Senate Democratic Policy Committee Hearing

"An Oversight Hearing on Trade Policy and the U.S. Automobile Industry"

Friday, February 17, 2006
10:00 a.m. – 12:00 p.m.
485 Russell Senate Office Building

Transcript

SENATOR DORGAN: Good morning, this is a hearing of the Democratic Policy Committee. I want to go over a couple of opening statements about these hearings. We have held very many hearings over recent years. The law that creates the policy committees, both the Democratic and Republican Policy Committee was passed in 1947; it anticipates hearings by policy committees to deal with policy issues and proposals for the respective caucuses. I have again for this hearing as I have for all hearings have an open invitation to our colleagues on the Republican side of the isle as well. We expect to be joined by other Senators this morning, and as I you can see I am joined by our two colleagues from Michigan, Senator Levin and Senator Stabenow. This particular hearing is a hearing about trade policy and the US automobile industry.

I would like to make a couple of opening comments that would describe the reasons why I was persuaded why we should have a hearing of this type. We know that Ford Motor recently announced that it was going to be laying off about 30,000 workers and that followed an announcement some months earlier by GM's 25 to 30,000 lay offs, and the closing of plants at both Ford and GM. I know that one of the major car companies held a meeting that was reported in the Detroit Free Press last spring, and called in all their parts suppliers all the companies that supplied parts and said 'You need to be thinking about moving to China in order to reduce costs.'

When I heard the announcement about the lay offs in the automobile industry, a couple of things occurred to me. One, there's no question that competition in the auto industry has produced better vehicles; Competition from abroad, competition generally is the stimulant to produce better vehicles, so I'm not suggesting we shouldn't be required to compete and compete aggressively. I am concerned about a number of things however. In the area of international trade I think we have set up a system that is fundamentally unfair to the production of automobiles in the U.S. Let me describe what I mean by that with some charts.

This chart shows that in the South Korean marketplace, 99% of the cars on the road are Korean made. Is that an accident? Well ask the people that are producing the Dodge Dakota pickup, and have them give you the history of trying to sell Dodge Dakota pickups in Korea; you'll understand this is not an accident. The country of Korea wants automobiles on the road in Korea to be made in Korea. Now let me show you what happened with bi-lateral automobile trade with Korea last year. Korea sent us 730,867 vehicles made in Korea, put them on ships to be sold in the US marketplace. Guess how many US vehicles were sold in the country of Korea? It wasn't 730,000, it was 4,200. Why this huge imbalance? Because we have a trade relationship in automobiles in Korea that allows the Korean government to say we don't want US automobiles to be sold in Korea; allows them to create dozens of barriers to keep them out, so you have this huge imbalance, all those jobs to produce cars are somewhere else, not in the United States. Those cars are put on ships, is that a fair trade situation? Of course not, it doesn't make any sense at all.

Now let me show you a Time Magazine article, again on the heels of huge layoffs in this country by Ford and GM. This is January 10th a year ago, and here come the really cheap cars; Chinese pirate companies have long been accused of copying easy stuff like shoe polish and digital movies; now GM has a Chinese firm knocking off an entire vehicle. Let me show you the two vehicles; although this has been settled out of court, the terms of the settlement have never been disclosed. The allegation by GM is that a Chinese company stole the designs and blueprints and as you can see there's only one letter difference: The Chevy spark, the Cherry QQ. We have other descriptions of these cars headed toward the US. In 2007, we will see the automobiles being sold from China, in the US.

This is a February 17, 2006 article, that is from today's paper. It says 'China is pursuing a novel way to catapult automaking into a global force: buy one of the world's most sophisticated engine plants, take it apart piece by piece, transport it halfway around the globe and it put it back together again at home.' Then it says, 'Wages of less than $100 a month have helped control the cost. Mr. Yin has no doubts that China can also compete with the United States. Americans work 5 days a week, we in China work 7 days. Americans work 8 hours a day, we work 16.'

One final point, the bi-lateral trade agreement that was negotiated with China, was a trade agreement that said 'By the way in the future after a phase in, any US cars that are made in the US and sold in China will bear a tariff of 25%. Any cars that are produced in China and sold in the US will bear a tariff of 2.5%'. So, what we have said to a country with which we have the largest trade deficit in human history; 'We would agree that you can impose a tariff that is 10 times higher than the tariff we would impose on automobiles moving back and fourth'. I would love to find the name of the American negotiator that agreed to that kind of nonsense. That pulls the rug out from our country's economic interests, it pulls the rug out from under our country's automobile makers, it is unbelievably ignorant for us to have negotiated that kind of proposal. Yet as we confront automobile trade with China, there are many other facets my colleagues will describe them as well. As we confront a new set of imports in automobile trade from China, we have something that sets our companies up for failure because we've said the Chinese can impose a tariff 10 times higher than the one we would impose. There's something terribly wrong with that, and yet no one wants to talk about it, no one wants to do anything about it; all they want to do is stand on a corner in the world chanting 'free trade.' They ought to have symbols when they do that, make some noise on those street corners. But none of this makes sense for our country; the question is 'Is trade fair?' In auto trade, I've only mentioned China and Korea, but I could have gone much much longer in an opening statement. This is an example of fundamentally unfair trade, that in my judgment undercuts this country's economy, companies, and workers. So I won't express an opinion—I guess I did. I'm pretty opinionated about these trade issues, and I've specifically chosen the auto issue because it's been so much in the news, and it's going to have a profound impact on jobs, and the question is what should we do about that? What kind of public policy should we pursue?

I'm very pleased to be joined by Senator Levin and Senator Stabenow. Senator Pryor will be joining us shortly. Senator Levin:

SENATOR LEVIN: Senator Dorgan first thank you for your continued effort with the Democratic Policy Committee to bring to the public attention some of the failures in terms of our economy; the failures in terms of our trade laws, the failures in terms of going after contractors that abuse our good nature by over billing or under-producing during the Iraq war—taking advantage of us. You've had a whole series of hearings on those kinds of issues; you're just invaluable in what you're doing. Tragically the Republican Congress is not doing oversight on these issues, it is a huge failure on the part of the Congress but you are doing everything you can to take the place in the absence of Republican oversight. This issue that you've identified is of critical importance to families in our home state of Michigan, but also to families across the country. We've lost 2.8 million manufacturing jobs in this country in the last 4 years. It has cost us family income. There is a direct relationship between the loss of manufacturing jobs in this country, and the first time drop in over four decades of median family income, four straight years in a row. Now, charts can't show everything, they can't show pain; these are dots on charts. There is a direct relationship between the loss of 2.8 million manufacturing jobs, and what has happened for the first time in four decades in this country. Our trade policies are total failures, they are non-policies. There are many examples of this. We've had a record trade deficit of $726 billion in 2005; we have no policies fighting for American jobs the way other countries fight for their jobs.

