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BEFORE THE COMMITTEE ON WAYS AND MEANS TRADE SUBCOMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES
HEARING ON OPPORTUNITIES TO EXPAND U.S. TRADE RELATIONSHIPS IN THE ASIA-PACIFIC REGION
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Chairman Reichert, Ranking Member Pascrell, and members of the committee, thank you for the opportunity to testify on behalf of the Alliance for American Manufacturing (AAM) at today's hearing on opportunities to expand U.S. trade relationships in the Asia-Pacific region.

The Alliance for American Manufacturing is a non-profit, non-partisan partnership formed in 2007 by some of America's leading manufacturers and the United Steelworkers. Our mission is to strengthen American manufacturing and create new private-sector jobs through smart public policies. We believe that an innovative and growing manufacturing base is vital to America's economic and national security, as well as to providing good jobs for future generations. AAM achieves its mission through research, public education, advocacy, strategic communications, and coalition building around the issues that matter most to America's manufacturers and workers.

As AAM approaches its 10-year anniversary, we are proud to have helped call attention to some of the most pressing trade issues impacting American manufacturing – including global industrial overcapacity, dumping and subsidies, state-owned enterprises, currency manipulation, theft of trade secrets, and the need to better negotiate trade agreements. As we look to determine ways to expand trade relationships in the Asia-Pacific region, it is vital to the success of U.S. companies and American workers that we concurrently seek to adopt policies that strengthen U.S. competitiveness and counteract the massively lopsided and growing trade deficit with China, as well as the significant and increasing deficits with South Korea, Japan, and other nations.

U.S-China Trade Deficit is Unparalleled in its Magnitude and Adverse Impact

Since Beijing's 2001 entry into the World Trade Organization (WTO), the U.S. bilateral trade deficit with China has more than quadrupled, from $83 billion in 2001 to $347 billion in 2016. The U.S.-China trade deficit in 2017 in on pace to go even higher. In just 15 years, the impact of the surging U.S-China trade deficit on U.S. companies and American workers has been severe and too often overlooked. Our communities have shed more than 54,000 manufacturing facilities and we've seen our global market share in manufactured exports shrink from 14 percent in 2000 to 9 percent in 2013. Altogether, a staggering 3.4 million jobs, largely in manufacturing, have been lost because of this massive trade imbalance. Each state and every congressional district in the United States has experienced lost jobs. And the losses extend into nearly every sector of the economy, ranging from computer and electronic parts to textiles and apparel, furniture, steel, aluminum, and other capital-intensive sectors.[i]

While the United States maintains significant and growing trade deficits with other Asia-Pacific region countries, none come close to the unparalleled magnitude and adverse impact of the China trade deficit on our economy. Still, they are significant and merit the consideration of this committee as it looks at ways to expand trade.

- **South Korea.** It was promised that the U.S.-Korea Free Trade Agreement (KORUS) would support 70,000 U.S. jobs and increase exports of American goods by $10 to $11 billion. Yet, the U.S. trade deficit with South Korea jumped $15.1 billion between 2011 and 2015 (from $13.2 billion to $28.3 billion), resulting in the estimated elimination of more than 95,000 jobs.[ii] And, in 2016, it remained at a stubborn $27.6 billion – a clear sign that the trade agreement hailed as a job creator has not opened new markets for U.S. automobiles and other products, as was promised.

- **Japan.** Meanwhile, it has been estimated that the trade deficit with Japan – fueled by currency practices – is estimated to have eliminated nearly 900,000 U.S. jobs as the goods deficit reached $78.3 billion in 2013.[iii] It has remained at unacceptable levels ever since.

Reducing Trade Deficits Should be a Measure of Success

In May, we applauded the Trump administration for prioritizing the elimination of significant trade deficits and for issuing Executive Order 13876 to examine the causes of our bilateral trade deficits with China and other major trade partners. The United States has been running persistent trade deficits since the 1980s, turbocharged by the entrance of China into the world trading system. A wide range of respected economists point to trade deficits and increased imports as a drag on the U.S. economy, leading to job loss and harm to our innovation base.

