if the renminbi ascends to become an international reserve currency, China might be reluctant to lose the prestige, and any associated benefit, that comes with that status by disrupting financial and trade relations in any serious way.

Evidence consistent with China's stake in multilateralism comes from the WTO dispute settlement process. It is encouraging that China is becoming more of a routine participant in this process both as an initiator of disputes and as a respondent. It is also encouraging that so far, China has largely agreed to comply with the terms of WTO dispute settlement proceedings. For example, as Hufbauer and Woollacott (2010) have documented, of the eight cases brought by the United States, three have been resolved by a memorandum of understanding, two are pending decision, and in three China has alleged compliance with the decision of the Dispute Settlement Body. China's actual compliance will take some time to ascertain, and there is always scope for circumventing actions—especially in China's case given the vast amount of economic activity controlled or directed by the state. But all the indications are that China takes its WTO commitments seriously.

The potential advantage of the multilateral approach is illustrated in relation to China and rare earths. China currently mines nearly 95 percent of the world's production of rare earths and has been tightening these restrictions to deprive foreign companies and countries access to these rare earths that are vital inputs in a variety of products—lighting, batteries, and cars. In July, a WTO dispute settlement panel ruled that China's export restrictions on certain raw materials such as bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, silicon metal, yellow phosphorus and zinc were inconsistent with the WTO and China's Protocol of Accession to it, and that the measures could not be justified under the exceptions in Article XX. (http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds394_e.htm). This dispute is not finished yet but the judgement, which relates to raw materials not rare earths, could nevertheless have potential precedential value in any future dispute that China's trading partners might bring challenging China's restrictive policies on exports of rare earths.

5. A China Round of trade negotiations

One way to signal that the world community recognizes the need to deal with a dominant China in the future, and to do so multilaterally, would be to put to bed the Doha Round and embark on a new round of trade negotiations (Mattoo and Subramanian, 2009 and forthcoming). The aim of such a "China Round" would in fact be to anchor China, to the maximum extent possible, in the multilateral trading system.

One of the virtues of the GATT/WTO has been its ability historically to respond to major developments in the trading system. These include (1) promoting liberalization in the immediate aftermath of World War II in the first few rounds of tariff negotiations; (2) diluting the effects of discriminatory European integration by way of MFN tariff cuts in the Kennedy Round; (3) addressing the competitiveness threat against a backdrop of US decline from a then-rising Japan, which was achieved in the Tokyo Round through disciplines on subsidies and through permissiveness in the use of contingent protection against imports; (4) bringing into the multilateral fold major developing countries as they became economically important, and adding new areas such as intellectual property and services that had become sources of comparative advantage for the industrial countries, as achieved at the Uruguay Round by creating a greater symmetry of obligations between all members and by developing new rules on intellectual property and services; and (5) responding to the emergence of China as a big market access opportunity by securing unprecedentedly large policy liberalization by China in agriculture, manufacturing, and services, in the context of its WTO accession.

Having responded to China as an opportunity, the next major development on the trading horizon is China as a potential threat. A China Round is thus a natural for the WTO and one consistent with its history. It would mirror the Tokyo Round, which had as one of its main objectives the accommodation of a then-rising Japan in a manner that minimized the risks to the system.

What might an agenda look like for a China Round? In Mattoo and Subramanian (forthcoming), we spell out a possible agenda in detail, which might potentially cover a number of items in which China's role will be crucial and where China's trading partners have a big stake. The subjects should include: undervalued exchange rates, restriction of access to essential commodities such as agricultural products, raw materials and rare earths; government procurement, technical standards; and trade and climate change.

As in previous rounds of multilateral negotiations, the aim would be to create a balanced package where China would have to "give" by way of liberalizing its own policies in return for others offering commitments of interest to China. The greater the number of China's partners that participate, the better the prospects that China would have an incentive to engage in it and the more the stigma for China if it were to distance itself from the exercise.

One example where there might be scope for mutually beneficial gains to the US and China from opening relates to government procurement. China's government procurement market is estimated to about $1 trillion and a substantial portion of that could be brought under WTO disciplines. China too would gain, for example, if other countries did not impose restrictions on energy and food.

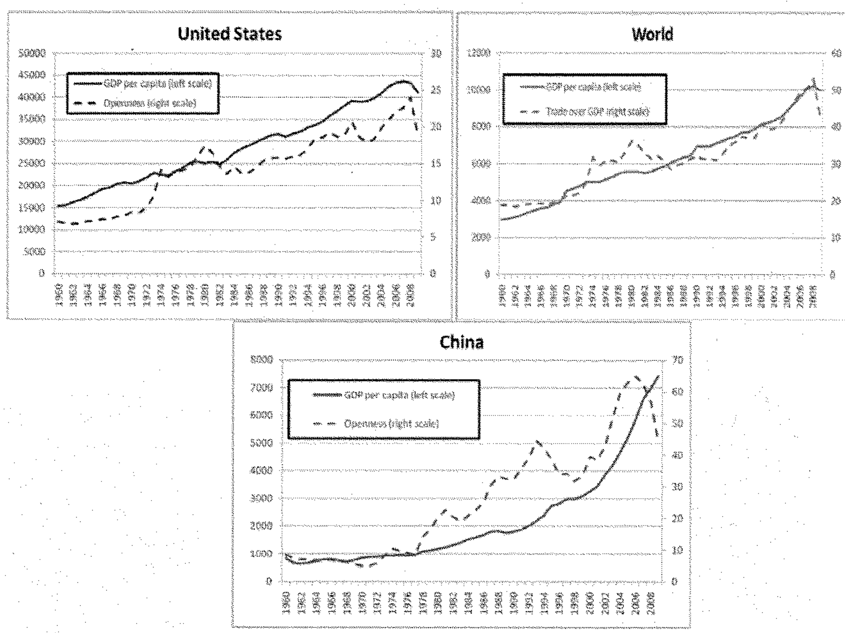
One important corollary of the need to engage China multilaterally is for the US and other countries to be cautious about engaging bilaterally on trade issues with China. If the basic problem is the imbalance of leverage arising from China's size, bilateralism will by definition be less effective than multilateralism. Also enforcement will be more difficult under bilateral agreements because China's incentive to abide by multilateral rules will be stronger than to abide by a series of bilateral agreements

The reputational costs and the effectiveness and legitimacy of enforcement would be a more effective deterrent in a multilateral context than regionally or bilaterally. It is the opprobrium that is associated with being a deviant from the global norm—rather than a bilateral one—that is the most valuable weapon that the world can deploy in tying China today in a way that minimizes the prospects of an aggressively dominant China in the future.

But what should be done about the Doha Round? It is becoming increasingly clear that the failure to complete the Doha Round might itself reflect China's growing dominance. In a recent paper, Mattoo, Ng, and Subramanian (2011) argued that China looms especially large in the markets of major trading partners in sectors where protection is greatest. Liberalization under the Doha agenda, especially in the politically charged, high-tariff sectors, is increasingly about other countries opening their markets to Chinese exports. And China's major trading partners are disinclined to do so. This disinclination is exacerbated by the strong political perception that China's export success has been achieved, and continues to be sustained, in part by an undervalued exchange rate.

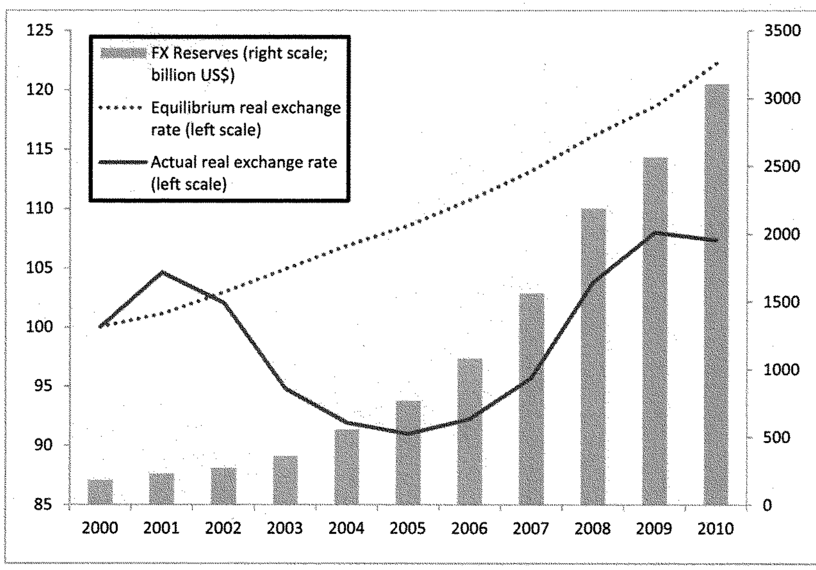
That speaks strongly to creating a broad trade agenda that would address these key underlying issues rather than continue with the Doha Round. A China Round could thus revitalize the multilateral trading system. It might not succeed but it must be tried. Not least because, the alternatives—the US acting on its own or the Doha Round—have not worked.

Figure 1: Trade Openness and Standards of Living, 1960-2010
(GDP per capita in constant PPP dollars; Openness is ratio of merchandise trade to GDP)



Sources: World Development Indicators (World Bank) and Penn World Tables, version 7.0.

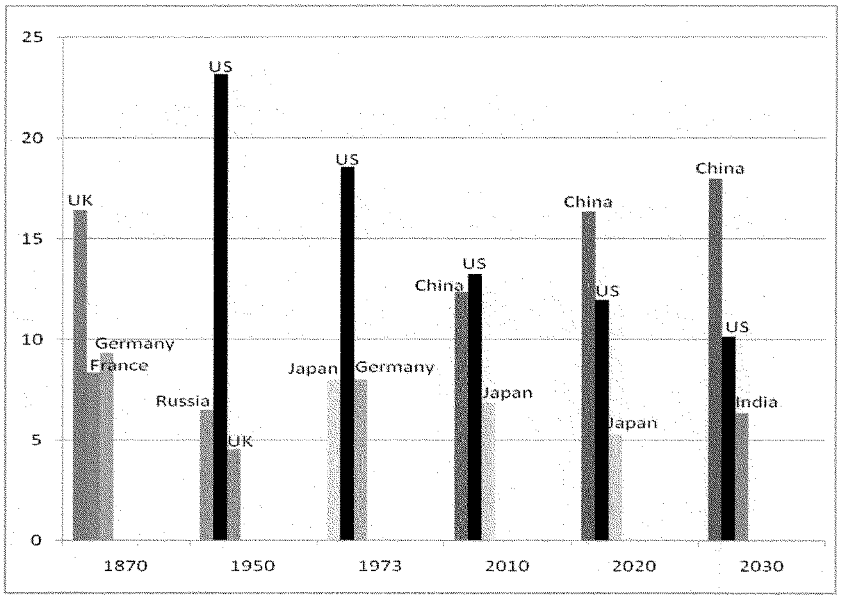
Figure 2. Chinese Currency Undervaluation and Foreign Exchange Reserve Accumulation, 2000-2010



The line "equilibrium exchange rate" —or where the exchange rate should have been under reasonable assumptions—is calculated by assuming that China's real exchange rate should appreciate every year by 0.25 times the difference in per capita growth rate between China and the rest of the world. This assumption reflects the so-called Balassa-Samuelson effect and is one way of calculating theoretical exchange rate movements.

Sources: Bank for International Settlements for the exchange rate; Peoples Bank of China for foreign exchange reserves; and World Development Indicators (World Bank) for growth.

Figure 3: Economic dominance index from 1870-2030 for the top three countries



Notes: This index is weighted average of the share of a country in world GDP, trade, and in world net exports of capital. The index ranges from 0 to 100 percent (for creditors) but could assume negative values for net debtors. The weights for this figure are 0.6 for GDP (split equally between GDP measured at market and purchasing power parity exchange rates, respectively; 0.35 for trade; and 0.05 for net exports of capital.

Source: Subramanian (2011).

International Trade and U.S. Prosperity

Written Testimony of

Dr. Philip I. Levy

Resident Scholar
American Enterprise Institute
Washington, DC

and

Adjunct Professor
Columbia University
School of International and Public Affairs

Before the
Joint Economic Committee
U.S. Congress

21 September 2011

Insert offset folio 14 here 71032.014

Chairman Casey, Vice Chairman Brady, and members of the committee, thank you for the opportunity to testify today on the importance of international trade to the well-being of America. The United States has a proud bipartisan tradition of leading the world in economic integration. The country has benefited enormously from the open rules-based trading system it has helped create.

In difficult economic times, the remaining shortcomings of the system can become particularly salient. There are countries who do not abide by the letter or spirit of global trade rules. There are important areas of commerce that remain uncovered by international agreements, where we have yet to set rules to govern fair play. And many countries retain significant barriers against U.S. goods and services, to their detriment and ours.