Our chairman led off by talking about the importance of competition, and he's right: competition is healthy. We are not competing with companies—Ford, GM, Chrysler, do not compete with each other, they compete with countries. One example of this is the way countries manipulate their currencies. The manipulation of currency by Japan, China, and Korea, result in automobiles produced there being far cheaper when they're imported, and our autos being far more expensive when they're exported. The minimum subsidy that the Japanese currency manipulation, results in for Japanese cars coming to America, results in 2-3,000 dollars; that's the smallest subsidy. It goes up to $10,000 for the more expensive cars. That is a government subsidy; there's no way we can compete with that unless our government fights back, and holds other governments to their commitments not to manipulate currency. Korea in 2005 promised to stop manipulating their currency, stop their intervention in foreign exchange reserves. That was the promise Korea made, yet in January of this year, the increase in Korean foreign reserves went up by $4 billion, in just half a month of January. The manipulation of foreign currency to make American products very costly when we try to export, and foreign products very cheap when they come into this country, is one of the huge imbalances that we face. We can fight back, we have an administration that promised to fight back, and yet they've done nothing but talk. There are other major elements to the major failed trade policies of the administration, but obviously we want to keep our opening statements short. I just want to focus on the manipulation of currency as one of the major reasons for these huge trade imbalances that are costing millions of our best jobs, and resulting in a real reduction in median family income. Again our thanks to you Mr. Chairman.

SENATOR DORGAN: Senator Levin thanks very much, Senator Stabenow:

SENATOR STABENOW: Well first I join in thanking Senator Dorgan for holding hearings that are not only incredibly important, but for your articulate position which I share in terms of what is happening to the auto industry and what is happening in this country related to the trade deficit and the imbalance. It's always a pleasure to be joined by my colleague Sen. Levin; we join together in the fight everyday for Michigan families. This is about real people. We've lost 215,000 manufacturing jobs in Michigan alone since 2000, and what does that mean? That's families that have lost their jobs, pensions, may not have healthcare, pay more at the pump, pay more for home heating assistance, people are being squeezed from all sides. The importance of the issue, not only to the auto industry which we are proud to lead in Michigan and care deeply about, but more broadly it's those manufacturing jobs that have created the middle class in America. When Sen. Levin talks about wages going down, it is in fact the folks that have literally built America—built our automobiles, built an economy that is second to none. I believe that we are in a fight for our way of life, and that is not an understatement right now. The trade issue is key; the President spoke in the State of the Union about free trade and those who are protectionists. You couldn't put up a wall if you wanted to, the internet would jump any wall you tried to put up. That's a very old way of looking at this, it's not about free trade vs. protectionism; it's about free vs. fair, and it's about whether we're going to be smart in a global economy. What Sen. Dorgan was showing in those charts was not very smart—it was not a very smart deal we made with China, in terms of how we were going to have trade in automobiles. So I think this is an incredibly important hearing, and in Michigan alone we've not only seen our major automakers struggling but we've seen Delphi, the largest auto parts manufacturer go bankrupt, putting 15,000 jobs at risk. In fact today is an incredibly important day because they are in court to determine what is going to happen to those jobs. We know we can do something about this. There's a $12 billion counterfeit auto parts industry, that has cost the equivalent of 200,000 jobs. That's illegal; we've just toughened up our laws here in Congress, we need to enforce those now. My colleagues have talked about currency manipulation; this is illegal. When you look at an automobile that would sell for $20,000 and you put a differential of $7,000 on it so the manipulation means for example with Japan, they're able to sell that automobile for $13,000 to us, and it costs $27,000 to sell to them, the same automobile, everything else being equal—That's illegal. 67 members of the US Senate went on record a year ago in a bi-partisan effort to say we wanted to move forward on legislation to force the President to do something about that. That needs to be addressed, and the president needs to be moving. We have the highest trade deficit ever;

it's almost twice as big as our budget deficit which is the largest in our history; $726 billion, a record increase of over 47%. These are all red flags going up telling us we better be serious about being smart in a global economy if we want American businesses, workers, and families to survive. So I appreciate very much Sen. Dorgan calling this hearing; there are solutions. I'm proud to be joining with Sen. Lindsey Graham and Sen. Max Baucus on legislation that's also being introduced in the house to create a Chief Trade Prosecutors Office, whose job would be to focus on the problems we're having here. Whether is someone's patent being stolen, currency manipulation, or these kinds of agreements that make no sense for American workers and businesses. We need someone fighting for us, and a Chief Trade Prosecutor would do that and I'm hopeful that we would be successful in creating that and having the political will to make it work. Thank you again.

SENATOR DORGAN: Sen. Stabenow thank you very much. It goes without saying that we live in an increasingly global economy. We are not going to be able to turn back the clock, but the globalization of the economy has galloped along and the rules for that economy has crept along at an unbelievably slow pace, and that's added to the frustration that you see and hear in our country. I want to say again, this is the Democratic Policy Committee, and we are by law empowered to hold hearings, but the focus is on policy, not the *Democratic* and I will always invite any member of the Senate to join us in these hearings and have done so for today. I especially appreciate the witnesses who have come because they give us different perspectives about the formulation of policy which is the purpose of these hearings. It's the movement of trade policy through a number of administrations, it's not about one administration or another; it's hard to see a change in the last 20 years. I've put up on some charts of some obvious problems; I didn't put up the chart of Japan, where 95% of the cars being driven in Japan are made there. Accident? No, that would be the way Japan wants it. They would like to send their cars to America as would the South Koreans and others, and largely keep their markets closed for the purpose of creating jobs in their countries. So the purpose of this hearing is to hear expressions of interest from different perspectives and I appreciate very much the witnesses being willing to come.

SENATOR LEVIN: I see Sen. Don Reagle our old colleague in the audience. There's never been a greater battler for free trade than Senator Reagle, and I just noticed him here and wanted to take a moment to recognize him.

SENATOR DORGAN: Sen. Reagle thank you for being with us, it's nice to see you here. We have with us today Steve Beckman, the Director of the Governmental and International Affairs Department of the United Auto Workers. We have Stephen Collins who is the President of the Automotive Trade Policy Council. John Walker, President of Walker Die Casting, Inc. Jeffrey Schott, Senior Fellow on International Trade Policy and Economic Sanctions—Institute for International Economics. Charles McMillion who is President and Chief Economist of MBG Information Services. Mr. Schott indicated to me that he has to leave by 11:30, I think what we will do is have Mr. Schott speak second if that's all right, and then we'll go through when all five have given us their statements, and we understand when you have to leave and we appreciate you being there.

Mr. Beckman thank you very much for being here with us.

MR. BECKMAN: Thank you very much Sen. Dorgan and thank you very much for calling this hearing, Sen. Levin, Sen. Stabenow. As I said in my statement I had been working on trade policy for many years. Sen. Reagle is a bit of a surprise, and I admit I've been around long enough to have worked with him on trade legislation in the late 1980's and the problems we had then were considered as serious as the problems we face now. The problem is even more grave given the tremendous growth in the trade imbalance and for the auto industry continuing to set new records for the trade deficit.