David Autor, Daron Acemoglu, and Brendan Price of *MIT*, joined by other respected economists, argue that "the increase in U.S. imports from China, which accelerated after 2000, was a major force behind recent reductions in U.S. manufacturing employment and that…it appears to have significantly suppressed overall U.S. job growth." Their research shows "net job losses of 2.0 to 2.4 million stemming from the rise in import competition from China over the period 1999 to 2011." [iv]

Meanwhile, we have become all too familiar with stories of U.S. technology moving to China; or, of U.S. technology being manufactured offshore. In 2016, the U.S. amassed an $83 billion advance technology products trade deficit with the rest of the world.[v] China alone enjoyed a $120.7 billion bilateral surplus in advanced technology products with the United States in 2015.[vi]

Trade deficits matter and there is compelling research showing that reducing trade deficits would yield positive outcomes for our economy. For instance, a reduction of the U.S. global trade deficit by between $200 billion and $500 billion each year "could increase overall U.S. GDP by between $288 billion and $720 billion and create between 2.3 million and 5.8 million U.S. jobs."[vii]

To those who have made unfounded claims that the loss of five million U.S. manufacturing jobs, or roughly a third of the total amount, since 2000 was the result of increased productivity, and not trade deficits, the data does not support your claim.[viii] According to the Economic Policy Institute (EPI), between 2000 and 2007, 3.6 million manufacturing jobs were lost. Yet, productivity growth declined, falling from 4.1 percent per year in the 1990s to 3.7 percent per year. The drop in the rate of growth of manufacturing output to 0.5 percent per year is largely the result of the rapid growth of the manufacturing trade deficit. Meanwhile, the Great Recession and financial crisis was largely responsible for the decline in manufacturing output and job loss from 2007 to 2014. Manufacturing trade deficits continued to surge over this period following the Great Recession.[ix]

The Information Technology & Innovation Foundation (ITIF) attributes a "significant share of the [manufacturing job] losses to increased trade pressure and dwindling U.S. competitiveness, which suggest that the nation could reclaim manufacturing jobs with the right policies." *ITIF* adds that "the precipitous loss of U.S. manufacturing jobs in the last 17 years was not natural nor inevitable, nor was it primarily caused by automation." Countering critics' arguments, *ITIF* suggests that "If the United States is to reduce the trade deficit in goods, it will need to find a way to produce more here, in part by significantly increasing manufacturing productivity growth rates. If it can do that and eliminate the manufactured trade deficit, *ITIF* estimates the nation would gain an additional 1.3 million manufacturing jobs."[x]

Proactive Approach is Necessary to Expand Trade and Eliminate Trade Deficits

For too long, our trade policies haven't been focused on supporting our manufacturing sector but, in many ways, have undermined it. The United States is long overdue for a new approach to trade, especially with China. It is both possible and desirable to create a trade policy framework to support a resurgent, made in America manufacturing base.

The United States has considerable economic leverage to shrink our $347 billion 2016 trade deficit with China. U.S. exports to China account for less than a percent of our GDP, our banks hold less than a percent of their assets in China, and multinational companies derive less than two percent of their revenue from there.

Taking action to strengthen key U.S. sectors is hardly a radical proposition and there is clear precedent in our not too distant past of bold leadership and outside the box thinking. President Ronald Reagan adopted a flurry of measures to address an uneven playing field with European nations and Japan. His administration's aggressive actions helped revitalize our semiconductor industry and the iconic Harley Davidson. The Plaza Accords, which raised the value of currencies in Japan and Europe relative to the dollar, had a positive effect in lowering our trade deficits.

It's Time for the White House to Complete Key Trade Actions

After nearly 10 months in office, President Trump and his administration have promised to crack down on unfair trade and negotiate better trade agreements. Yet, on many key issues, the administration's words have resulted in either inaction or confusion as to the path forward. We remain encouraged that the President shares the goal of changing the status quo of persistent trade deficits, lost jobs, theft of our innovation base, and the steady erosion of our manufacturing capacity and workforce. But, it's time to act.

For example, the President repeatedly promised to label China a currency manipulator. However, China was not listed as a currency manipulator on the Treasury Department's Semiannual Report on International Economic and Exchange Rate Policies.

Also, the President initiated Section 232 investigations on steel and aluminum imports' impact on U.S. national security. However, we are now well beyond the administration's own self-imposed deadlines and American workers have been left without a clear timeline as imports continue to surge. I will discuss this issue later in my testimony.

Again, it is our hope that the administration, working with Congress, will follow-through on its tough trade rhetoric and begin to take proactive steps to mitigate the continued damage being done to our manufacturing base. For many communities across America, this can't come soon enough.

Recommended Actions for the Administration and Congress

Outlined below are some of the issues AAM believes need to be addressed for the United States both to expand trade relationships in the Asia-Pacific region in a manner that increases domestic production and to ensure that our markets do not become flooded with unfairly traded products.

- **Global Industrial Overcapacity.** Many U.S. industrial sectors are suffering from unprecedented challenges due to global overcapacity – largely fueled by China – which dampens prices and has forced plant closures and massive layoffs. Despite slowing demand in the Chinese market, Beijing continues to maintain high levels of production with subsidies and other state support, undermining U.S. companies that compete based on market considerations. In fact, a recent report shows that, despite China's claims of capacity closures in 2016, its net steelmaking capacity actually *increased.*[xi] The G20 established the Global Forum on Steel Excess Capacity as a venue to directly engage China on this issue. For it to yield meaningful results, it will be necessary to establish verifiable and enforceable criteria for the elimination of industrial capacity in key sectors like steel and aluminum.