This just demonstrates that work remains to be done. U.S. leadership is more important than ever. A well-functioning open trading system is critical to America's future prosperity. The United States is uniquely positioned to build and sustain such a system. Reviving U.S. leadership in trade would not only lay the foundations for long-term U.S. economic well-being, it would also send a positive short-term signal to U.S. employers about an improved business climate and the prospect for new economic opportunities. These are the conditions in which investors in the U.S. economy, both foreign and domestic, will create new jobs.

I will organize my brief remarks into four parts. First, I will argue why the trade future is bright for the United States. Second, I will discuss some of the confounding factors that often cloud discussions of trade's impact on the United States. Third, I will draw out some of the trade policy implications. Finally, as an addendum, I will address some of the trade issues raised by the special – but important – case of China.

As members of this committee will be well aware, economic forecasts can be notoriously unreliable. They can be waylaid by unforeseen swings in consumer or business sentiment, or by significant shocks, either natural or man-made. For that reason, I will not even venture a guess about what we will see next year in terms of GDP, unemployment, or the current account balance.

There are other trends, however, that are much more predictable. I will rely on two. The first is demographic. While the U.S. population is aging, it is doing so much more slowly than populations in the major surplus countries of the world economy: Germany, Japan, and China. As a general rule, an aged population will consume more and produce less. As much as China may currently appear an unstoppable juggernaut, the size of its labor force is set to peak and then begin to decline in the near future. This is an instance in which extrapolating from recent experience can be highly misleading.

The second long-term tendency, related to the first, is that those who have made loans will ultimately wish to be repaid. The United States has run a current account deficit for decades. The value of goods and services that we have imported exceeded the value we sent back in exchange. The difference can be thought of as a loan. Whether in the form of a Treasury bond, a corporate loan, or currency holdings, the rest of the world has accumulated IOUs. These IOUs, ultimately, are claims on future production of U.S. goods and services. When aging populations around the world cash in their IOUs, they will be providing a new net demand for U.S. goods and services. In such a world, the

United States will rely heavily on the rules and sureties of a healthy global trading system.

The prospect of the United States as a surplus country is hardly the only reason to support an open trading system. There is a natural tendency to equate exporting with economic success, but this sort of mercantilism was discredited long ago. The country benefits from both imports and exports.[1] Nor is this the sort of lesson that we can afford to embrace only in good times, but must set aside in the harsh light of a downturn. In the recent financial crisis, we saw the U.S. current account deficit decline at the same time that unemployment rose.[2] The simple arithmetic whereby exports are proportional to jobs gained and imports proportional to jobs lost is both theoretically unsound and empirically unsupported.

Yet international trade remains suspect in the United States, frequently seen as an affliction more than an opportunity.[3] In part, this is due to reasons I've already described: the tendency to treat current account balances as a scorecard, rather than as an indicator of borrowing or lending; and the facile equation of exports with job gains and imports with job losses. I would like to suggest three additional sources of potential misunderstanding about trade's effects.

First, there is a popular tendency to cling to a very old-fashioned, textbook view of trade in finished products. In this conception, ripped from the pages of David Ricardo, one country produces wine, another makes cloth, and they swap goods back and forth on tall-masted sailing ships. There is some of that still today (not the sailing ships), but much of modern trade features globally integrated production. The modern car or large passenger aircraft consists of parts produced around the world. International trade often occurs between parent corporations and their overseas subsidiaries. Foreign production can thus be a complement to domestic production, rather than a substitute. We saw a small demonstration of this interconnectedness in the wake of Japan's terrible earthquake and tsunami earlier this year. Rather than advantaging U.S.-based factories by laying low a competitor, the effect was to threaten output from U.S. production lines, which faced the shortage of key parts produced in Japan. Similarly, when the furor over services outsourcing exploded in the middle of the last decade, most serious simulation studies of

---

[1] A prominent Peterson Institute study in 2005 found that the U.S. economy was approximately $1 trillion richer annually because of past global liberalization, with the remaining potential to gain another $500 billion annually from future liberalization. Bradford, Scott C., Paul L. E. Grieco, and Gary Clyde Hufbauer, "The Payoff to America from Global Integration," In C. Fred Bergsten, ed., The United States and the World Economy: Foreign Economic Policy for the Next Decade, Institute for International Economics. Washington: Institute for International Economics, 2005.

[2] To illustrate, according to the Bureau of Economic Analysis, the U.S. current account deficit peaked at $800.6 billion in 2006, then fell to $376.6 billion in 2009. According to the Bureau of Labor Statistics, the mid-year national unemployment rate was 4.6 percent in 2006 and 9.5 percent in 2009.

[3] For a thorough discussion of public opinion trends on trade, see Bowman, Karlyn and Andrew Rugg, "Trade Winds: Which Way is Public Opinion Blowing?" AEI International Economic Outlook, March 2011.

the phenomenon found that the controversial practice would, on net, create jobs in the United States. This was because the international service transactions, such as data entry or customized programming, were generally inputs into other businesses and tended to drive down those businesses' costs and allow for the expansion of production.

A second, related source of confusion comes from trying to interpret bilateral trade balances in an integrated, multilateral world economy. In recent years, this has focused public attention on the U.S. trade relationship with the People's Republic of China. I will return to the policy questions surrounding that relationship later, but the large and persistent U.S. trade deficit with China has been held responsible for significant U.S. manufacturing job loss by organizations such as the Alliance for American Manufacturing and the Economic Policy Institute.[4] While there are certainly serious issues with China's economic policies, the bilateral trade balance can be a deeply misleading measure. It evokes a two-country world, in which any job not undertaken in China would be done in the United States.[5] In fact, one key to China's emergence as a global trading power was that it enmeshed itself in an East Asian trading network, often taking in nearly-finished goods and providing the final touches. What's more, just because China may be the low-cost producer of a particular good does not mean that the United States is the next lowest-cost producer. This misconception helped prompt the misguided U.S. Section 421 action against Chinese tires in 2009, which seems to have served mostly to reshuffle the sourcing of U.S. tire imports to other countries, while doing little or nothing to spur U.S. domestic tire production.[6]

A final, central misperception is that there is a fixed number of manufacturing jobs in the world. If a manufacturing job is lost in the United States, it must be found somewhere abroad, the reasoning goes – the "offshoring" of U.S. manufacturing jobs. The implication is usually that the U.S. manufacturing sector is declining right along with the manufacturing labor force. It is certainly true that there has been a marked decline in the share of the U.S. labor force working in the manufacturing sector. This decline is not new; it dates from 1979 when manufacturing employment was just under 20 percent of total employment. By 2007, manufacturing employment accounted for roughly 9 percent of the total. Yet, while manufacturing employment was falling in relative and absolute terms, manufacturing output was rising dramatically. Over the two decades leading up to the most recent recession, real value-added U.S. manufacturing almost doubled.[7] The difference in the employment and output trends is due to a dramatic increase in manufacturing productivity. The U.S. manufacturing sector is able to make more stuff with fewer workers. Nor is this phenomenon unique to the United States. As production technology has advanced, many countries have seen manufacturing shift to less labor-

---

[4] For a discussion of China-induced job loss calculations, see Levy, Philip I., "Fair, Trade, and China Jobs," Enterprise Blog, April 2, 2010.

[5] This was the explicit assumption of at least one formal Section 301 petition objecting to China's hukou labor permit policies in 2004.

[6] See Progressive Economy, "Fewer tires from China, more from Korea, Taiwan & Southeast Asia," http://www.globalworksfoundation.org/Documents/fact485.rubber.tires_000.pdf, September 7, 2011.

[7] http://bea.gov/industry/gdpbyind_data.htm

intensive techniques.[8] Even China was shrinking its urban manufacturing employment throughout the 1990s, until the last decade, when manufacturing employment stabilized as Chinese output exploded.[9] For the U.S. manufacturing jobs that have been lost to technological change, no amount of misdirected railing against foreign trade will bring them back.

So far, I have argued that trade presents the United States with a significant economic opportunity and that many of the common popular objections to open trade are flawed. How, then, can the United States take advantage of this opportunity?

The country must reclaim its role as a leader in global trade liberalization. It can do so through multilateral bodies, such as the World Trade Organization, or through regional groupings, such as the Trans-Pacific Partnership. To have credibility in any of these fora, however, a prerequisite is the passage of the pending free trade agreements with South Korea, Colombia and Panama. Those agreements will benefit the U.S. economy directly by lowering barriers to U.S. exporters and stimulating economic activity.[10] Even more important, however, will be the reassurance to countries around the world that the United States is a credible economic partner. There was a good reason for global leaders in 2009 to prominently vow that they would bolster the global trading system as a means of restoring economic confidence and heading off a protectionist breakdown. That vow remains unfulfilled, but no less worthy. If the United States cannot meet aging promises to our patient FTA partners, we will have no credibility as we try to bargain for politically sensitive market access concessions from other countries around the globe.

One of the most politically popular U.S. trade stances, in recent years, has been a pledge to focus on the enforcement of U.S. rights under existing trade agreements. Of course the United States should enforce its rights. But for such a stance to have the impact that its proponents envision, two prerequisites must be met: 1. The rules granting us the rights we desire must be in place; 2. The institutions overseeing those rights must be sufficiently sturdy to enforce them.

While the first point may seem obvious, in many cases that the U.S. deems important, international rules guaranteeing fair and equitable treatment have yet to be agreed. The last broad global trade agreement, the Uruguay Round, was concluded over 17 years ago. Global commerce has changed a great deal since then and new rules have yet to be put in place. Unless we contemplate unilateral imposition of new trading norms, we cannot enforce rules that do not exist. Where these rules are lacking, the push for enforcement should really be a push for negotiating progress.

---

[8] See Lincicome, Scott, "Are Manufacturing Exports the Key to Recovery?", The Compass, November 18, 2009.

[9] See Banister, Judith, and George Cook, "China's employment and compensation costs in manufacturing through 2008," Monthly Labor Review Online, Bureau of Labor Statistics, Vol. 134, No. 3, March 2011.

[10] These benefits are partially quantified in mandated reports to Congress on each agreement by the U.S. International Trade Commission. The quantification is partial – providing a lower bound – because the modeling techniques are ill-suited to capturing the gains from measures other than the straightforward elimination of border barriers.

In the absence of new agreements, there is a temptation to seek satisfaction through the aggressive use of venues such as the WTO dispute settlement mechanism – litigation in lieu of negotiation. This poses a serious long-term threat to the viability of the WTO. It is not a legislative body and the United States government has generally objected when dispute settlement panels have taken an expansive view of their powers. The dispute settlement system is highly valuable as a means of settling factual disputes over the application settled agreements. If the dispute settlement mechanism is used to resolve fundamentally political or unsettled points, it will eventually lose credibility and countries will cease to abide by its decisions.

There is much more to a successful U.S. trade policy than passing the pending FTAs, but it is an indispensable first step. Then, serious work must be done to restore trade negotiating authority (TPA) to the executive branch. Once these two steps are accomplished, the United States will then be equipped to reclaim its position of global leadership on economic matters. In that position, it can work to shape global commercial rules and standards in a favorable way and ensure market access for the country's producers and employers.[11] This will work to the benefit of all sectors of the U.S. economy, certainly including manufacturing.

I would like to conclude with a brief discussion of U.S. economic policy toward China.[12] Following decades of remarkable economic growth, China has transformed itself into an economic heavyweight and a major trading power. While China undertook an impressive set of liberalizing obligations when it joined the WTO in 2001, the state sector retains a very large role in the economy and the country has contributed significantly to global economic imbalances. China's global imbalances, exemplified by its $3.2 trillion of foreign exchange reserves, derive from a combination of export-oriented policies, including an undervalued exchange rate, financial repression, and an emphasis on investment over consumption. Chinese actions, such as tying investment opportunities to technology transfer, violate the spirit, if not the letter, of global trade rules.

A first question is who is harmed by these policies. Ultimately, I believe they will prove harmful to Chinese hopes of developing a more sophisticated economy. Policies such as the rapid accumulation of foreign exchange reserves are clearly unsustainable and are already threatening to stoke inflation. Other policies, such as China's approach to indigenous innovation, will do damage more slowly. They will deter businesses from bringing their best products to the Chinese market and will fail to nurture an innovative domestic environment within China.

Just as China's array of policies will have differential impacts on China, they differ in the extent to which they will impact the United States. They also differ in the extent to which the United States can fruitfully press for change. The United States should choose

[11] For a prominent recent bipartisan statement of the need for U.S. global involvement, see the Council on Foreign Relations Task Force Report on U.S. Trade and Investment Policy, September, 2011.

[12] This topic is addressed at greater length in Levy, Philip I., "The United States and China: Macroeconomic Imbalances and Economic Diplomacy," AEI Economic Policy Studies Working Paper 2011-04, June 28, 2011. http://www.aei.org/paper/100233

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00052 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 19 here 71032.019

its policies to best further the national interest. That requires a compound calculation of both the gains available from a change in Chinese policy and the probability of U.S. initiatives effecting such a change. This calculation is complicated by the constraint that by pressing on too many points at once, the United States will dilute its bargaining power.