The description that you have provided for the nature of the problem we face in the auto industry is extremely accurate; the situations you have described, the imbalance in automotive trade with a number of the most important auto producing countries in the world, is only growing. US trade policy which has claimed to have addressed these problems in the past, have simply failed. The UAW looks at the results of trade negotiations to see if they have been successful or not in addressing the problems that have been identified. By any measure the negotiations that the US has been engaged in have not been successful in addressing automotive problems. The imbalance exists, the ability of other countries to send products to the United States and the inability of the US to send products overseas continues with virtually no change. Some of the statistics which demonstrate this, certainly NAFTA which covered automotive trade in great detail; it was the largest product exchange back and fourth between the three countries. Before the negotiations, the US and Canada had more or less established open trade. Starting in the 1960s, again the US-Canada Free Trade Agreement in 1988. If you look at the trade imbalance between the US and Canada, the imbalance worsened for the US as a result of those negotiations. When NAFTA was negotiated in 1994, the US had a $3.6 billion trade deficit with Mexico in terms of automobiles; we now have a deficit of $27 billion in automotive trade with Mexico. The results tell the story—we have not successfully addressed the trade deficit issues from the point of American workers. As you stated the loss of 200,000 auto industry jobs is a tremendous loss for the country, the industrial strength of the country, and for the middle class incomes that are the base for the strength of the US economy.

The same has been true of 20 years of negotiations with Japan. Last year we had a $50 billion dollar trade deficit in auto production with Japan, not only despite many years of negotiations to fight and eliminate barriers to exports to Japan, but also despite tremendous investments in US production from many Japanese companies. The figures for the last few years, the three largest Japanese auto companies have built plants in the US and production has grown quite dramatically. Since 2001, production in the US has increased something in the order of 1,000,000 vehicles a year. You would think that their exports to the US would diminish as a result of the production that they have added, but instead their exports to the US have increased by about 200,000 during those years. We're facing a problem in changes of structure in industry in the US, but it has not diminished the import problem. In the last five years the US trade deficit in auto parts has tripled to a very sizable degree. Many of Japan's exports have increased and many other countries have increased as well. The nature of the problem is huge.

Sen. Dorgan you pointed out that we should look at solutions, and I think that's entirely appropriate. You've raised several of them. Looking at the currency situation is certainly critical. The ability of China, Japan, and other countries to manipulate their currencies in order to gain advantage in our market is a terrible problem that has been described, discussed, but has not been addressed, and it must be addressed. We work closely with many other parties and unions. We work closely with the industry with a variety of business groups. The UAW participated in a Section 301 Petition on China's currency manipulation which was rejected by the Bush Administration.

Since the Bush administration took office in 2001, the United States has lost 200,000 automotive jobs. Most of this job loss has occurred in the automotive parts sector. The recent announcements by GM and Ford, as well as the bankruptcy filings by Delphi and other auto parts suppliers, vividly highlight the large, continuing losses in automotive jobs.

The overall employment decline demonstrates that the decline in jobs at traditional auto companies is not being offset by new investment and jobs created by the Japanese, German and Korean and other auto companies in the United States. The new auto jobs added by the foreign assemblers and parts producers have been offset by the much larger loss in auto jobs attributable to the traditional auto manufacturers and parts suppliers and by the increase in imports of vehicles and parts, including growing imports from many of the same companies investing in new U.S. production. In 2001, 3.1 million imported light vehicles were sold in the U.S., accounting for 18% of total sales; in 2005, imports accounted for 3.4 million vehicles and 20.1% of sales. These figures do not include vehicles imported from Canada and Mexico. Since 2001, the U.S. deficit in automotive parts trade has tripled to $37 billion, as imports have jumped by nearly 50%.

The UAW believes that a number of factors are responsible for the continuing loss of automotive jobs in the United States. The disparate burdens placed on the traditional auto companies by our nation's tax and health care policies have contributed significantly to undermining their competitiveness. At the same time, our nation's failed trade policies have encouraged companies to shift automotive production and jobs to other countries, and allowed foreign competitors to gain unfair competitive advantages in the U.S. market, while discouraging imports of competitive U.S-made products.

The devastating impact of our trade policies on the domestic auto industry are highlighted by the mushrooming auto trade deficits. While the U.S. merchandise trade deficit reached a record $782.1 billion in 2005, the U.S. deficit in automotive trade likewise reached a record $139.4 billion. This included auto trade deficits of $27.3 billion with Mexico, $50.2 billion with Japan, $4.5 billion with China, and $10.8 billion with Korea. The enormous auto trade deficits reflect the continuing loss of automotive production and jobs in the United States.

There cannot be any doubt that the trade agreements negotiated by the U.S. have played a major role in this sharp deterioration in our automotive trade balance. At the time NAFTA and China PNTR were being debated by Congress, the UAW warned that they would encourage companies to shift automotive investment, production and jobs to Mexico and China. In contrast, proponents of these trade deals argued that they would eliminate auto trade barriers in these countries and thereby improve our exports and auto trade balance. Unfortunately, the UAW's fears have proved to be correct. Since NAFTA was enacted, the U.S. auto trade deficit with Mexico has jumped from $3.6 billion to $27.3 billion. Auto trade with China has followed a similar path since the adoption of China's auto industrial policy in 1994, when the U.S. had a surplus of $0.5 billion, to a $1.5 billion deficit in 2001, when PNTR was enacted, to a deficit of $4.5 billion last year.

In addition to encouraging the off shoring of automotive production and jobs, the trade agreements negotiated by the U.S. have failed to require other nations to abide by internationally recognized worker rights. As a result, we have seen a steady race to the bottom, as China, Mexico and other nations have competed on the basis of low wages and inadequate worker protections. The UAW and other unions filed a Section 301 complaint against China documenting the pervasive violations of workers' rights, and the unfair competitive advantage this gives Chinese producers. But the Bush administration dismissed this petition without giving it any serious consideration.

If these changes in trade policies are combined with new tax and health care policies that establish fair and equitable competitive conditions for U.S.-made products, the UAW believes we can maintain and expand automotive production and employment in the United States. American workers need government policies that establish fair trade and fair competition.

Thank you.

MR. COLLINS: Mr. Chairman, good morning Sen. Pryor, Sen. Stabenow, Sen. Levin. As you mentioned I am President of the Automotive Trade Policy Council (ATPC). This is an association that represents Daimler Chrysler Corporation, Ford Motor Company and General Motors Corporation specifically on international trade and economic policy questions, so it's very relevant to your interests this morning.

We want to thank you, for being here today, for the interest you are showing; we welcome the interest that you are brining to the subject. These are difficult times, and the attention you are bringing to the subject is most welcome by all of us and we've got a very good group this morning.

I'll try to confine my comments to the subjects—a little bit about the picture you described, happening trends in the US on trade, and some of the current issues that are before members of the Senate this year. First I just want to note, we sometimes, not members of this group, but those outside the room, are tending to forget the huge impact of our industry, DaimlerChrysler, Ford Motor and General Motors, our workers in the

UAW, on the US economy; The huge impact we have on the national climate; An impact on the national industrial base. Our industry accounts for 4% of the total GDP, of that, our three companies produce 70% of every car and truck built in America. We employ over just under 400,000 American workers directly; we buy over 80% of all the auto parts produced in the US. We provide healthcare benefits to 2 million Americans directly; we provide pension benefits to 800,000 Americans living all over the country, directly.