  China will only respond, and America will only benefit, if there are enforceable mechanisms to ensure that Beijing is living up to its commitments. For the past ten years, China has delayed concrete action with lofty promises to cut capacity that never materialize. Despite repeated public pronouncements dating back to 2009 of plans to aggressively cut capacity, China's steelmaking capacity has increased over 400 million metric tons, roughly equivalent to five times the total production of the U.S. steel industry in 2016. The G20 Global Forum on Steel Excess Capacity cannot be another tool to be used by the Chinese government to delay meaningful change. We have urged the administration to accelerate the work of the Global Forum and press for verifiable and enforceable net reductions in global overcapacity.

- **Trade Enforcement.** America's trade enforcement laws are the backbone of U.S. trade law and represent that last line of defense for workers facing unfair trade. Strict enforcement is vital to the preservation of a rules-based trading system – one in which American workers are not forced to compete against the endless resources of a foreign government that props up its state-run companies. Timely enforcement of U.S. trade remedy laws is vital to leveling the playing field for U.S. companies and American workers impacted by unfair trade practices – like dumping and subsidies. While our trade remedy laws help mitigate the damage, rarely do they restore all the lost jobs or make an impacted community whole again. Significant time and cost – and injury – is required to proceed with a trade enforcement case. In some cases, entire plants must be shut down before relief can be delivered. This makes no sense. We must ensure that timely and effective relief from such market distortions is available before plants are forced to close and workers lose their jobs.

  We appreciate the work of this committee in the passage of the Trade Facilitation and Trade Enforcement Act of 2015, which provided new tools to speed trade enforcement and to crack down on evasion of existing trade orders. It is simply unfair to U.S. companies and their workers for trade remedies to be circumvented – resulting in further harm and larger trade deficits.

- **Maintain China's Non-Market Economy Status.** No one can seriously claim that Beijing runs a market economy, but the Chinese government desperately wants to be treated that way. Under U.S. law, China is and should continue to be treated as a non-market economy (NME). Any change to this status would severely undermine America's trade remedy laws and expose U.S. companies and American workers to more dumped imports. Such changes can only be made if China meets six specific criteria demonstrating that market forces, and not the government's party leadership, are directing the economy. China fails to meet any of the six criteria and should focus on reforms rather than its attempts to shortcut this issue by way of the WTO.

- **Cyber Theft.** It is critical that the government provide support when foreign interests steal trade secrets to manufacture products abroad and send them to the United States. Theft of intellectual property and trade secrets has been a serious problem with China. U.S. companies report that Chinese interests have not only stolen sensitive trade secrets, but that Chinese firms are now commercializing that valuable intellectual property into Chinese products. It is outrageous that U.S. companies are being forced to compete against the very products that they spent years and significant financial resources to develop.

We are deeply concerned that Section 337 of the Tariff Act of 1930 has proven to be an ineffective remedy for U.S. manufacturing companies injured by cyber theft, trans-shipments and duty evasion, and other predatory trade practices. If the statute does not work as it was intended, Congress needs to change it so that our companies are not subjected to dishonest and criminal activity without the opportunity to seek effective and timely relief.

- **State-Owned Companies.** China has many state-owned and state-directed enterprises (SOEs) that send dumped and subsidized goods into the U.S. market. In a disturbing trend, China's SOEs are also now aggressively seeking to invest here in America, putting further strain on U.S. firms that make decisions based on market forces. It is vital that we strengthen our system of reviewing foreign acquisitions of strategic U.S. companies and operations so that they do not fall under the control of the Chinese government.

- **Currency Manipulation.** A strong dollar remains a heavy burden on the U.S. economy. Cheap imports, combined with weak demand from overseas, hinders growth in America's manufacturing sector. This trend has played out from 1987 to 2009 and 2011 to present as periods of sustained manufacturing trade deficits in the United States coincide with strong dollar policies. Making matters worse, China, Japan, South Korea, and other major trading partners have a long history of currency manipulation, which contributed to the loss of five million U.S. jobs.[xii] Despite claims that the yuan is no longer undervalued, there is ample evidence that Beijing continues to play an active, daily role in setting exchange rates.

  We urge the passage of legislation to treat foreign currency manipulation as a subsidy under trade remedy laws. And, we support the inclusion of strong, enforceable rules in trade agreements to deter and penalize currency manipulation. We will also be closely watching as the administration prepares to release yet another Semiannual Report on International Economic and Exchange Rate Policies, due by October 15th.