Such considerations lead me to think that a frontal assault on Chinese currency practices is less likely to advance U.S. interests than pressure on Chinese policies such as those that discriminate against foreign investors and those that work in favor of politically-connected Chinese industries.

Again, I thank the Committee for the opportunity to discuss these issues and look forward to responding to any questions you might have.

PREPARED STATEMENT FOR THE RECORD OF
INTEL CORPORATION

For the

JOINT ECONOMIC COMMITTEE
U.S. SENATE AND HOUSE OF REPRESENTATIVES

On

Manufacturing in the USA: How U.S. Trade Policy Offshores Jobs

September 21, 2011

Insert offset folio 21 here 71032.021

Intel Corporation respectfully submits this testimony for the record in conjunction with the Committee's hearing on manufacturing and trade. In particular, our testimony will focus on the importance of increasing market access overseas as a way to create more U.S. jobs and maintain the ones we already have. This objective is time sensitive because we face escalating competition from other governments as they increase the competitiveness of their own industries and strike preferential trade deals with other significant economies.

The main way to increase market access for U.S. companies is to (i) level the playing field by holding WTO members accountable to their existing commitments; and (ii) enter into new agreements that are modernized to prevent emerging non-tariff barriers from hurting U.S. exports of goods and services. We support the general recommendation by a new high-level Independent Task Force report on U.S. Trade and Investment Policy, which calls for the Obama administration and Congress to "adopt a pro-America trade policy that brings to more Americans more of the benefits of global engagement, within the framework of a strengthened, rules-based trading system."[1] We also support a reasonable and effective Trade Adjustment Assistance program for workers dislocated by open trade that expands and improves skills needed to be competitive in the 21st century economy.

I. <u>Market Access is Critical for our Industry</u>

a. <u>Intel Depends on Overseas Revenue to Create and Sustain Jobs at Home</u>

Intel is the leading manufacturer of computer, networking, and communications products. Intel has close to 44,000 employees in the U.S. In 2010, Intel had over $40 billion in revenue from sales to customers in more than 120 countries.

Intel is a prime example of why the U.S. government should simultaneously pursue the synergistic objectives of (i) creating the best ecosystem possible to encourage domestic manufacturing; and (ii) removing market access barriers overseas. While three quarters of Intel's manufacturing capacity remains in the U.S., more than three quarters of our revenue is generated overseas. The revenue we generate outside of the U.S. helps create and sustain our high paying jobs at home.

Even during the strained economic climate of the last few years, Intel has continued to invest to stimulate economic and job growth. In February 2009, the company announced a $7 billion upgrade to its manufacturing facilities in Oregon, Arizona, and New Mexico—projects that are helping to maintain approximately 7,000 high-wage, high-skill U.S. jobs while providing 4,000 contract jobs for technicians and construction workers.

[1] "U.S. Trade and Investment Policy," Independent Task Force with Co-Chairs Andrew H. Card and Thomas A. Daschle, sponsored by the Council on Foreign Relations, p. 4 (September 2011) [hereinafter "CFR Task Force"].

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00055 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 22 here 71032.022

In 2010, Intel announced that it will spend an additional $6 billion to $8 billion over the next several years to bring next-generation manufacturing technology to several existing factories across the U.S. and to build a new development factory in Oregon. This new investment will support approximately 6,000-8,000 additional U.S. construction jobs during the building phase, and eventually add approximately 800-1,000 Intel high-skilled, high-wage jobs.

And now, in 2011, Intel announced plans to invest more than $5 billion in a new chip manufacturing facility, called Fab 42, in Chandler, Arizona. The new fab will create thousands of construction and permanent manufacturing jobs at Intel's Arizona site.

We have spent more than $68 billion on U.S. operations, manufacturing and R&D, from 2002 to 2010. Most of the product manufactured from our significant U.S. investments will be sold to the 95% of worldwide consumers that live outside the U.S. The ability to access markets worldwide is essential to Intel's ability to create and maintain jobs in the U.S. and our continued growth and prosperity.

b. The Semiconductor Industry's Future is Tied to Overseas Sales

Free trade is of particular importance to the growth of the entire semiconductor industry. According to the Semiconductor Industry Association (SIA), the U.S. semiconductor industry employs over 180,000 people in the U.S. and makes almost half of the world's computer chips. This market for chips was worth just under $300 billion in 2010 and is growing every year. Over 80% of U.S. semiconductors go to customers outside the U.S. market and are sold in nearly every country in the world. According to the International Trade Commission (ITC), semiconductors have been America's largest exporter when data are averaged over the last five years. However, as discussed in Section III, information technology industries are facing an increasing number of market access issues that need to be effectively and promptly addressed to safeguard our ability to compete.

Exporting semiconductors creates real benefits not just for Intel's employees, but also for many other American workers. For example, those overseas sales allow leading-edge U.S. based chip makers to employ highly skilled and talented U.S. workers whose average income is almost $100,000 per year. Additionally, domestic semiconductor makers invest about $20 billion a year in research and development in the U.S. and invest over $13 billion in capital equipment at home, which also spur new products and create new jobs both with our U.S. suppliers and at Intel that are maintained by sales overseas.

II. Increasing U.S. Exports Through Robust Trade Agreements

Intel believes that strong exports also are critical to America's overall continued economic growth, and the creation of good jobs in the United States in many other industries besides our own. As the U.S. government works with the private sector to find new ways to increase domestic manufacturing, it also needs to take the initiatives necessary to fulfill the Administration's goal of doubling exports by 2015. With 95% of the world's consumers living outside of the U.S. and about 80% of global purchasing power outside the U.S., any increase in domestic manufacturing must be accompanied by additional opportunities to sell overseas. Those opportunities are created in large part by free trade agreements (FTAs), bilateral investment treaties (BITs), and other initiatives – that establish the rules to force open other markets and promote and protect U.S. business interests.

There are still many barriers that need to be taken down. For example, last year the World Economic Forum Global Competitiveness Report listed the United States near the bottom or 121st out of 125 economies due to the significant tariffs placed on American goods overseas. Section III below discusses some of the non-tariff barriers U.S. IT industries face.

According to the United Nations Industrial Development Organization's 2010 International Yearbook of Industrial Statistics, the U.S. continues to lead the world in manufacturing, with 19% of the worldwide value-added manufacturing output. However, the U.S. has dropped from first to third over the last 12 years in terms of the total quantity of goods exported.[2] As the competitiveness of other countries increases and the number of FTAs and BITs not involving the U.S. accelerates,[3] America may drop further in that ranking.

We can further increase our exports, improve our economy and thus create more U.S. jobs by both (i) promptly approving the three pending agreements with Colombia, Korea and Panama; and (ii) entering into additional, robust free FTAs with other key markets. FTAs are essential to level the playing field so U.S. companies can effectively compete with increasingly competitive foreign companies.

a. <u>The Three Pending FTAs Will Provide Significant Benefit to the U.S. Economy</u>

Once approved, the three pending agreements will level the playing field for American businesses that export to those markets, thus creating real business opportunities for U.S. business and their employees. For example, South Korea currently collects $4 in tariffs on U.S. exports for every $1 the United States collects in tariffs on South Korean exports. U.S. businesses confront similar or higher trade barriers in Colombia and Panama.[4] And, all three agreements have a number of critical provisions that address non-tariff barriers. For sake of brevity, this subsection focuses only on the most significant of the three pending agreements -- the U.S./Korea (KORUS) FTA.

---

[2] *Compare* http://umsl.edu/services/govdocs/wofact2000/fields/exports.html with http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=US,CN, http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=US, and http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=US,DE.
While the WTO uses "merchandise" rather than "export" as a benchmark, the various ranking systems show the U.S. to have dropped at least three, if not four, places in terms of total goods exported since the late 90s.

[3] See *infra* page 7 and footnote 17.

[4] Letter by 34 Trade Associations to Chairmen and Ranking Members of the Senate Finance Committee and House Ways and Means Committee (July 6, 2011).

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00057 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 24 here 71032.024

Currently, the U.S./Singapore FTA is the only U.S. bilateral agreement in force in all of Asia, the region with the highest economic growth where many of U.S. industries' greatest competitors are located.[5] The pending KORUS FTA is critical to Intel and the U.S. economy for many reasons, including the strong precedent it sets for the rest of Asia.

First, given the rapid growth of its information economy, South Korea has become a very important market to U.S. technology industries. In fact, it is the 6th largest market for U.S. IT goods. High quality trade agreements like the KORUS FTA allow Intel and other companies in the semiconductor industry to maintain and even grow our manufacturing base in the U.S. by increasing exports around the world.

Second, the KORUS FTA and the other two pending FTAs are all very robust and have met the Administration's high standard for open and fair market access. The benefits of KORUS reach far beyond our industry. With U.S. exports totaling about $38 billion in 2010, South Korea is our 7th largest market. The United States Trade Representative (USTR) estimates that the agreement will create tens of thousands of well-paying jobs in the U.S. and increase the U.S. GDP by $10 billion per year through increased exports made possible by greater market access. According to the U.S. International Trade Commission, the KORUS FTA will create 280,000 jobs and lower tariffs for 95% of industrial and consumer goods.[6] In addition, the agreement will provide U.S. services firms with levels of market access, national treatment, and regulatory transparency that generally exceed those currently afforded by South Korea's commitments.

Third, the KORUS FTA is an agreement that would provide not only significant tariff cuts for many U.S. companies, but also crucial substantive protections for U.S. goods and services -- many of which exceed WTO requirements or fill in sorely needed gaps. For instance, of relevance to IT industries, KORUS includes:

- Strong provisions on intellectual property (IP) enforcement that include (i) criminalization of end-user piracy and counterfeiting; and (ii) except in exceptional circumstances, guarantees of authority to seize and destroy not only counterfeit goods but also the materials and equipment used to produce them.[7] These provisions will provide a strong deterrent to IP infringement, a significant concerns U.S. companies face overseas.

- State-of-the-art public participation rights in rulemaking, standard setting activities, and conformity assessments,[8] which exceed WTO requirements and are critical to help prevent the development of technical regulations and standards that discriminate against foreign companies and are common in Asia.

---

[5] Nearly 87 percent of world economic growth over the next five years is expected to take place outside the United States, with most of it in Asia.
[6] The ITC report was prepared by the Commission's economic staff at the request of the Senate Committee on Finance Subcommittee on Trade.
[7] Free Trade Agreement Between The United States of America and the Republic of Korea , Articles 18.10.26 & 27.
[8] *Id.*, Articles 9.2.1, 9.6.1, 9.6.3

- Due process protections applicable to competition cases and settlement authority for the Korean Fair Trade Commission.[9] These are important provisions that help ensure claims of anti-competitive conduct by budding domestic companies against multi-national companies are fairly administered. WTO does not cover competition policy, an emerging area of concern as more than 130 antitrust agencies now exist.

- A provision that enables e-commerce by ensuring technology choice while recognizing legitimate exceptions such as law enforcement activity and harm to the network.[10] This provision builds on FTAs over the last five years that have contained the fundamentals needed for e-commerce to flourish, including non-discriminatory treatment of foreign digital goods and tariff/duty protection for digital products imported or exported by electronic transmission or fixed on a medium.[11]

Fourth, in addition to Korea being a key market for U.S. exports, as alluded to earlier KORUS provides a great template for furthering trade liberalization initiatives in Asia. The precedent it sets for other FTAs in the rest of that dynamic region cannot be underestimated. Indeed, the Trans-Pacific Partnership (TPP) Agreement under negotiation, which involves various Asian countries, is building on a number of the provisions in KORUS.

For example, we understand from Inside U.S. Trade and other public sources that USTR has tabled text in the TPP negotiations which supports a provision expressly allowing the free transfer of data across borders in conjunction with relevant service commitments made by each Party (e.g., computer services), assuming appropriate privacy protections are included. This provision will become increasingly important as countries begin to allow foreign direct investment related to digital services, but at the same time they may decide to interfere with associated data flows. We understand that the e-commerce provisions being negotiated may also expressly prohibit any requirements to locate IT infrastructure (e.g., servers) within a country as a condition of providing digital services. Efforts to sever treatment of the data from service commitments or to require in-country infrastructure often have protectionist purposes even when security or privacy concerns are raised. A recent survey from General Electric found thirty five localization measures proposed or enacted across the world within the past two years, most of which were enacted in developing economies.[12]

---

[9] *Id.*, Articles 16.1.3, 4 & 5.

[10] For example, the KORUS FTA requires each Party to recognize the right of consumers to "run applications and services of their choice, subject to the needs of law enforcement" (Art. 16.7(b)); "connect their choice of devices to the Internet, provided that such devices do not harm the network and are not prohibited by the Party's law" (Art. 15.7(c)); and "have the benefit of competition among network providers , application and service providers, and content providers" (Art. 15.7(d)).