Just to give you a sense of the magnitude of what we're talking about here and the impact of not just these companies but the economy in general. With regards to specific comments on trade policy, we welcome the opening comments of the Chairman and Sen. Stabenow and Sen. Levin. Our industry is one that has been part of every major U.S. trade development in the post-war era. Long before the current age of multiple FTA's (Free Trade Agreements) that we're involved in now, the automotive industry was the source of the very first US free trade initiative which was the Auto Pact of 1965. This essentially integrated the two industries of our country. Back then it was the sense of how things would work, it would create mutual balance of interests, benefits for both parties, and reduce costs for consumers; that was the model.

Let me give you a quick snapshot of the way we see the world today. The trade environment here in the US—we have a totally open and most lucrative market in the world. Everybody comes here, in the auto industry. This is where they make their profitability. Japanese companies themselves make 70% of their total global profits here, in the US Market.

With regard to Europe, Europe has been the second largest market for many many years. Our tradition with Europe going back a number of years; we invested there, Europe was open, welcome to investment; we have a good trade relationship, we haven't had trade disputes in Europe. Two of our companies, Chrysler and Daimler-Benz are partners now. We have a healthy relationship with Europe going back fifty years.

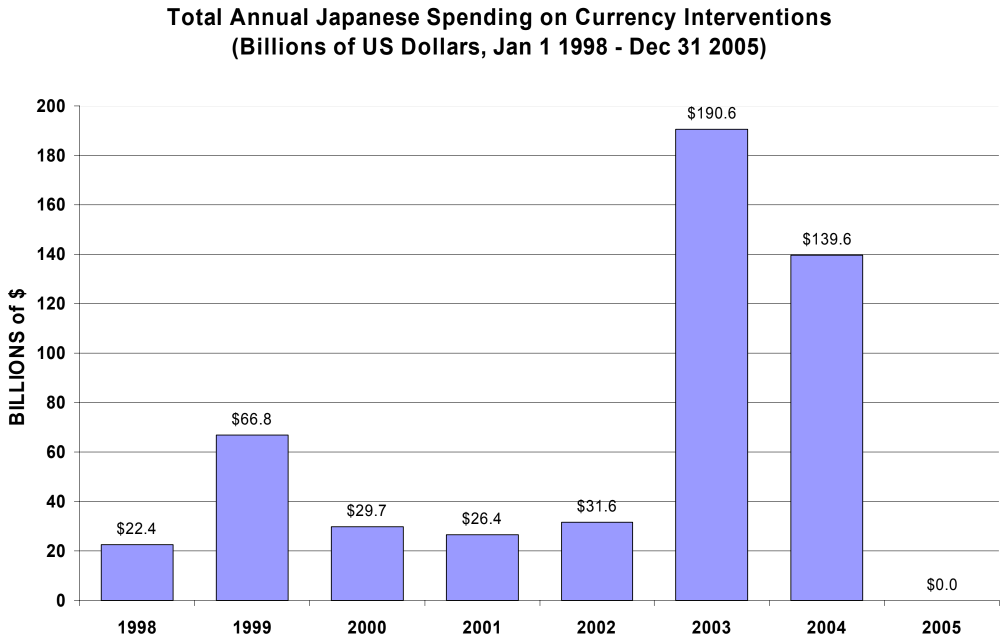
Now let's look across the Pacific, and we have a very different experience as some of you have noted Mr. Chairman. Very broadly speaking, let me just re-enforce the comments you have made. Our experience across the Pacific has been very imbalanced and unsatisfactory. Japan and Korea's automotive industries have aggressively pressed into the U.S. market, fueled by a set of trade policies and practices very different from ours. While clearly benefiting from the openness of our market as you noted Mr. Chairman, Japan and Korea's auto industries have been protected at home to the point where, as your charts noted, 95% of the Japan market and 98% or 99% of the Korean market are dominated by Japanese and Korean home companies; while other foreigners are really not welcome in those other markets. These are mercantilist trade policies and they have led to a terribly imbalanced and lopsided picture of automotive trade between the U.S. and our Asian competitors, Japan and Korea.

We share the concerns of our colleagues at the UAW about the possible U.S.-Thailand and U.S.-Korea Free Trade Agreements. With respect to Thailand, the problem is that Japanese automakers have essentially moved their entire production of pickup trucks to Thailand, making Thailand the second-largest pickup truck producer in the world after the US. This means we are one to one, head to head competitors in pickup truck production with Thailand. The Japanese pickup truck industry is now in Thailand. So when you talk to Thais, and they're banging on our doors about access particularly to our pickup truck market, you're sitting down not only with the Thai government, you're sitting down facing the Japanese auto industry. They are saying we want more access to your pickup truck markets. These are very sensitive to our interests in the US, so we agree with comments made by the UAW; we're very concerned about this, we're watching this very carefully, we're working with members on this as these negotiations go forward. There are chances that this negotiation is not going to go to completion, but we are going to work with members of this group and other Senators who have expressed an interest in return.

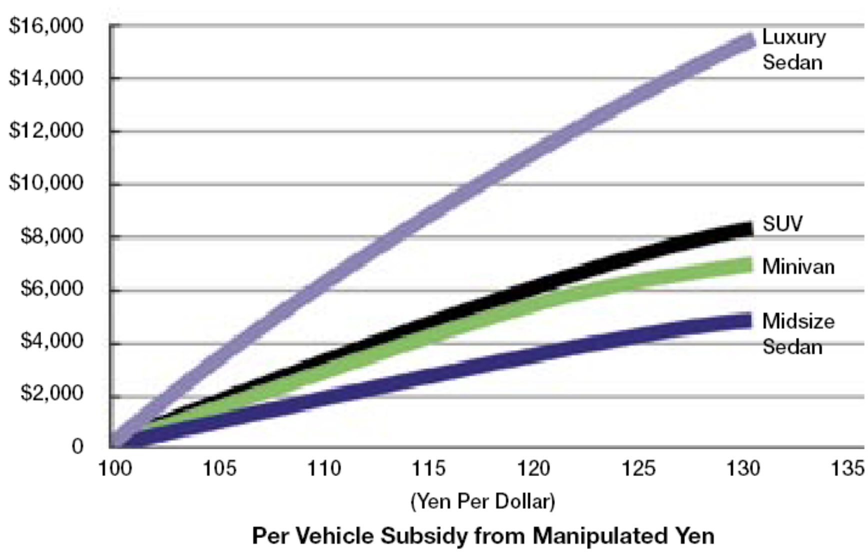
With regard to Korea, I'm afraid to say our industry and our companies have had a very sour and negative experience over the last decade with Korea. I think you're aware of this, Senator you've been a champion on this, so you know this cold. We've had two agreements, they're very good on paper; you read them and say 'Gosh we should really be making a lot of progress,' and ten years later—we sold 4,000 cars to Korea ten years ago. We negotiated two trade agreements and tried to pursue them under different administrations. Ten years later, we're selling 4,000 cars. No one else is doing any better; this is not an American issue. As far as we're concerned as these negotiations start, Korea has a lot to do upfront to show us that they're deserving of recognition—that they're willing to be a fully fair and open trade partner.