- **Automobiles and Rules of Origin in Trade Agreements.** A trade agreement's rules of origin determine the national source of a product. This is important because only those countries bearing the risks and responsibilities of signing an agreement should obtain its benefits. We believe the rule of origin on automobiles in NAFTA and other trade agreements should be strengthened, so that workers in signatory countries can enjoy more of the benefits, while minimizing the advantages of non-participating countries. In the context of the NAFTA negotiations, automobiles and auto parts from countries such as Japan, South Korea, and China, all of which heavily protect their own industries, should not be permitted to displace North American production through rules of origin that are set too low.

As it relates to KORUS, more work must be done to open the Korean market – one of the most difficult for our automakers to export into despite the signing of a trade agreement intended to open the market. Our companies and workers face countless non-tariff barriers that continue to protect the Korean market. According to Secretary Ross, "Only 25,000 cars per Big Three manufacturer are allowed in based on U.S. standards. Anything above that needs to be on Korean standards… So that kind of rule-making affects quite a few industries and really restricts the access that U.S. companies have to the Korean market."[xiii]

It's Time to Act on the Section 232 Investigation

Last, but certainly not least, I want to focus your attention to the pending Section 232 investigations on the impact of steel and aluminum imports on U.S. national security. In April President Trump directed the Department of Commerce to complete these self-initiated investigations under an expedited timeline. Here's what he said in an Oval Office ceremony:

"For decades, America has lost our jobs and our factories to unfair foreign trade. And one steel mill after another has been shut down, abandoned and closed and we're going to reverse that…As I traveled the country, I saw the shuttered factories and the shuttered dreams and I pledged that I would take action. And I think it's probably one of the primary reasons I'm sitting here today as president… Today, I'm directing the Department of Commerce to immediately prioritize the investigation…into foreign steel arriving into our markets and to submit a report on the effects of these foreign steel products on the national security of the United States…Maintaining the production of American steel is extremely important to our national security and our defense industrial base. Steel is critical to both our economy and our military. This is not an area where we can afford to become dependent on foreign countries… Based on the findings of this report, Secretary Wilbur Ross will make formal recommendations to the

> *White House in [the] very, very near future. He'll be back very soon with those recommendations that we will implement."* - President Trump, April 20, 2017 - The Oval Office

In late-May, the administration said the reports would be released in June and, just days later, the President himself publicly said the 232 reports would be coming "very soon" and that "we're going to stop the dumping."

> *"…we have no intention of taking 270 days. Our hope would be to complete the report by the end of June."* - Commerce Secretary Wilbur Ross, May 24, 2017 – Section 232 Public Hearing

> *"I look forward to reading the @CommerceGov 232 analysis of steel and aluminum- to be released in June. Will take major action if necessary."* - President Trump, May 27, 2017 – Twitter

> *"Wait until you see what I'm going to do for steel and for your steel companies…We're going to stop the dumping, and stop all of these wonderful other countries from coming in and killing our companies and our workers. You'll be seeing that very soon. The steel folks are going to be very happy."* - President Trump, June 7, 2015 – Cincinnati, OH

Months have now passed and we do not have a clear understanding of when they will be completed. Just recently, American workers were told that the administration intends to complete tax reform and other legislative priorities before it can again focus on the Section 232 investigation. It is difficult to understand how one issue has anything to do with the other, and America's workers deserve a better explanation.

All the while, the import problem is worsening for American workers and U.S. companies. Since the investigations were announced, steel imports have soared 21 percent as foreign countries have rushed product into the U.S. market in anticipation of promised action to adjust imports. And, we recently received news that several steel mills in Pennsylvania would be reducing operations, including one that produces armor plate for the U.S. military and played an important role in supporting the production of armored vehicles to protect our service men and women from IED attacks in Iraq and Afghanistan.[xiv]

Further delay results in a greater threat to America's economic welfare and national security. Our national security rests on a healthy industrial base. Domestic production of steel and aluminum are vital in the manufacture of America's military and critical infrastructure, including everything from ships and tanks to bridges and energy infrastructure. If domestic manufacturing capabilities deteriorate further, we may be forced to rely on countries like China and Russia to supply steel for our military and critical infrastructure needs. We cannot let that happen. It is time to complete the Section 232 investigations and take decisive action to safeguard America's economic welfare and national security.

Conclusion

Thank you for the opportunity to testify today. We look forward to working with each of you to advance policies that will benefit American manufacturing and revitalize America's manufacturing sector – a major economic driver, foundation of U.S. national security, and source for millions of family-sustaining jobs. Together, we can *Keep It Made in America*.

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