[11] *See, e.g.*, United States – Bahrain Free Trade Agreement, Chapter 13 (2006); Australia-United States Free Trade Agreement, Chapter 16 (2005).

[12] "Forced Localization of Global Companies Business Activities," Handout given at The 2011 Global Services Summit: Engaging the Dynamic Asian Economies, Washington, DC (July 20, 2011)

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00059 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 26 here 71032.026

b. Congress Should Promptly Approve the Pending FTAs

Congressional approval of the pending FTAs should occur as soon as possible so that the U.S. economy can reap their benefits and momentum can be created for a more robust trade policy. The strategic importance of promptly implementing these agreements cannot be overstated.

Although South Korea is the United States' seventh-largest trading partner, the U.S. share of the Korean market has declined over the last several years. China, Japan and now Europe all enjoy greater market shares. The U.S. share will continue to decline until KORUS is implemented as other key governments negotiate with Korea to open up their respective markets for their companies and workers on a preferential basis, putting American companies and workers at a severe competitive disadvantage.

Korea now has FTAs with the EU and India, Chile, Singapore, the European Free Trade Association, and the Association of Southeast Asian Nations. Korea currently is negotiating with Japan, Canada, Mexico, Australia, New Zealand and Peru, and preparatory discussions are underway with China, Malaysia, Turkey, Russia, Colombia, MERCOSUR and Israel. As long as the KORUS FTA remains unapproved, U.S. exports of goods and services to Korea will face discrimination and higher tariffs than the competing products of countries subject to these other trade agreements that Korea is or has negotiated.

As a result of the European/Korea FTA coming into force on July 1, 2011, EU exports to South Korea already have increased 44.9 percent between July 1 and July 20, 2011 from the same period in 2010. Meanwhile, U.S. exports during this same period were up by only 8.5 percent. The biggest gainers among EU exports were passenger cars at 204.6 percent and civilian aircraft and parts at 2,359 percent. The U.S. and European auto and aircraft industries compete for sales in South Korea and elsewhere.[13]

The United States has long been the largest exporter into Colombia's over $32 billion market (accounting for nearly 30 percent of that market in 2009).[14] The market share of U.S. exports to Colombia is expected to drop considerably now that the Canada/Colombia FTA is in effect. For example, under the Canada-Colombia FTA, Canadian wheat and wheat flour exports now enter Colombia duty-free, while U.S farmers must pay a thirteen percent tariff. The wheat growers association (U.S. Wheat Associates) estimates that the United States could lose over $70 million in wheat sales each year as a result of our tariff disadvantage, which we could

[13] Korea-US FTA coalition letter, citing Korean Ministry of Knowledge Economy (August 1, 2011). The rapid jump in EU exports followed the July 1, 2011 implementation of the Korea-EU Free Trade Agreement, which eliminated 90.7 percent of South Korea's tariffs on EU imports and will do away with 98.7 percent of such tariffs within five years.

[14] World Trade Organization, Trade Profiles 2010, accessed at http://www.wto.org/english/res_e/publications_e/trade_profiles10_e.htm.

reverse if the U.S.-Colombia agreement, with its tariff elimination for our wheat exports, entered into force quickly.[15] The disadvantages U.S. manufacturers and producers face now in Colombia compared to our Canadian competitors is found in every major sector. The impact is exacerbating the loss of market share that the U.S. already has started experiencing as a result of the preferential arrangements that Colombia has with the MERCOSUR countries (including Argentina and Brazil). For example, the U.S. share of Colombia's total imports of wheat, corn, and soybeans fell from 71 percent in 2008 to 27 percent in 2010 following implementation of Colombia's trade agreement with MERCOSUR.

In brief, we need more consumer spending overseas on U.S. goods and services, as this is the engine of our economy that accounts for about 70% of our total GDP growth. The quicker the pending FTAs are approved and implemented, the faster the U.S. economy will benefit. Further delays in approving those FTAs will only result in more harm to the U.S. economy.

III. The Need to Increase the Number of U.S. FTAs and Modernize Them

As noted by ECAT, trade flow data show how important FTAs are to the U.S. economy. Trade with the 17 countries with which the U.S. had an FTA in effect by the end of 2010 accounted for approximately $1.1 trillion, or nearly 34 percent, of total U.S. trade and 41 percent of U.S. exports that year, while these countries represent only 7 percent of the world economy. U.S. exports to every single FTA partner country since have increased dramatically after those agreements were implemented. ECAT expects a similar economic boost for American enterprises and workers after the Colombia, Korea and Panama agreements become effective.[16]

Today, however, "the United States lacks an ambitious trade policy and has not kept pace with other countries in opening new markets abroad, especially in the fast-growing economies of Asia and Latin America that are now major engines of global growth."[17] According to WTO data, about 380 regional trade agreements (RTAs) have been negotiated worldwide and, of those, 202 RTAs have entered into force. The United States is party to only twelve such agreements with a total of 17 countries. In contrast, the European Union has 28 RTAs in force with 29 countries, and is in negotiations with India, Canada and Ukraine. China has ten RTAs in force with 20 countries, and another five in negotiation; India has 13 RTAs in force with a total of 25 countries and another three in negotiation. Similarly, when it comes to bilateral investment treaties, the U.S. lags behind in a world with nearly 3,000 BITs. In particular, the 40 U.S. BITs in force are far less than half of Germany's 138 BITs and considerably less than China's 70 BITs or even Korea's 57 BITs.

We must not only increase the pace of negotiation, but also ensure that the agreements being negotiated effectively address all forms of tariffs <u>and</u> emerging non-tariff barriers.[18] The

[15] Canada-Colombia FTA Puts Critical U.S. Wheat Market at Risk (July 6, 2011), accessed at http://www.uswheat.org/newsEvents/newsRelease/doc/A1BF68C6305418B285257758005ADF67?OpenDocument
[16] ECAT Letters to Senators Max Baucus and Orrin Hatch (June 30, 2011).
[17] CFR Task Force, *supra* note 1, p. 3.

United States Trade Representative (USTR) has improved FTAs over time. Of relevance to Intel, FTAs enable trade in both the equipment and devices that make up the IT infrastructure, and the digital goods and services that infrastructure enables. Moreover, the latest model language for free trade agreements (FTA) contains various provisions requiring the Parties to cooperate on an ongoing basis, for example, to ensure regulatory alignment with international technology standards and prevent deceptive practices in e-commerce to enhance consumer welfare.[19] Such cooperation mechanisms are important to expand an FTA's capability to resolve new trade issues as they arise.

As Intel testified in a hearing last year on International Trade in the Digital Economy, however, there are a number of emerging trade barriers to IT goods and services that need to be addressed. For example, much progress still needs to be made in liberalizing digital services and the interests of many governments in addressing privacy and security concerns related to digital goods need to be properly channeled to ensure that trade is not unnecessarily restricted.[20] We are confident that similar gaps exist in other dynamic industries.

Basically, there are a number of ways that existing FTA language and trade rules can be further updated to better protect U.S. business interests – especially the rules in current WTO agreements that predate development of the digital economy. We address just two examples.

a. Ensuring Better Protection of Intellectual Property

On a broader level, a number of U.S. companies are seriously concerned about the lack of robust IP laws and enforcement mechanisms in many countries. Our competitive advantage in so many industries – whether pharmaceuticals, aeronautics, semiconductors, digital services, or otherwise – is based on intellectual property developed through significant R&D investments in the U.S. Yet there are increasing challenges overseas in protecting intellectual property from misappropriation and disclosure as a condition of market access. The latter challenges may arise in relation to qualifying for government procurement preferences, accessing the telecom market, or complying with conformity assessments involving environmental criteria.[21] All signatories to U.S. FTAs should be required to have robust systems in place to protect IP disclosed to them and bear the burden of justifying the disclosure by private parties to government of any sensitive information so that it is minimized.

Moreover, in the name of the "public interest," some countries are calling for compulsory licensing of environmental technologies (most of which are owned by U.S. companies) to enable broader and/or cheaper access to those critical technology solutions

[18] See http://www.wto.org/english/tratop_e/region_e/rta_participation_map_e.htm; http://icsid.worldbank.org/ICSID/FrontServlet#.

[19] *See, e.g.*, KORUS Articles 9.4.1 & 15.5.2, 3.

[20] *See generally* Prepared Statement of Intel Corporation, "International Trade in the Digital Economy," Subcommittee on International Trade, Customs, and Global Competitiveness, U.S. Senate (November 18, 2010).

[21] For example, the Government of India has recently promulgated various policies in the telecom and government procurement sectors that condition market access on IP disclosures. For specific information on those recent initiatives, in India, contact the U.S. India Business Council.

developed to address climate change and energy issues.[22] This trend may migrate over to other technologies given their importance in building a digital economy. Future FTAs need to reinforce and build on the significant procedural and substantive protections found in the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and not expand compulsory licensing that undermines the incentives to invest and innovate such important technologies.[23]

We also recommend that future FTAs make clear that signatory governments generally should not be involved in dictating or directing the development of IP rights policies in conjunction with standard setting activities. Standards are supposed to be voluntary, but some governments have tried to limit the royalty payments dictated by market forces for IP related to those standards.[24]

b. Restricting Counterproductive Domestic Market Preferences

At least three dozen countries have implemented national innovation strategies to increase their competitiveness and generate more economic growth.[25] The nature of those strategies differs widely among governments, however, and the difference between innovation and industrial policy is often murky at best.[26] U.S. companies increasingly face a host of domestic market preference measures intended to spur local R&D and manufacturing that are exempt from WTO requirements, do not always comply with the same, or fall within the cracks.

---

[22] For instance, in 2007 the European Parliament called for a study on opening and amending TRIPS to provide compulsory licenses to IPR for "environmentally necessary" technology. European Parliament resolution of 20 November 2007 on trade and climate change (2007/2003(INI)); available: http://www.europarl.europa.eu/sides/getDoc.do?Type=TA&Reference=P6-TA-2007-0576&language=EN. In 2008, the Indian Environment Minister Shri Raja wanted a climate change agreement "'paralleling' what he call[ed] 'the successful agreement on compulsory licensing of pharmaceuticals', which has undermined supply, quality and trade." Tim Wilson, Op-Ed, "Attacking Patents Is A Way To Halt Progress On Climate Accord" (*The China Post*, 8/29/08). Shyam Saran, India's special envoy on climate change noted that India wants climate change technologies to be treated as public and common goods and dealt with in the same manner as HIV drugs. "Treat Climate Change Tech As Public," *The Times Of India* (7/27/08). And the UN Assistant Secretary General for Economic Development, Jomo Kwame Sundaram, has noted: "Reform to the current IPRs regime will need to be addressed to make possible the extensive use of technological solutions to address climate change." Jomo Kwame Sundaram, "The Climate Change Challenge," *UN Chronicle*; available: www.un.org (1/26/08).

[23] Consistent with TRIPS, the KORUS FTA acknowledges that "[e]ach Party may provide *limited* exceptions to the exclusive rights conferred by a patent, provided that such exceptions do not unreasonably conflict with a normal exploitation of the patent and do not unreasonably prejudice the legitimate interests of the patent owner, taking account of the legitimate interests of third parties." (Art. 18.8.3; emphasis added) That agreement, however, does not define in any way the type narrow exceptions that are permissible under TRIPS Article 31, which is problematic given recent requests by some countries for broader IP flexibilities and patent exemptions than TRIPS would appear to allow.

[24] In the 2004 U.S./China Joint Commission on Commerce and Trade (JCCT), China agreed to remove PRC regulators from negotiations over royalty payments with IPR holders in standard setting activities. However, the JCCT commitment is non-binding and needs to be included in binding FTAs.

[25] Stephen Ezell, "America and the World We're Number 40," *Democracy: A Journal of Ideas*, Issue # 14, Fall 2009, http://www.democracyjournal.org/article.php?ID=6703.

[26] *See generally* "The Good, The Bad and The Ugly (and The Self-Destructive) of Innovation Policy: A Policymakers Guide to Creating Effective Innovation Policy," The Information Technology and Innovation Foundation (October 2010).

One of the main methods some governments use to promote indigenous innovations is by restricting participation in government procurement activities to domestic companies and products made locally. None of the BRIC countries are signatories to the WTO Agreement on Government Procurement Agreement (GPA), and thus the GPA's prohibition on discriminating against foreign product in government procurement does not apply in these major markets.