Quickly I'll move to the question that you have raised, and Mr. Beckman raised, and that is to us a very immediate and compelling question; and that is currency manipulation, which all of you have addressed. In the face their deflation-plagued economy over ten years, the Japanese government essentially said, 'We've got to try and grow through our export industries. We're going to implement a policy starting in the mid to late 90s, keeping our currency down, and push and support our export industries.' Their biggest export industry is autos, and it's the one that affects us the most. Senator, 2/3 of our trade deficit with Japan is autos, and it has been for 20 years. $450 billion which has been spent to keep the Japanese Yen weak in order to give a boost to their export industries, of which the auto industry is number one and is bringing home huge profits,

Many people forget that, only five years ago, a number of Japan's major auto companies were on the ropes, including Nissan and others. They were struggling and some were not expected to survive. There was a deliberate national industrial policy by Japan in the name of currency policy and manipulation, to give their companies not just a boost but to help them survive, and it came out of our hide—directly out of our hide. This chart shows the level of currency manipulation overall.



I just want to quickly look at the next one. How does this affect our business? If you look at this chart here, it's showing the relationship between currency manipulation and Japanese currency at different levels. What that translates into is a per vehicle cost subsidy as Sen. Levin said, per car. Today's rate is 117.7, I am estimating on that chart is it about $3500 for midsize sedan, $6000 for a SUV, $11,000 for a luxury vehicle. This has been going on for a number of years now.



Let me quickly try to sum up now. Toyota, Honda, Nissan, all those companies announced their profits for the last quarter of '05. All of them reported a substantial major part of their profitability from this, from Yen currency windfall that they didn't anticipate. Toyota said for its fourth quarter of '05 'A third of our $3 billion in profits were from currency windfall; We didn't expect it, it's like a free check.' Honda said that its 23% increase in profitability 'was primarily due to the positive impact of currency effects caused by the depreciation of the yen.' There is very clear and compelling evidence.

In closing, public figures are asking, 'What can we do to shore up the competitiveness of our companies?' This is a big question, and you are all involved in it, and you know it's very complex and involves healthcare and many public policy questions. This is one area where our government could be influential immediately, which could have a huge and significant impact—not just on profitability and competitiveness, but on trade flows. As Steve Beckman noted, Japanese exports are going up; Toyota has said 'we're going to increase exports even though we're building plants in the US.' It's a two pronged assault here, and its' very threatening.

Our government has tolerated Japan's currency manipulation for far too long. I hope that the Administration and the Congress will see a greater understanding of the connection between what we are reading in the papers these days about plant closings, and job losses, and layoffs, and some of these policy actions that directly relate to those closings.

One positive development I want to report to you is that representatives of companies have met with senior Administration officials in the last few weeks, including yesterday, and I am pleased to say that there is broad consensus and wide recognition within the administration of both the significant amounts and instances of Japan's currency interventions, and the harm that it is causing to our industry. They also were aware that Japanese Ministry of Finance continues publicly jawboning in the press to give signals to the financial markets that everything is okay and that nothing is going to change. We're hoping that we'll see some more public action from the administration to counter some of this multi-year effort by Japan.

With that Mr. Chairman I say we look forward to working with you, and thank you for having this hearing, thank you for shedding the spotlight on this question.

MR. WALKER: Thank you and good morning. As you said my name is John Walker. I am the CEO of Walker Die Casting of Lewisburg, Tennessee, and Chairman of the U.S. Business and Industry Council. I am grateful for the opportunity to testify before the Senate Democratic Policy Committee on trade policy and the crisis afflicting the U.S.-owned automotive industry.

My company makes aluminum castings for a wide range of parts and components used in several major American industries, and automotive producers are among our most important customers. The rapidly spreading automotive crisis obviously impacts my own company seriously. But I have broader concerns with the health of our manufacturing base, as do the other 1,500 members of USBIC, most of whom are small and mediumsized manufacturers like myself. Our entire national economy will suffer great damage if this industry is permitted to sink to second-class status or worse; It appears to be headed that way.

It's true that the entry into the United States of foreign-owned transplant factories has propped up overall vehicle and parts production even as foreign brands have taken market share from U.S. brands. But it's far from true, as some have speculated that a foreign-owned automotive industry can replace a U.S.-owned industry, and deliver the same benefits for the U.S. economy. If you think you're going to bring a transplant in and assemble a car and get the same effect as when Ford assembles a car you better back up and re-group and check to see where they're getting their cars.

Even though transplants have been operating in the United States for at least two decades in some cases, their presence has done little to slow the import of vehicles. Several other people have already pointed that out. Some figures that may not be as familiar to you as the import figures, but which may be more important, are the figures showing the share of the U.S. parts market being taken by imports. I think we've got some charts to show that.

[MR. WALKER'S AIDE SPEAKING, PRESENTING CHARTS]

Just briefly, these are charts that show the import penetration rate for various automotive part sectors in 1997 and 2004. So in 1997, we had imports representing about 22% of the US market, in 2004 about 35%. For overall motor vehicle parts category we have 1997 import penetration rate—38.29%, 2004 49.9%.

SEN. LEVIN: This is all companies together?

MR. WALKER'S AIDE: This would be foreign production from foreign based factories vs. US owned US factories. For steering and suspension components we have 14.46% in 1997, 27.37% in 2004. Unfortunately 2004 are the latest numbers we have.

SEN. STABENOW: Excuse me what would you consider as part of counterfeiting. We talked about counterfeit auto parts. Would you count that as part of that, or are these parts that meet safety regulations?

MR. WALKER'S AIDE: The data doesn't let me say that, unfortunately. Vehicle (unintelligible) equipment, the import penetration rate in 1997, 19.62%, in 2004, 39.91%. Transmition and power train parts, very important, very high value parts; In 1997, 12.81%, 2004, 24.59%. Air-conditioning equipment, '97, 16.78%, 2004, 27.92%. Motor vehicle electrical equipment, '97, 31.06%, 2004, 37.61%. Finally, brakes; '97, 18.33%, 2004, 25.35%.

MR. WALKER: And I would suspect that those figures, I don't have anything to prove it, but I suspect that the transplants even though they do make some of their parts here, they put the car together here but they bring in more of their parts than the American companies do.

How much longer do you think we can tolerate one-way trade? My company, for one, can't tolerate it much longer—many of my American-owned, domestic competitors have already closed their doors for good. We've had numerous die-casting operations go out of business, with several other iron foundries and other metal product producers. Just last week, for example, one of the largest die cast foundries in the country, J.L. French, a Wisconsin company, filed for bankruptcy; that's just the latest one, there's at least one a month.

I would now like to explain how all these policies and figures affect companies like mine in concrete, specific ways. First, the growing tide of imports and failure of trade agreements to open foreign markets like other people have shown in a reciprocal way means fewer opportunities for companies like mine to compete – especially since so many of the parts imports are coming in from the countries whose companies own the transplants. Usually Japan's making cars, even if they make the parts in the US they usually bring their own company into make it. They still import quite a few, that's pretty well true of the Japanese and the Koreans, I don't know for sure about the Germans, they like to buy from their own, but they are more receptive to dealing with American companies.