Under applicable law, Brazil's government purchases domestically produced goods and services, even when these cost up to 25% more than the cheapest imported products and services, if they are developed by Brazilian companies that either (i) manufacture the goods at issue in Brazil or provide the services locally; or (ii) invest in R&D and the development of technology in the country. Implenting regulations, which require an increasing amount of local content each year to qualify for the preferences, are focused on defense, healthcare and ICT.[27]

In China, goods must have at least 50% local content to qualify under the Government Procurement Law, but foreign invested enterprises that can meet that threshold continue to face barriers to participating in procurement activities. Until earlier this year, products also had to be certified as "indigenous innovation" by having their core IP owned by a China-based company.[28] That latter requirement was deleted after pressure from several governments.

India, for its part, recently recommended that government procurement preferences be given to all domestically produced electronic products and products made with Indian IP.[29] Moreover, India has attempted to extend domestic government procurement preferences in the telecom sector to cover private licensees, even though that would violate the national treatment clause of the General Agreement on Tariffs and Trade. In fact, the Telecom Regulatory Authority of India (TRAI) has proposed a number of other incentives for Indian companies that manufacture with Indian materials or incorporate Indian IP, regardless of whether the products are sold to the government.[30] These incentives include tax breaks and R&D grants that potentially violate the WTO Agreement on Subsidies and Countervailing Measures, which prohibits conditioning incentives on the use of local content.

Russia has a narrower public procurement preference program than the other BRIC countries. In 2010, the Ministry of Industry and Trade prepared a draft decree that will enable domestic manufacturers to receive preferences in state procurements tenders of telecommunication equipment for LTE networks where not less than 50% of the stock of the

[27] Government Purchase Law (No. 8.666, promulgated in 1993).

[28] For a summary of the procurement laws and regulations in China, see PRC Government Procurement Policy, The U.S.-China Business Council (July 2009); available: https://www.uschina.org/public/documents/2009/07/government_procurement.pdf.

[29] Progress Report on the 100-Days Plan of Action of Ministry of Communications & Information Technology Announced on January 01 This Year (April 11, 2011), DoT Action Point 8(c) and DIT Action Point 8(c). Similar procurement preferences may soon be available in other industry sectors per the Prime Minister's mandate to increase domestic R&D and manufacturing at large.

[30] *See generally Recommendations on Telecom Equipment Manufacturing Policy*, Telecom Regulatory Authority of India (12th April, 2011) [hereinafter "TRAI Recommendations"]. The TRAI Recommendations were submitted by to the Ministry of Communications and Information Technology for its consideration.

company belongs to the Russian state or its citizens, and the entire product cycle (e.g., R&D, manufacturing and assembly) of components (e.g., printed circuit boards) needed for the telecom equipment that the domestic company engages occurs in Russia. In addition, the qualifying manufacturer must own the rights to software used in the equipment and the required local content level for components in the telecom equipment rises each year.[31]

Modern FTAs must address the increasing use of domestic market preferences, whether in the government procurement space or otherwise, to be effective in opening up foreign markets. For many U.S. companies, current WTO requirements are not sufficient to provide the significant market access they need for their goods and services so they can grow significantly their U.S. operations and employment base at home.

IV. Conclusion

As Congress continues to explore ways to increase the competitiveness of U.S. industries, Intel recommends that it also work in parallel with the Administration to open up the biggest and fastest-growing emerging markets using a set of modern rules that take into account emerging non-tariff barriers. This recommended trade agenda is ambitious, but necessary to ensure America is in a position to effectively compete on a level playing field.

Intel is encouraged by recent action to move forward with both the three pending free trade agreements and Trade Adjustment Assistance (TAA). It is time to pass TAA and provide displaced U.S. workers the support they need while opening new markets. Our hope is that these near term actions will pave the way for a more ambitious trade agenda, including implementation of a robust TPP agreement next year.

We appreciate the opportunity to provide testimony on these important issues.

[31] Draft "Order on approval of the parameter values, methods of the parameter value determination and the order of assignment of the status of the *Russian domestic telecommunications equipment* to telecommunications equipment manufactured within the territory of the Russian Federation," Ministry of Industry and Trade of the Russian Federation (July, 26th, 2010).

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00065 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 32 here 71032.032

Manufacturing a Better America
Testimony of Richard W. Bloomingdale, President, Pennsylvania AFL-CIO
Joint Economic Committee, United States Congress
September 21, 2011

Thank you Chairman Casey, Vice- Chairman Brady, and other committee members. It is an honor for me to testify today about very important subjects that affect Pennsylvania's and America's workers.

I know you will have many experts testifying today about trade, the Trade Adjustment Act and Chinese currency issues. And I hope you will listen and decide on a course that puts Americans back to work. While I am not a scholar, I have traveled around Pennsylvania for a quarter century talking to current workers, to laid off workers, and to business leaders, many of whom wonder why our policies seem to reward outsourcing and not hiring Americans. I have also collaborated with employers and policymakers to try to address the challenges of Pennsylvania manufacturing in a global economy.

In my written testimony today, I will address three issues.

First, this country does not have a manufacturing policy and it needs one. In the absence of a national policy, Pennsylvania has over five administrations taken some steps towards developing its own manufacturing policy. However, one especially important component of manufacturing policy—trade policy—must be addressed at the national level. Manufacturing policy MUST include much more forceful approaches to stem the loss of jobs due to massive trade deficits.

Second, American needs to invest in a strong adjustment system for all dislocated workers, starting with those who lose their jobs because of trade.

Third, I address the role of unions in the revival of our manufacturing sector.

1. The United States Needs a Manufacturing Policy. My first point is one which Senator Casey himself has been making, including through the hearings of this committee. The basic idea is simple: over the past 50 years, the United States has gone from being the world's dominant economic power, with low levels of manufacturing imports and a manufacturing trade surplus, to being part of an intensively competitive global economy and to having a huge trade deficit.[1]

During this unprecedented transition, the United States—in contrast to competitor nations such as Germany—has never had a comprehensive approach to helping its manufacturing businesses and workers succeed in new conditions. The lack of a manufacturing policy is part of why the United States manufacturing sector, by most measures linked with the strength of manufacturing, has performed poorly. Beyond the trade deficit, other measures include:

- exports as a share of GDP—the U.S. export share is lower than most other advanced countries;
- the manufacturing share of total employment—this share has declined in most countries, but it has declined more in the United States because of the lack of a manufacturing policy;
- wages—manufacturing wages have stagnated in the United States;
- productivity growth—measured by output per hour, the U.S. has lost the productivity advantage it once had in virtually every industry. In many industries, the United States is no longer the global leader; and

[1] The U.S. imported $771 billion in manufacturing products in the first half of this year, and had a deficit of $213 billion (http://www.post-gazette.com/pg/11233/1168582-435-0.stm#ixzz1YRSgVfMC.

- innovation—the recent report of the President's Science and Technology Advisors documents the growing vulnerability of the U.S. position in manufacturing innovation.[2]

The decline of manufacturing in the United States is NOT a natural result of the U.S. being a high-wage country in a world in which developing countries now have competitive manufacturing sectors. Many other high-wage countries—such as Germany—have large trade surpluses. (To see the remarkable divergence between the U.S. and German trade experiences, see the online graphic at http://www.cfr.org/world/motion-chart-global-imbalances/p18962. German exports as a share of GDP equal nearly 50% and are even higher than China's. Germany's current account balance is 8% versus minus 5% in the United States. Japan also has a trade surplus.)

In the context of a vacuum at the federal level, Pennsylvania has, on its own, implemented elements of a manufacturing policy under the past five administrations, three Republican and two Democratic.

- In the deep recession of the early 1980s, under Governor Richard Thornburgh, Pennsylvania established the Ben Franklin Technology Partnership to accelerate the transfer of ideas from academic research institutions (e.g., Carnegie Mellon in Pittsburgh, Lehigh University in Bethlehem, or Drexel in Philadelphia) to the private sector.
- In the late 1980s, with guidance from business and labor leaders, Senator Casey's father established "Industrial Resource Centers" (or IRCs), which provide low-cost consulting to small and medium-sized enterprises (e.g., on how to improve efficiency or quality). The IRCs became a model for the "Manufacturing Extension Partnerships" scaled up nationwide by the Clinton Administration. The concept of the "MEPs" was to provide assistance analogous to the "agricultural extension" that had helped give the United States the most productive agriculture sector in the world.
- Under Governor Rendell, in response to pressure from the United Steel Workers and others faced with manufacturing job losses from 1998-2003, Pennsylvania implemented a multi-dimensional "manufacturing strategy." This strategy included:
  - Investment in training consortia (called "Industry Partnerships" in Pennsylvania) that help plug the skill gaps of key manufacturing industries;
  - the expansion statewide of a Southwest Pennsylvania program (the Strategic Early Warning Initiative) that identifies manufacturing companies in trouble before it's too late and, if jobs can be saved, designs services (e.g., process improvement consulting, financing, worker training) to avert layoffs;
  - the establishment of a trade office in Washington aimed at giving smaller businesses in our state—companies to small to afford $400 per hour lawyers—some access to U.S. trade laws;
  - a new manufacturing innovation initiative—"Keystone Innovation Zones"—which networks engineering and research faculty in higher education with companies that welcome assistance with problem-solving linked to process improvement and new product development; and, later,
  - Pennsylvania's 2004 "Advanced Energy Portfolio Standard" (followed by the 2008 Alternative Energy Investment Fund (AEIF)) which reserved a portion of future electricity markets for generation from renewables and other advanced energy sources, including wind and solar.

---

[2] For evidence, see President's Council of Advisors on Science and Technology, *Report to the President on Ensuring American Leadership in Advanced Manufacturing*, online at http://www.whitehouse.gov/sites/default/files/microsites/ostp/pcast-advanced-manufacturing-june2011.pdf

> Governor Rendell framed his manufacturing strategy as a response to analysis showing too many Pennsylvania manufacturers stuck in "commodity markets" with low margins—i.e., selling standard products that low-wage countries can produce for lower cost.[3] As a result, he provided additional resources to Pennsylvania's IRCs so that they could help companies develop business strategies that focused on non-commodity markets in which price pressure is less intense.

Since 1994, Pennsylvania's manufacturing employment has stopped declining faster than that of the nation. Since early 2010, the state's manufacturing jobs have actually started to increase, as they have nationally. Pennsylvania's efforts, however, have been hampered by a lack of resources for the efforts listed above. They have also been hampered by the continuing and disproportionate burden on U.S. manufacturers of health-care costs. Lastly, manufacturers have been hampered by one of the key issues under discussion today—U.S. trade policy.

The Need for More Balanced Trade: One central component of a manufacturing policy MUST BE new trade policies that ensure a move toward more balanced trade. Our trade policy—mislabeled as Free Trade—is not Fair Trade and has caused the flight of millions of good paying jobs. (If it was really "free trade" you wouldn't need large, fat books containing all of the detailed rules agreed to in each trade negotiation.) All you have to do is look at the Alliance for American Manufacturing web site (www.americanmanufacturing.org) to see how the jobs have flown.

Our current trade policies are justified based on a theory that sounds good on paper but fails to capture the way the economic integration process is actually working. Most importantly, most countries have policies that aim to protect their citizens and their economy, whereas our policy protects investors, whether they are citizens or not.

Let's take NAFTA as an example. NAFTA was sold to us as a trade deal that would bring hundreds of thousands of jobs to Pennsylvania and the United States. All we have seen is the continuing decline of manufacturing and growing trade deficits with both Mexico and Canada. Given that the U.S. priorities in NAFTA negotiations were protections for U.S. multinationals' investments and intellectual property in Mexico, the results of NAFTA were surprising only to free-trade economists.[4]

NAFTA is only one example of trade policies that have undermined America's middle class. Just yesterday, the Economic Policy Institute released a new update on the impact of our current trade policies towards China.[5] Since China entered the World Trade Organization in 2001,

---

[3]The Rendell manufacturing strategy is described in: Manufacturing Working Group of the Economic Development Cabinet, *Manufacturing Innovation A Strategy to Enhance the Competitiveness of Pennsylvania Manufacturers*, Harrisburg, December 2004. The study for Pennsylvania's Industrial Resource Centers that first made current the idea that too many manufacturers in the state are stuck in commodity markets was: Deloitte Consulting, *Manufacturing Pennsylvania's Future: Regional Strategies that Build from Current Strengths and Address Competitive Challenges* (Harrisburg: Team Pennsylvania Foundation, January 2004.). Online at http://www.newpa.com/build-your-business/key-industries/advanced-manufacturing-materials/manufacturing-research-reports.

[4]The one major Congressional study of NAFTA foretold the negative impacts of a narrow free-trade agreement focused on protections for investors. Unfortunately, Congress failed to heed to guidance of this study. See United States Congress, Office of Technology Assessment, *U.S.-Mexico Trade: Pulling Together or Pulling Apart*, Washington DC, September 1992, online at www.fas.org/ota/reports/9241.pdf.

[5]Robert E. Scott, *Growing U.S. Trade Deficit With China Cost 2.8 Million Jobs Between 2001 and 2010*, Washington, D.C., Economic Policy Institute, online at http://www.epi.org/publication/growing-trade-deficit-china-cost-2-8-million/. For additional analysis of the impact of trade on jobs in Pennsylvania, see http://www.citizen.org/Page.aspx?pid=3427.

- the trade deficit with China eliminated or displaced 2.8 million jobs, 1.9 million (69.2 percent) of which were in manufacturing;
- in Pennsylvania alone, the trade deficit with China eliminated or displaced 107,000 jobs.
- In both Pennsylvania and the nation, the manufacturing jobs eliminated or displaced due to trade with China represent *nearly half* of all U.S. manufacturing jobs lost or displaced between China's entry into WTO and 2010.
- In both Pennsylvania and the United States, the manufacturing jobs lost or displaced between China's entry into WTO and 2010 represented almost 2% of total employment (1.84% in Pennsylvania and 1.97% in the United States.
- Particularly unnerving, global trade in advanced technology products—ostensibly the "comparative advantage of the United States"—is now dominated by China, In 2010, the United States had a $94.2 billion deficit in advanced technology products with China, which was responsible for 34% of the total U.S.-China trade deficit. The United States had a $13.3 billion surplus in Advanced Technology Products with the rest of the world in 2010.

As EPI's brief explains, currency manipulation by China is a major cause of our trade deficit. While other currencies fluctuate freely against the dollar, China has tightly pegged its currency to the U.S. dollar at an exchange rate that maintains a large bilateral surplus with the United States. China maintains this policy by aggressively buying dollars while selling its own currency. EPI estimates this undervaluation at 28.5% of the U.S. dollar, even after recent appreciation in the yuan. Worse, China's currency manipulation leads other countries to follow similar policies to maintain their relative competitiveness and promote their own exports. Full revaluation of the yuan and other undervalued Asian currencies, EPI estimates, would create up to 2.25 million U.S. jobs, and lower the federal budget deficit by up to $857 billion over 10 years.

And recently at a meeting with representatives of the Chinese Wind Industry and Government officials I was told that I was the first American they had heard who said we want to bring manufacturing back to the US. Everyone else, I was told wanted to manufacture in China. I hope they were just being polite.

The Importance of Trade Adjustment Assistance and Worker Retraining. The Importance of Trade Adjustment Assistance (TAA) and Worker Retraining. For decades, one of the few trade-related policies on which broad consensus existed was the idea that workers displaced due to imports should receive income support coupled with access to training. Currently, TAA provides up to two years of income support plus a health-care tax credit and relocation assistance to take a new position. It also provides up to three years of training. The combination of training and long-term income support is universal for dislocated workers in most other advanced countries, independent of how they lost their job. This combination provides "a trampoline" that bounces re-skilled workers back into a good job rather than simply a safety net.

The U.S. broadened eligibility for TAA under the ARRA, expanding funds for training and allowing service workers to be certified as trade-impacted along with workers in supply chains upstream and downstream from directly impacted jobs. Now Congress has reverted to the narrower program (which dates back to 2002). This narrower program is currently set to expire in February 2012. Moreover, some voices suggest eliminating TAA.

The underlying thrust of the current discussion is that there is nothing special about trade-impacted workers so that we should give them no more support than other workers—i.e., we should give trade-displaced workers only unemployment insurance and the limited assistance with job search and training that is available under the Workforce Investment Act. The first problem with this thinking is that the support we give workers generally is inadequate. Even in a state such as Pennsylvania which has more generous benefits than most states, workers who actually receive unemployment benefits replace only about half their lost wages, on average. Moreover, as a recent report by the Pennsylvania Department of Labor and Industry documents, the long-term economic and social costs of joblessness to families are far higher than just the immediate loss of income.[6] At best, unemployment insurance is like having car insurance which, if you have an accident, you receive at most half the money you need to fix your car and no help with any other costs (e.g., health care costs because you get injured).

It would be particularly unfair for workers displaced by trade to receive only this inadequate assistance. The reason is that trade-displaced workers lose their jobs as a direct result of U.S. trade policies. For decades, moreover, the understanding has been that, if trade generates overall gains (leaving aside, for the moment, whether it actually does), some of those gains should be used to compensate workers displaced by trade.

In sum, weakening or eliminating TAA would polarize debates about trade policy even more. Instead, we should be looking to give all dislocated workers the level of support enjoyed by those who are trade-displaced. Countries with these kinds of active labor market policies—such as Denmark—do a much better job than the United States at providing employers with the skills they need. Smart and generous TAA policies can similarly be a key part of America's re-skilling efforts. When people are unemployed for an extended period following the loss of a long-term job, it makes no sense for the "norm" to be that workers simply receive income support: we should also enable workers to enter long-term training programs that allow them to acquire occupational credentials for jobs in demand that will support a family.

But most importantly what we have heard from recipients of TAA is that they want to be trained for jobs that exist now so they can get back to work. That is why it is essential that we work with local business organizations to determine what skills they need so we can get people to work. For instance while working with the Manufacturers Association of South Central Pa. on workforce development we found that small machine shops were in need of trained machinists and tool and die makers. Unfortunately those small businesses don't have the resources to do their own training so we tried to find some state and federal funds to help get people trained. One of the biggest improvements we could make to all training programs is matching needs with training.

The Role of Unions in the Revival of the U.S. Manufacturing Sector. In the last part of my testimony, I want to revisit the issue of the future of U.S. manufacturing and consider the role of unions in that revival. In so doing I recognize that I will expand the discussion of U.S. manufacturing policy beyond the boundaries of conventional "inside the Beltway" discussion. That seems to me a good thing to do.

It is widely recognized that unions played a critical in the U.S. manufacturing sector from the 1930s to the 1970s. One of the key roles of unions was to bargain for wage increases loosely tied to the 3% annual growth of productivity in manufacturing. These wage gains ensured that middle-class buying power kept pace with how much more output our powerful manufacturing economy could produce

---

[6] Stephen Herzenberg and Mark Price, *A Profile of Pennsylvania's Unemployed People*, Pennsylvania Department of Labor and Industry, Center for Workforce Information and Analysis, online at http://www.portal.state.pa.us/portal/server.pt?open=514&objID=780674&mode=2.

each year. As long as wages grew with productivity, consumption demand would grow and we would and another downward economic spiral such as the Great Depression.

At least since the 1980s, however, there has been a general tendency to see unions as no longer a positive force for U.S. manufacturers and U.S. manufacturing. Some critics have tried to blame unions for the decline of U.S. manufacturing. Leaving aside these debates about the past, as union density in manufacturing has declined it has become untenable to claim that unions are the source of the problems of the U.S. manufacturing sector.

Rather than just point out that unions are not "the problem" in U.S. manufacturing, I want to go further. I point below to four critical ways in which unions are once again poised to become a key part of the *solution* for U.S. manufacturing.

(i) First, the United States now has a widely recognized skill shortage in manufacturing. In my view, only a revival of skill-based manufacturing unions can provide the long-term solution to this shortage.[7] Let me explain why this is the case. One of the reasons for the U.S. skill shortage in manufacturing is that relative wages in manufacturing have fallen over time. Manufacturing does still have a wage advantage compared to other sectors: for example, workers without a college degree, especially in rural areas, earn more in manufacturing than in other sectors. But the manufacturing wage advantage has fallen over time. Moreover, a range of new technical jobs that compete with manufacturing for young workers have emerged in information technology, biotechnology, health care labs, services (e.g., copier and auto repair) and maintenance jobs throughout the economy. For many young workers, technical jobs outside manufacturing have a more "high tech" feel, and more apparent autonomy and freedom from close supervision, than manufacturing jobs.

Another reason for the manufacturing skill shortage is that labor-management apprenticeship programs that did exist in the 1960s and 1970s have declined. The decline of apprenticeship is a symptom of the general unwillingness of manufacturers to invest in non-supervisory workers. Over the next decade, manufacturers must find a way to invest more in their workers because of the increased premium on skills, high rates of retirement, and the first employment expansion in manufacturing in a dozen years.

What institutional solutions exist that could address these multiple roots (declining relative wages, underinvestment in workers, autocratic supervision and lack of autonomy on the job) of skill shortages in manufacturing? The most obvious solution would be a revival of manufacturing unionism that draws heavily on the traditions of craft unionism. That type of revival would increase investment in workers and raise wages and benefits so that manufacturing can compete for the most talented young people. Also important, a revival of manufacturing unions could ensure that workers have the voice and dignity on the job that helps attract and retain workers.

(ii) A second role of skill-based manufacturing unions could be to help invigorate innovation in America, including in "new markets" spawned by ongoing technological innovation (e.g., robotics) and the emergence of the clean economy. The Pennsylvania AFL-CIO is currently developing a partnership with some of Pennsylvania's great engineering universities to use highly-skilled unionized workers to provide new technology spin-offs with the skills they need to commercialize new products

[7]For an analysis of shortages in two occupational clusters, with a focus on Pennsylvania but also some national data, see Stephen Herzenberg and Mark Price, *Critical Shortages of Precision Machining and Industrial Maintenance Occupations in Pennsylvania's Manufacturing Sector*, report written for the Leadership Council of the Pennsylvania Center for Advanced Manufacturing Careers, online at http://www.paworkforce.state.pa.us/portal/server.pt/community/pa_center_for_advanced_manufacturing_careers/18909

and grow. Harking back to the strengths of building trades unions, unionized manufacturing workers often have the highest skills and unions can build on this advantage to help support the rebirth of the nation's manufacturing sector.

(iii) A third critical role of unions is to "block the low road"—make it harder for companies to compete using low-wage strategies that are a dead end for America because low-wage countries can always beat us at this game. The irresistible lure of the low road—and the continuing importance of unions blocking that path—have been driven home by a recent incident at the Hershey company in Central Pennsylvania. If any company might have been able to resist the low road, it is Hershey. The company is in a continuous process industry which is highly capital intensive and so labor costs are a small fraction of total costs. The company has a family friendly brand that is critical to sales and potentially threatened by bad publicity about worker exploitation. And, most unusual, a trust formed to benefit a school for underprivileged children holds a controlling interest in the company.

Despite these features, Hershey has pursued low-wage strategies with increasing creativity. It first shifted some production to single product non-union plants (e.g., to make Reese's pieces). It then moved some operations to Mexico. Most recently, in a packaging plant owned by a sub-contractor, Hershey relied on foreign students who paid several thousand dollars each for the privilege of participating in what they understood to be a "cultural exchange" visit to the United States. These students then found themselves packaging Hershey candy for about $8 per hour (not counting the upfront fee for the program and before you subtract the living costs taken out of the students' paychecks).

I raise this story here not simply—or primarily—to bemoan worker exploitation. I raise it to suggest that the absence of constraints on this type of company behavior undermines the capacity of the U.S. to compete based on skills and innovation. I explained why in an op ed in the *Philadelphia Inquirer* (online at http://articles.philly.com/2011-09-01/news/30029392_1_wages-hershey-foods-foreign-students). When companies isolate workers—in separate plants, in Mexico, or in subcontractors—away from higher-paid workers in order to cut labor costs, they cut the lower-wage workers out of cooperative efforts to increase productivity, quality, and innovation. Companies also foreclose the potential for performance improvement that cuts across product plants and suppliers upstream and downstream. Recall that labor-management cooperation and assembler-supplier cooperation are understood to be the central reason that Japanese automakers have enjoyed a competitive advantage: short-changing these types of cooperation is a major impediment to performance improvement. Last, within the United States, unprecedented inequality results from the co-existence of low-road strategies and higher-wage "high road" strategies pursued more privileged workers. High levels of inequality create polarized societies that often cannot muster the political will to invest adequately in the education and skills of people generally, or in infrastructure, research, and innovation. (Extreme inequality also undercuts intergenerational mobility—i.e., it kills the American Dream.)

Summing up, beyond its impacts for society and for our democracy, companies' freedom to pursue the low road undercuts the long-term performance of the U.S. manufacturing economy. That's why I suggested in the *Inquirer* that we need "network" unions that cut across companies entire supply chains. "Network" unions would generate long-term economic benefits for the U.S. because companies would be able to pursue productivity enhancing strategies with all their workers and through cooperation among plants at different points in the production chain. The boost these unions would give to the middle class would also make it easier to achieve political consensus on the need to invest in public goods (education and skills, infrastructure, innovation) vital to all manufactures.

(iv) The final reason that unions are critical to the revival of the U.S. manufacturing sector—and to the stability and growth of the global economy—is that they can help make sure middle-class wages keep pace with the massively increased productive capacity of the global economy. This role is simply an updating of the argument—circa the 1930s—about collective bargaining helping to lift us out of the Great Depression (and keep us out). Today, the "broken link between wages and productivity growth" that has accompanied the globalization of manufacturing means that countries such as China and Mexico do not have high enough wages to consume their own manufacturing output. That's why they have to sell so much to us. Union revival here—and union growth in our trading partners in which wages lag productivity growth—can get us to a Global New Deal.