We've been in business for more than 50 years, and we've met countless competitive challenges during those years; otherwise we wouldn't be around. But I have had great difficulties in selling to the Japanese transplant operations in particular—even though some of the biggest are located in my home state of Tennessee. It's obvious that when it comes to procuring parts, many of the foreign companies would simply rather get them from their home-country suppliers, in order to sustain their supplier base there and to create the growth, jobs, and higher wages there.

Increasingly, U.S. automotive companies—both the assemblers, like GM and Ford, and the top-tier suppliers, like Delphi—are demanding the world price for parts, and that means the 'China price.' So even if imports don't actually come in from China, the mere threat of them keeps my margins falling steadily. As a result, I have much less capital to invest in new equipment and new technologies, and keep ahead of my competition through quality and innovation.

In fact, companies like mine face an increasingly vicious circle, and the end result is that we're all forced to compete increasingly on price alone. That's a losing proposition for American industry as a whole. And such competition will make it more and more difficult for American businesses to create high-wage growth, not low-wage growth.

In fact, sourcing from China has become such a big part of U.S. automakers' strategy, that a few years ago, one of my customers asked me to send some of my staff over to China; We had a part we were shipping to China just until they could get it running over there. They wanted to know if we would send somebody over there to show them how to make a product. I refused to do it; I think I told them they could come over here and pitch a tent and watch me if they wanted to, but I wasn't going over to show them. But anyway, that never happened, I didn't go over there, and I don't know who they got to show them how to do it, but I was struck by the request, and am certain that I am not the only automotive supplier who has received a request like that.

The worst part of this is that we've got both GM and Ford in financial trouble—again, caused largely by decades of the trade fiasco we've have going on; they're are hurting companies like mine in another way. Their finances are so shaky that I have to take out credit insurance against the possibility that we won't get paid for what we do ship them. That is very expensive. But with GM and Ford in some danger of burning through their cash in the foreseeable future and declaring Chapter 11, what choice do I have? If I can't sell to the Japanese, I've got to do something to protect my receivables.

Everybody likes to talk about currency manipulation; I don't like to call it currency manipulation. The President keeps saying that he believes in free trade. I'd like him to explain it to me sometime, how he can be that inconsistent. But I don't guess I'll get that answer. The USBIC and many other people who have observed this feel its undervalued by at least 40%, and I really don't understand all that currency dealing of the Japanese, Chinese, and Koreans, but I definitely think its probably not fairly valued.

Members of Congress have complained about the problem, nothing ever seems to get done. I'm told that there are bills, such as Schumer-Graham in the Senate and Hunter-Ryan in the House, and neither has even had a committee hearing. That's not what I'd call action on the issue from Congress, and its hard for me to believe that the majority of people in Congress, and I don't care what party they are, believe that you ought to have free trade on some things and not on others. You can't be a free trader and not have free trade on everything.

Just another side note, I think the other gentleman was talking about the Europeans. We do sell some stuff over there successfully and it is a lot different ball game; and exchange rates affect what we sell over there too. My castings are generally not something that's exported but we do some of it. The Euro a few years ago was 80 cents to the dollar and our products aren't very competitive over there. But now that the currency has floated and its $1.20, my products are competitive and I actually got a contract I lost a few years go. So the currency is definitely a part of whether you're competitive or not, and I know that stuff is determined by a number of different things, and most manufacturers like us have no control over it whatsoever.

So it's clear that Washington can do a great deal to affect the fortunes of companies like Walker Die Casting, like USBIC's other members, and like all domestic companies that want to make their products in the United States. We want the benefits of our operations to stay mainly at home, to strengthen America's domestic economy. Even some companies that say they want to manufacture in the US, its gotten so bad they just have to throw in the towel and say we're going to have to go out of business or go and set up in China, even they really don't want to.

It's clear, that Washington is failing miserably when it comes to this trade policy, and I have to say that most of it seems to have been completely bipartisan. I greatly hope that these hearings mean that the Democrats are becoming serious about the new approaches to trade policy that our country urgently needs, and we should look at getting something done.

MR. SCHOTT: Thank you Sen. Dorgan. I greatly appreciate the opportunity to come before this hearing. I've worked on trade policy for more than 30 years in both Republican and Democratic administrations. The way you and your colleagues have described the problems are dead on. We have big problems, they are not Democratic problems, they are not Republican problems, they are American problems. I hope this hearing and the insights from others on this panel will help you in addressing some pragmatic ways in which the government can work with the business community to promote American employment and American prosperity.

Now that said, one thing that I've learned from spending so much time on trade policy is to learn the limitations of trade policy. Too often trade policy is used because other aspects of government intervention and direction are not being used well enough. This clearly is the case in some of the problems which you've addressed. Back in the 70's I used to help the President's export council. We had a deficit in our exports, and there were a lot of officials in industry and labor and Congress on how we could do better. I looked at all the things we needed to do to break down barriers in foreign markets, and then they looked at what we needed to do at home to get rid of export disincentives that inhibited American farmers, workers and companies from taking advantage in US and foreign markets. It was surprising how important those export disincentives which we inflicted on ourselves were. In the auto industry we have a lot, and there are other members of the panel that can speak much more eloquently than I about Healthcare costs and pension costs. That is significant and needs to be a primary focus.

There are costs that are imposed on American companies that tie their hands and make it more difficult to compete, at home and abroad. There are policies that we've pursued over a long period of time that distort investment decisions and that needs to be addressed. With regard to the WTO I was a negotiator during the Tokyo round of GATT negotiations and I understand how important it is for the administration to work with the congress as I worked with the congress in setting rules in subsidies back 25-30 years ago. That was just the very first step: insufficient. Now we have China in the WTO, a deal which concluded by Ambassador Barshefsky that was generally hailed by the Congress though there were criticisms, as there are with trade deals, as to the details of that agreement. Some parts of that agreement were better than others. China committed to lower trade barriers than most other developing countries, but particularly in the automotive sector it maintained very high protection. That should be a very high priority for the US in working in the Doha round, and indeed the US should ensure that China fully contributes to a big package of trade reforms, as a fully member of the WTO.

Regarding exchange rate issues, my colleagues at the Institute for International Economics have done extensive analysis of the problems particularly in regard to China but also in regard to Japan. We have concluded that there is need for substantial currency reform as well substantial financial sector reform in China so that it can move towards a freer management—freely floating exchange rate. That won't happen overnight, it requires significant reform in the financial sector, but China should be doing much more. This is an area where our friends in the treasury, my former colleagues, need to be doing more to help manage the international financial economy.

The statement that I had prepared dealt almost exclusively with the effect of NAFTA on the auto sector. The conclusion that was drawn from the latest book, that hopefully you will like better than the previous books that we have done, because it deals not just with autos, but it raises some of the very important problems that you have highlighted over the years in agriculture; particular in our trade with Canada and Mexico. For the auto sector we found significant benefits for the US industry. In the integration in the three economies and the ability to create better efficiency, productivity, and specialization of production. This doesn't mean that NAFTA would solve all the problems, or make auto workers richer. But I think it helped address the problem of growing competition in the world marketplace, it prevented a situation in the US marketplace from getting much worse, and has indeed helped promote some efficiencies and greater production and employment than would have otherwise occurred.

Now it hasn't arrested the drop in employment, either in US autos or manufacturing across the country. No trade agreement can do that. When we looked at the declines in US employment we found that technology and demand effects were far more important than developments in the Mexican industry. So all the initial concerns that would be a giant sucking sound, that were would be runaway plants, have not borne out in the statistics that have been developed over the fifteen year history since the NAFTA was invented by Presidents Bush and Carlos Salinas, and the Canadians in 1990-91. Similarly during this period auto workers have not done as well as other manufacturing workers in the US economy. Real wages in the auto sector have been relatively flat despite improvements during the boom time of the 1990s. What we would call the auto sector wage premium, looking at hourly compensation, has actually declined vis-à-vis other manufacturing components of our workers in our economy.

There are some arguments that Mexico is putting downward pressure on the earning of US auto workers. There maybe some evidence to that regard. We found strong evidence for another explanation: that the wage paid to unionized auto workers, the amount they earn in excess of the average of manufacture workers, was compressed in the 1990s largely as a result of non-union US auto plants. There is a trade component of problems but there are other aspects of problems that have to be looked at in combination.

Let me conclude in terms of what should be done to restore the health of the US auto industry. Our research shows that NAFTA has had a positive though limited medicinal power, curing the industry's more chronic problems particularly related to health and pension costs, requiring domestic policy reforms, and should be the primary of Congressional attention. But Congress isn't just focused on trade policy, its also concerned about our foreign financial and our overall relationship with foreign countries—obviously there's much more that needs to be done to ensure a proper functioning international economy—it goes well beyond trade policy, and should be of the attention of the Senate as well. Thank you.

MCMILLION: Mr. Chairman, Senators, thank you very much for inviting me and for holding this hearing this morning. I'm tempted to join the debate or discussion immediately, but I want to be a bit more general before our more detailed discussion.

The US auto industry, and therefore the country, faces a very dangerous crisis that is, as yet, barely visible in the economy outside Michigan and Ohio. Despite a booming market for their product, financial markets consider GM and Ford's borrowing status to be "junk." Why is this? In my view, trade policies that have been championed by the auto industry are one major cause of the crisis. So I'd like to use my minutes to run through a lot of data tables and graphics about the industry that may allow us to have a more pointave and therefore more useful discussion afterwards.

I hope the Senators have a packet of graphics and tables. I won't identify them; I'll just go through them. The industry has been selling a record 17-18 million vehicles per year in the US in each of the last seven years. And US producers have been assembling, whether foreign or US owned a record of about 12 million vehicles per year in the US in each of the last nine years.

Of course this means that in each of the last seven years the US had net imports of about five million vehicles and that domestic assemblies would have needed to be about 40% greater to meet domestic demand. Still, it was far worse in the mid-1980s.

It's also important to note that while auto industry job loss has been severe over the past five years, especially in Michigan, Ohio, and the Midwest, jobs in the industry actually peaked in 1999 or 2000 depending on which definition you use. I attribute much of this to production incentives through the industry's labor agreements. I can talk about that or Steve can talk about that if you'd like.

I have three graphics for the record about the overall growth of auto industry production which has, because of these labor incentives, I believe, kept up with US demand growth except for a falloff during 2000 and 2001. The bottom line here is that so far, with strong productivity growth, the industry seems to have lost only about 108,000 jobs that we could attribute to net imports since 1993 so far. The production and job performance has been far stronger than many realize—a fact that I believe is attributable primarily to the production incentives of the now-threatened union contracts.

The more expected pattern in production job growth can be seen in the Textile sector where production has plunged, displaced by net imports, and job loss has been severe. This is the pattern that the auto industry could face if labor's production incentives are removed in the years ahead through bankruptcy courts or by other means. And, of course, the fate of the auto and auto parts industry—very strongly affects a very wide range of supporting goods and services industries throughout our economy, both geographically and by sector. The auto industry is really unlike any other in the US in terms of its contribution to the economy.

Now a little context. Our manufacturing trade deficit last year was $506 billion and totals over $2 trillion in just the last five years. The Current Account deficit, as I know the Senators know, of all goods and services was about $800 billion in 2005 and totals almost $3 trillion over the last five years. By the way, this is only slightly more than we've added to the gross federal debt which is now $8.1 trillion—we've added $2.5 trillion to the gross debt over the last 5 years. Weakness in auto production is one of the reasons for that...

One of the key reasons for the widening deficits has been trade deals that are producing very different results than were promised. NAFTA, for example, was sold to Congress, with the help of some economists I might add, with promises of ever widening excess of US production and widening trade surpluses with Mexico. We had trade surpluses before. It hasn't worked out that way and in fact we've now accumulated Current Account deficits with Mexico of almost $400 billion since NAFTA—rather than the $100 billion job-creating surpluses that were assured.

Even with the production incentives of labor agreements, the dollar value of auto trade deficits has widened badly in recent years, from $50 billion in 1993 to $138 billion in 2005. But, so far, the industry's share of the total US trade deficit has been declining, again because of these production incentives and auto workers labor agreements.

I've summarized the auto trade balances with major trading partners—although the Department of Commerce doesn't yet include China in these series. The auto trade balance shows the continuing and widening deficits with Japan and Germany as well as the explosion of the auto deficit with Mexico, which before NAFTA was about $3 billion and is now $26 billion just with Mexico. You might also note that while our deficits in autos and trucks stabilized last year, the US deficit in auto parts soared by more than 20%. Much of the growth in auto parts imports is now coming from China.

I want to remind you to beware of a particularly outmoded economic theory that aggregates the productivity of both traded and non-traded goods and services to ridicule concerns about US trade with very low cost countries like Mexico or particularly China. This is not how businesses plan, and it certainly shouldn't be how policy makers plan either. Mexico now exports more vehicles to the US than the US exports to the world.

I've followed China very closely for a long time and it's my belief that for the foreseeable future, its challenge to the US auto industry, and almost other industries, will dwarf anything we've seen before. I've provided a brief sketch of a few of the signposts along the way during our past 25 years of commercial relations with China—The last 25 under MFN, most favored nation's status.

And finally, I've provided China trade detail for all US goods industries for the last dozen years. I'm happy to talk about service industry trade with China as well, although that's quite small with a US surplus of about $2 billion—much of this comes from educating Chinese students. You might note that in China trade, the US deficit with China has really exploded in the last three years, but from a small base. This is about to change very quickly, in the same way the deficit has really exploded for computers, electronic equipment, cell phones and other things..

China's eleventh Five-Year Development Plan through 2010 is to produce an abundance of auto parts of world class quality, and ten million vehicles in excess of what they can produce for export each year in only five years from now. These ten million vehicles is enough to virtually eliminate the US industry as has already been done for most US production of such things as cell phones, computer parts and other key products that we need for future. We haven't begun to feel the effects of this on the US economy despite the junk-bond status of Ford, GM; We haven't begun to feel this outside of Michigan and Ohio, but it is coming and it is coming fast. Let me stop there, and I look forward to discussion.