As it stands, U.S. trade policies have made no effort to ensure that trade expansion is accompanied by rising wages in developing country trading partners. In a sense what we have done in the United is pursue a policy path that stifles demand. We don't see demand rising fast enough overseas and we don't see it rising here because more manufacturing jobs are going overseas. When that happens, we lose the other jobs—at suppliers and at consumer service companies—that depend on manufacturing jobs. At the end of the day, we have to make something, we can't just be a nation of sellers—we cannot just take in each other's laundry.

I believe one of the best ways to revive U.S. manufacturing is with the help of labor unions that have a central role in skill development and innovation. To distill my point to a sentence: we can't get to the high road in American manufacturing—and we can't rebuild the American middle class—without the help of broadly based high-road manufacturing unions.

american apparel & footwear association

Written Testimony
Submitted by the
American Apparel & Footwear Association (AAFA)

Before the
Joint Economic Committee

On
Manufacturing in the U.S.A: How U.S. Trade Policy Offshores Jobs

September 21, 2011

Dear Chairman Casey and Vice Chairman Brady:

Thank you for providing us this opportunity to provide written testimony for today's hearing titled "Manufacturing in the U.S.A: How U.S. Trade Policy Offshores Jobs."

The American Apparel & Footwear Association (AAFA) is the national trade association representing the apparel and footwear industries, and their suppliers. Our members produce and market sewn products throughout the United States and the world. In short, our members make everywhere and sell everywhere.

Our industry is truly on the frontlines of globalization. In 1991, domestic U.S. apparel production supplied 50% of the U.S. apparel market. In 1978, U.S. domestic footwear production supplied 47% of the U.S. footwear market. Today, we import 98% of all apparel and 99% of all footwear sold in the United States. Although many of our members still make some product in the U.S., it is made primarily for military and specialty markets.

Though this process of globalization has at times been painful for individual workers, companies, and communities, it has resulted in an industry that is highly competitive on a global scale, that keeps millions of Americans with well paying jobs, and ensures that U.S. consumers have a wide array of affordable and fashionable choices for their clothing and shoes. Moreover, by helping foster development in dozens of countries, our industry benefits millions of workers and their communities around the world, creating a platform around which democracies and stable economies can flourish.

The Impact of Trade on U.S. Workers in the Apparel & Footwear Industry
In 1980, U.S. apparel and footwear manufacturers employed almost 1 million workers. Today, U.S. apparel and footwear manufacturers only employ 170,000 workers.

Yet, our industry today employs almost 4 million U.S. workers. These Americans no longer work in the factory, but are often found in research and development, design, compliance, logistics, marketing, merchandising, and retail.

And these jobs are high-valued added jobs. The average hourly earnings for a worker in a U.S. apparel factory is $11.82/hour, while the average hourly earnings for a worker in a U.S. apparel or footwear

1601 North Kent Street, Suite 1200, Arlington, VA 22209 www.apparelandfootwear.org p (703) 524-1864 (800) 520-2262 f (703) 522-6741

brand (U.S. wholesale apparel and piece good trade) is $25.28/hour and the average hourly earnings for a worker in the retail side of the apparel and footwear business is $14.38/hour. Likewise, the average hourly earnings for a worker in transportation and logistics, a key link in the apparel and footwear supply chain, is $21.74/hour.

The Impact of Trade on U.S. Companies in the Apparel & Footwear Industry
With the decline in U.S. apparel and footwear manufacturing, one would expect that the U.S. apparel and footwear industry suffered accordingly.

In reality, the U.S. apparel and footwear industry not only survived, but thrived, creating a vibrant U.S. apparel and footwear market in the process. In 1975, the U.S. apparel and footwear market totaled an impressive $66.9 billion. In the last 35 years, though, the U.S. apparel and footwear market has quintupled in size, growing to $338.1 billion in 2010.

To put the size of the U.S. apparel and footwear market in perspective, one must compare apparel and footwear with other well known industries. In 2010, Americans spent $17 billion on bottled water, $22 billion on video games, $75 billion on fast food, $127 billion on soda, $175 billion on new cars and $277 billion on alcoholic beverages.

And while the actual garment or shoe might be assembled or sewn today in another country, as the job numbers mentioned previously demonstrate, most of the value of that product stays here, in the United States. In fact, only about 25 percent of the value of a garment or shoe, at retail, comes from the value of the materials and the direct manufacturing processes. In contrast, 75 percent of the value of the garment or shoe are often attributed to research and development, design, compliance, logistics, marketing, merchandising, and retail. Again, not only are such functions critical to the end product, but almost all of these high-paying, value-added jobs occur here in the United States.

The Impact of Trade on U.S. Consumers
One aspect of trade that is always overlooked is the benefit to U.S. consumers. This is especially important for clothing and footwear – two of life's necessities. The positive impact of trade on 1) the ability of hardworking American families to buy garments and shoes they need to clothe themselves and their children and 2) the ability for those same hardworking American families to spend more elsewhere in the economy cannot be overlooked.

While there has been much in the news recently that apparel prices are on the rise, the reality is that apparel has been in a deflationary cycle for much of the last 15 years. Between 1998 and 2010 apparel prices actually fell 10.1% and footwear prices barely budged. Meanwhile, overall retail prices rose over 33% over the same period. That means that real prices for apparel actually fell over 43% from 1998 to 2010 while real footwear prices fell 10%.

What does that mean for the average hardworking American family? That means they are getting more of life's necessities for less, and they have more of their income available to spend on the things they need elsewhere. To put in context, the average American household spent 6.47% of their income on clothing and shoes in 1975 (as represented by Personal Consumption Expenditures (PCE)). Today, the average American household spends 3.27% of their income on clothing and shoes.

Conclusion

With deep American roots and wide global vision, U.S. apparel and footwear companies are increasingly looking to expand their presence and market abroad. Our member companies combine their U.S. based expertise with foreign manufacturing to develop global brands known for quality, fashion, safety, and affordability. The results involve complex supply chains where individuals from Pennsylvania to Peru and from Texas to Thailand are working together to produce clothing and footwear that can be sold worldwide.

It is true that the story of the U.S. apparel and footwear industry is no longer centered around U.S. manufacturing. Yet these companies are weaving a new story that features higher value-added jobs, affordable clothing and shoes, global markets, and international partnerships that promote development at home and abroad.

For the millions of U.S. workers who depend on this model, and the policies that support it, trade means jobs.

Thank you for your time and consideration in this matter. Please contact Nate Herman of my staff at 703-797-9062 or nherman@apparelandfootwear.org if you have any questions or would like additional information.

STATEMENT of Daniel J. Ikenson
Associate Director, Herbert A. Stiefel Center for Trade Policy Studies,
Cato Institute, Washington, DC

before the

Joint Economic Committee of the United States Congress

Manufacturing in the USA: How U.S. Trade Policy Offshores Jobs

September 21, 2011

Introduction[1]

Too many U.S. policymakers, from Capitol Hill to the various executive branch agencies in Washington, tend to focus on foreign policies and foreign barriers when considering how best to improve the competitive prospects for U.S. firms. The presumption is that the major impediments to the success of U.S. firms are foreign born. Closed foreign markets, complex laws and regulations, overt flaunting of the trade rules, subtle protectionism, and unfair trade are the primary culprits that subvert the success of U.S. firms, discourage investment and hiring, and encourage offshoring of production. Indeed, that is the premise of today's hearing, as inferred from its description on the Committee's website.

But that premise is myopic and, frankly, irresponsible. It reinforces arguments for nonsensical policies, such as preserving our own barriers to trade and investment, which are nothing more than costs to U.S. businesses and families. Policies that raise the cost of doing business in the United States – such as our tariff regime and the trade remedies duties that the U.S. government imposes on broad swaths of industrial inputs – encourage manufacturers to at least consider moving operations abroad, where those materials are available at better prices.

[1] Citations for quotes and statements of facts can be found in the source materials from which this statement was derived, including: Daniel Ikenson, "Economic Self-Flagellation: How U.S. Antidumping Policy Subverts the National Export Initiative," Cato Trade Policy Analysis No. 46, May 31, 2011; Daniel Ikenson, "A Tariff-Reduction Plan for U.S. Jobs," *Wall Street Journal*, September 10, 2011; Daniel Ikenson, "One Expensive Job Forward, Two Existing Jobs Back," Cato-at-Liberty Blog Post, September 9, 2011.

Governments are competing for business investment and talent, which both tend to flow to jurisdictions where the rule of law is clear and abided; where there is greater certainty to the business and political climate; where the specter of asset expropriation is negligible; where physical and administrative infrastructure is in good shape; where the local work force is productive; where there are limited physical, political, and administrative frictions. This global competition in policy is a positive development. But we are kidding ourselves if we think that the United States is somehow immune from this dynamic and does not have to compete and earn its share with good policies. The decisions made now with respect to our policies on immigration, education, energy, trade, entitlements, taxes, and the role of government in managing the economy will determine the health, competitiveness, and relative significance of the U.S. economy in the decades ahead.

Policymakers and Media Mislead the Public about Trade and its Benefits

We live in a globalized economy where more and more U.S. jobs depend upon transnational collaboration – through integrated supply chains and cross-border investment. Most Americans enjoy the fruits of international trade and globalization every day: driving to work in vehicles containing at least some foreign content; communicating, shopping, navigating, and recreating on foreign-assembled smart phones; having higher disposable incomes because retailers like Wal-Mart, Best Buy, and Home Depot are able to pass on cost savings made possible by their own access to thousands of foreign producers; earning paychecks on account of their companies' growing sales to customers abroad; and enjoying salaries and benefits provided by employers that happens to be foreign-owned companies. Nearly 6 million Americans work for foreign subsidiaries in the United States.

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00078 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 51 here 71032.051

Still, too many Americans are of the view that exports are good, imports are bad, the trade account is the scoreboard, the trade deficit means the United States is losing at trade, and it is losing because our trade partners cheat. Many point to the trade deficit as the obvious explanation for the much exaggerated death of U.S. manufacturing. According to polling data, Americans are generally skeptical about trade and its impact on jobs, manufacturing, and the U.S. economy. And come to think of it: why shouldn't they be? After all, the public is barraged routinely with misleading or simplistic coverage of trade issues by a media that is too often heavy on cliché, innuendo, and regurgitated conventional wisdom, and lacking in analytical substance or balance. And demagogic politicians only fan the flames of misconception and misgiving.

The Obama administration has not been particularly helpful about correcting these misperceptions. In fact, the president is prone to using these scoreboard metaphors to describe trade, exhorting U.S. exporters to "win the future" or to secure foreign market share before other countries' firms get there or to beat the Chinese in developing this technology or that. This encouragement, with its incessant emphasis on exports as the benefits of trade and imports as its incidental costs, only reinforces the misconception that trade is a zero-sum game with distinct winners and losers. But trade does not lend itself to scoreboard metaphors because both parties to a trade are made better off. There are no losers, else the transaction wouldn't occur.

Policy Myopia

The centerpiece of the administration's almost indiscernible trade policy is the National Export Initiative, with its goal of doubling U.S. exports over five years (to $3.12 trillion by the end of 2014). That would be fine, except that nowhere in the administration's 68-page plan to

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00079 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 45 here 71032.045

double exports is the word "import" mentioned, except with respect to the section that speaks about strengthening the trade remedies laws to better discipline "unfair" imports. Some of the components of the NEI—such as streamlining U.S. export control procedures and concluding and signing trade agreements—are laudable ideas. But the plan is simply not good enough.

As currently executed, the NEI systemically neglects a broad swath of opportunities to facilitate exports by contemplating only the export-oriented activities of exporters. It presumes that U.S. exporters are born as exporters. But they are not. Before those companies are exporters, they are producers. And as producers, they are subject to a host of domestic laws, regulations, taxes, and other policies that handicap them in their competition for sales in the U.S. market and abroad.

According to a World Economic Forum survey of 13,000 business executives worldwide, there are 52 countries with less burdensome government regulations than those of the United States. Those regulations impose additional costs on U.S. businesses that sell domestically and abroad. As put by Andrew Liveris, chairman and CEO of the Dow Chemical Company, "How we operate within our own borders, what we require of business here, often puts us at a competitive disadvantage internationally." By neglecting these domestic impediments, the administration pretends that the obstacles to U.S. competitiveness and export success are all foreign-born.

The policy reform focus must be broadened to include consideration of the full range of home grown policies—such as taxes, regulations, tariff policy, and contingent protectionism—that affect U.S. producers and put them at a disadvantage vis-à-vis foreign competitors.

As producers first, most U.S. exporters are consumers of capital equipment, raw materials, and other industrial inputs and components. Many of the inputs consumed by U.S.

producers in their operations are imported or the costs of the inputs are affected by the availability and prices of imports. Indeed, "intermediate goods" and "capital equipment"—items purchased by producers, not consumers—accounted for more than 55 percent of the value of all U.S. imports last year – and 57 percent through the first half of 2011. That fact alone indicates that imports are crucial determinants of the profitability of U.S. producers and their capacity to compete at home and abroad. Yet the NEI commits not a single word to the task of eliminating or reducing the burdens of government policies that inflate import prices and production costs.

The president exhorts U.S. exporters to "win" a global race, yet he ignores the fact that the government's hodgepodge of rules and regulations has tied their shoes together. If the administration were serious about helping U.S. companies become more competitive and making the NEI a long-lasting institution committed to U.S. international competitiveness, it would compile an exhaustive list of laws, regulations, policies, and practices that are undermining the stated objectives of increased competitiveness, economic growth, investment, and job creation through expanded trade opportunities.

Near the top of that list would be America's self-flagellating treatment of imported intermediate goods and other industrial inputs required by U.S. producers to make their final products. Last year, U.S. Customs and Border Patrol collected $32 billion in duties on $2 trillion of imports, over $1 trillion of which were ingredients for U.S. production — such as chemicals, minerals and machine parts. Normal tariffs and special trade remedies duties (i.e., antidumping and countervailing duties) added roughly $15-20 billion to the overall price tag, which would have been even higher had companies not been compelled to shutter domestic operations and, in some cases, relocate abroad on account of the higher input costs.

President Obama understands this dynamic. Last year, when signing into law the Manufacturing Enhancement Act of 2010 (a bill to temporarily reduce or eliminate duties on certain imported raw materials) the president said:

> The Manufacturing Enhancement Act of 2010 will create jobs, help American companies compete, and strengthen manufacturing as a key driver of our economic recovery. And here's how it works. To make their products, manufacturers—some of whom are represented here today—often have to import certain materials from other countries and pay tariffs on those materials. This legislation will reduce or eliminate some of those tariffs, which will significantly lower costs for American companies across the manufacturing landscape—from cars to chemicals; medical devices to sporting goods. And that will boost output, support good jobs here at home, and lower prices for American consumers.

Yet, the president's National Export Initiative contains provisions to "strengthen" the antidumping law, which will further frustrate domestic producers' access to imported inputs.

Antidumping Reform Would Encourage Domestic Investment and Hiring

The U.S. antidumping law still enjoys support in Congress and within pockets of the executive branch. Although some of that support can be chalked up to politicians representing the narrow interests of influential constituencies that have mastered the use of the antidumping and its highly misleading rhetoric, much more support stems from a fundamental misunderstanding of the purpose, history, mechanics, and consequences of the law.

Too many policymakers passively accept the anachronistic rationalizations proffered by the steel industry, labor unions, other big antidumping users, and their hired guns in Washington. Too many buy into the idealized imagery of a patriotic, upstanding American producer working tirelessly to ensure the preservation of well-paying jobs for hard-working Americans, but is suffering the ravages of unscrupulous, predatory foreign traders intent on destroying U.S. firms and monopolizing the U.S. market.

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00082 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 53 here 71032.053

What politician could oppose a law presumed to protect that kind of a company against that kind of a scourge? But that is really a caricature, a myth. When the curtain is peeled back to expose the operation of the antidumping law, one can see a very different reality. Antidumping measures always raise the costs of firms in downstream industries that rely on the affected imports, and always claim domestic firms as victims. The law is often used as a tool by domestic firms waging battle for supremacy over other domestic firms, completely defying the foundational "us vs. them" premise upon which the AD status quo has come to rest. Sometimes foreign-owned firms are the petitioners and U.S-owned firms are the respondents. Rarely do antidumping restrictions lead to job creation or job restoration in the domestic industry, which is the most common claim of those seeking protection. And never is the allegation of "unfair trade" substantiated, or even investigated. Myth and misinformation explains the persistence of the U.S. antidumping regime.

In recent years, as U.S. producers of hot-rolled steel, saccharin, polyvinyl alcohol, nonmalleable cast iron pipe fittings, and silicon metal were "winning antidumping relief" from import competition and being liberated to raise prices, their U.S. customers—producers of appliances, auto parts, foodstuffs, pharmaceuticals, buildings, and solar panel components—were bracing for disruptions to their supply chains and inevitable increases in their costs of production.

In the period from January 2000 through December 2009, the U.S. government initiated 304 antidumping cases. Of those 304 initiations, final antidumping measures were imposed in 164 cases. Intermediate goods—inputs consumed by U.S. producers in the process of adding value to make their own downstream products—accounted for 130, or 79.3 percent of the decade's antidumping orders. Yet, in none of those cases were firms in downstream consuming industries given a seat at the table. Under the statute, the authorities are required to ignore any potential impact of AD measures on downstream industries – and on the economy at large.

The 130 antidumping measures on intermediate goods can be broken out further to distinguish the 99 cases involving inputs used by manufacturers of goods and the 31 cases involving inputs used by non–goods-manufacturing producers, such as construction firms, utilities, and mining and drilling operations. Both sets of import-consuming producers suffer the costs and consequences of antidumping restrictions. Both pass some of those costs down the supply chain to the next level of consuming firms or end users in the form of higher energy costs, higher food prices, higher apartment and office lease rates, and higher input prices.

But the industries that rely on the inputs in the 99 manufacturing cases are those that are most likely to export. It is the companies in those industries which the president exhorts to "win the future." It is those firms who are competitively disadvantaged at home and abroad on account of the wayward U.S. antidumping regime.

What is most striking about these cases is the asymmetry between the size and economic importance of the petitioning industry and the adversely affected downstream industries. For 35 of the 99 AD orders imposed on manufacturing inputs, the entire petitioning industry consisted of just one firm. Yet the ensuing trade restrictions affected dozens or hundreds of downstream firms in numerous industries. For example, in 2005, on behalf of a single producer, the U.S. government imposed antidumping measures on imports of a widely used industrial ingredient called purified carboxymethylcellulose (CMC) from Finland, Mexico, the Netherlands, and Sweden. CMC is an input for production processes in 17 downstream industries (according to USITC descriptions). Those combined industries accounted for $172 billion of exports and 2.6

million employees in 2010. In stark contrast, U.S. exports of CMC in 2010 amounted to only $35 million. Yet the tail wags the dog.

In 2003, on behalf of a sole domestic producer, antidumping duties were imposed on imports of the artificial sweetener saccharin from China. Saccharin has widespread uses in the production of various food and beverage products, pharmaceuticals and medicines, as well as cleaning compounds. U.S. producers in these downstream industries accounted for $249 billion in U.S. exports in 2010 and employed 1.9 million workers. Meanwhile, U.S. exports of saccharin in 2010 came to slightly more than $7 million.

The fact that a single U.S. producer of a crucial manufacturing input can prevail in its efforts to limit its customers' access to alternative sources of supply should raise some eyebrows among policymakers. The fact that it is routinely the case that the antidumping law affords suppliers the ability to assert market power over their customers without any consideration of the economic consequences should be a wake-up call for those who fancy themselves stewards of sensible economic policy.

U.S. Foreign Trade Zones Encourage U.S. Production – Stop Undermining Their Appeal

Under the U.S. Foreign Trade Zones program, some of the costs inflicted on downstream, import-consuming firms can be mitigated. (Of course, the program wouldn't be necessary if U.S. duties were recognized as just another cost of production and set, optimally, at zero.) Among the aims of the FTZ program is to encourage manufacturing activity in the United States (and to discourage manufacturers from shuttering domestic operations and moving offshore as a result of the burden of paying U.S. customs duties).

FTZs are usually manufacturing plants or facilities physically located within the United States, but considered outside U.S. territory for the purpose of customs duty payment. Goods that enter FTZs are not subject to customs duties (including antidumping or countervailing duties) until they leave the zone and are formally entered into the commerce of the United States. If those goods are used as inputs to a further manufacturing process, the rate of duty applicable to the final product is assessed. If the goods are exported from a FTZ, with or without further processing, no duties are imposed because the product never officially "entered" the United States.

With respect to products made from materials and components subject to AD or CVD duties, the standing regulations require FTZ operators to get advance approval from the Foreign Trade Zones Board if the intention is to sell those final products in the United States. That requirement *does not* apply when the final product is going to be exported from the FTZ, which provides some incentive to downstream U.S. firms to keep production in the United States by operating as a FTZ.

But now the Obama administration—at the behest of the antidumping petitioners' bar and organized labor, and despite its own exhortations to U.S. companies to double exports, invest in America, and put Americans back to work—is proposing to seal off that channel of sanity and compromise. New regulations would require advance approval even if the final product was going to be exported.

The requirement of advance approval from the FTZ Board, which is administered within the Import Administration—the same agency at the Commerce Department that simultaneously assists protection-seekers in crafting their AD/CVD petitions, while gleefully implementing and

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00086 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 55 here 71032.055

administratively adjudicating the antidumping and countervailing duty laws—will tip the balance in favor of outsourcing production for many firms in many industries. Any benefits of continuing to produce in the United States will be diminish next to the rising costs and uncertainty of doing so.

Thus, companies like Dow Corning, which uses silicon metal to produce silicone components for solar panels, will have that much more incentive to shutter operations in Kentucky and set up shop in Canada or elsewhere, where silicon metal is available at lower world market prices, so that it can compete in foreign solar panel markets with Chinese, Japanese, Canadian, and European rivals.

Asking American firms to invest and hire, while simultaneously pushing policies to raise the cost of those activities, reflects either profound cynicism or incompetence.

Conclusion

At a time of growing concern over the competitiveness of U.S. firms, when even this administration claims to be looking for ways to streamline regulations and reduce other burdens on businesses so that they will invest and hire, it is hard to believe that reform of the U.S. tariff schedule, with its $20 billion burden on U.S. producers has been ignored. It is utterly absurd that antidumping reform has not only been overlooked, but that Commerce has proposed to strengthen the law as part of the NEI. Likewise, it makes no economic sense to subvert the purpose of the U.S. foreign trade zones program, which is intended to encourage domestic economic activity and to dissuade offshoring of production.

The fact is that antidumping measures, as well our normal MFN tariffs, represent a huge drag on the competitiveness of downstream, value-added U.S. producers and a subsidy to foreign

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00087 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 49 here 71032.049

downstream, valued-added producers. None other than U.S. Trade Representative Ron Kirk made that point in the U.S. WTO case against Chinese raw material export restrictions earlier this year. He said:

China maintains a number of measures that restrain exports of raw material inputs for which it is the top, or near top, world producer. These measures skew the playing field against the United States and other countries by creating substantial competitive benefits for downstream Chinese producers that use the inputs in the production and export of numerous processed steel, aluminum and chemical products and a wide range of further processed products.

These raw material inputs are used to make many processed products in a number of primary manufacturing industries...These products , in turn become essential components in even more numerous downstream products.

How can President Obama be serious about improving U.S. competitiveness when his Commerce Department is seeking to strengthen antidumping rules and the Foreign Trade Zones Board is moving to foreclose, or at least complicate, zone activities that use inputs subject to AD/CVD to make final products that are exported? How can we allow the president to throw nearly $100 billion in subsidies to solar, windmill, and lithium ion battery technology, while his policies make it more difficult to secure the necessary ingredients to produce and compete in those industries?

Let me conclude with an observation from the astute, mid-19^{th} century French economics writer Frederic Bastiat. In 1850, he wrote:

Between Paris and Brussels obstacles of many kinds exist. First of all, there is distance, which entails loss of time, and we must either submit to this ourselves, or pay another to submit to it. Then come rivers, marshes, accidents, bad roads, which are so many difficulties to be surmounted. We succeed in building bridges, in forming roads, and making them smoother by pavements, iron rails, etc. But all this is costly, and the commodity must be made to bear the cost. Then there are robbers who infest the roads, and a body of police must be kept up, etc.

Now, among these obstacles there is one which we have ourselves set up, and at no little cost, too, between Brussels and Paris. There are men who lie in ambuscade along the frontier, armed to the teeth, and whose business it is to throw difficulties in the way of transporting merchandise

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00088 Fmt 6601 Sfmt 6621 C:\DOCS\71032 DPROCT

Insert offset folio 56 here 71032.056

from one country to the other. They are called Customhouse officers, and they act in precisely the same way as ruts and bad roads.

With no intended disrespect to CBP officers or employees – it's only a personification of bad policy – this is what we have done. We have overcome the physical barriers – the bad roads, the swamps, the oceans, and shallow harbors – only to erect our own barriers. In a perfect world there would be no duties at all. The costs of imports, including duties, are production costs for firms and living expenses for families. Policies that portend to improve prospects for U.S.-based production and U.S. families should aim to reduce those costs, not increase them.

VerDate Nov 24 2008 11:54 Jan 18, 2012 Jkt 071032 PO 00000 Frm 00089 Fmt 6601 Sfmt 6611 C:\DOCS\71032 DPROCT

Insert offset folio 50 here 71032.050