SENATOR DORGAN: Mr. Schott, NAFTA has had a significant impact on automobile trade production, to Canada, production to Mexico. Prior to NAFTA we had a small trade surplus with Mexico now it's a very large deficit. Prior to NAFTA we had a modest deficit with Canada, now it's a much larger deficit. Clearly NAFTA has not worked out the way you would have expected and the way the country would have expected, is that not the case?

MR. SCHOTT: Thank you Senator. I appreciate the opportunity to answer your question directly, because the work we did a decade ago analyzing the problem of North American economic integration have been badly misunderstood and misrepresented. When we looked at what the potential was, we noted that the state of imbalance in the North American economies, particularly in the Mexican macroeconomic situation in 1993, on the verge of the NAFTA entering into force. We cautioned about that, and one of our colleagues went before Congress and noted the problems of the overvaluation of the Mexican Peso at that time and what impact that would have on North American trade.

The analysis we did was based on the assumption of all things being equal, but we made a clear point that all other things were not likely to stay equal over time. Therefore if you read our study properly, it indicated a warning signal that the possible trade balance benefits that the model that we used, depicted were unlikely to survive a depreciation of the Mexican Peso. So I can understand and Charles for the past thirteen years has been saying the same thing; I wish you would read that chapter and that analysis much more carefully.

The more important problem is not whether two economists who left government more than a decade ago were right or wrong, but what was being done afterwards to try and promote economic prosperity in the three countries. Here the lesson from NAFTA more broadly was—we did a lot to promote productivity during the 1990's. That set up a big boom in the US economy, the US workers benefited from that if you look at the big gains in US employment, and our economy prospered and we went into surplus. Whether it was surplus or balance, we had a great improvement in the government's fiscal accounts.

Now in Mexico because of the Peso crisis they didn't have an opportunity to do the investment in product enhancing activities, and more importantly in the physical infrastructure to build the economy, to spread the gains, to promote a climate for economic growth in Mexico that we could all share.

SENATOR DORGAN: Mr. Schott I don't want you to spend all your time answering one question…

MR. SCHOTT: I'm sorry Senator…

SENATOR DORGAN: I have so much to ask you, but again I appreciate your being here. I'm asking specifically about the suggestion that if we do NAFTA, what will happen is that low-wage low-skill jobs will migrate to Mexico, but they will be replaced by high-wage high-skill jobs here, as a result of expanded economic opportunities. In fact our largest imports from Mexico are now automobiles, automobile parts, and electronics; products generally of higher-skill higher-wage jobs, though not particularly in Mexico. So it seems to me that the entire calculation was wrong, not just be two economists, but by the government; by Republicans, Democrats, with the exception of me—I seldom ever say 'I told you so', but in this case, the entire calculation of NAFTA was wrong. The migration of jobs as evidenced by what we're importing from Mexico at this point was a completely different construct than what was promoted. It's especially the case with respect to automobiles and automobile parts; would you not agree with that?

MR. SCHOTT: Actually I would not agree with that with all due respect Senator. There are a lot of other factors that were much more important. If you look at the auto sector we had some improvement in employment during the period of robust economic growth in the 1990s after NAFTA. Where we have run into problems have been just in the last few years since our recession in the early part of this decade and as a consequence from our competition from abroad. That's why I said in my remarks that I thought NAFTA was a contributing factor in a positive way to our overall economic situation from being worse than it is today. That's not to say we don't have problems. We need to address the broader problems in our policies. One of the policies that we've fallen flat on is dealing with the ability of US workers and communities to take advantage of trade opportunities; and when those opportunities particularly affect companies, to give them the tools to take advantage of new opportunities being created in our economy. Our record on adjustment assistance and on education programs has been terrible.

SENATOR DORGAN: Your language is so antiseptic; I studied Economics and actually taught Economics in college, though ever so briefly. I was able to overcome that experience and go onto other things. The antiseptic language, you're talking about adjustments and other things, it's really a way of describing the jobs people are losing, and a way we can provide compensation, trade community assistance. The reason I wanted to have this hearing is to talk about how can we have a future in which we keep good jobs that pay well, that we don't have to confront the China price. The China price is a race to the bottom; it's not lifting others up, it's pushing us down. Sen. Stabenow you may have questions.

SENATOR STABENOW: Thank you again Sen. Dorgan. I will continue to talk about NAFTA, but also indicate while we're talking about trade here, it's important to have a level playing field and fair trade policy, and enforcement of trade policy. I do agree Mr. Schott that there are larger issues, healthcare being one. We spend twice as much of our GDP as any other country on healthcare and have 46 million people with no health insurance, there's something wrong with this picture. That needs to be changed. We're the only country requiring businesses to pay for healthcare the way that we do that. When we look to NAFTA and we look to the North, we see a situation where we have comp able wages; Canadian UAW, UAW Michigan, you have comp able rules and regulation, what you have difference in is healthcare. So when we see people moving to Canada it is because the differential in the costs of healthcare. I believe we can do something uniquely American to fix that, and I'm finishing the touches on a bill that would address the catastrophic costs and have the federal government as a partner. Sen. Lott and I just introduced legislation to address RX drug pricing in terms of generic drugs, closing loopholes that are being used, that can lower prices over 70%. Sen. Snow and I are going to introduce legislation to deal with the 1/3 of the costs that is administrative costs that is wiring and connecting us with health IT. There's a lot we can do that will dramatically save dollars, for businesses, for families for workers. So I agree with that, and I agree that we need to invest in education and innovation, which is something that we are going to be seriously looking at in this budget process. When we see the President have the largest cut in education in the 26 year history of the Department of Education, it seems to me that's in the wrong direction.

SENATOR DORGAN: Senator I want to let Mr. Schott go, and let you continue questioning other witnesses.

SENATOR STABENOW: (To Mr. Schott) Can I just ask you one quick question? In terms of Mexico, not Canada, you talked about taking advantage of opportunities. Do you believe that it would make a difference if the Mexican workers could organize for good wages as a part of taking advantage of trade?

MR. SCHOTT: I think that's part of the problem in Mexico. It's more important in some industries than in others. The bigger problem for the Mexican worker is not having the basic social services and the tools and the education to come up. It's part of the development process. There have been some improvements since NAFTA entered into force, but in our analysis the biggest failing of NAFTA has been the way Mexico has been unable to take advantage of the opportunities created to promote its economic growth and to share the wealth and the gain from trade. We see parts of the Mexican economy doing very well, but a large section of the economy not improving at all. What you've highlighted in your opening statement on the human cost of the trade deficit, there is a human cost of not pursuing policies that promote growth equities in our societies. This is something that in our final conclusion on NAFTA, we put recommendations of what needs to happen and go forward. One of the main tasks is to try and promote greater prosperity in all three countries. We will all benefit if all of our people start doing better and that requires change in a wide variety of areas to promote employment and opportunity. While we may differ one some of the economic analysis I think the overriding objective is clear. The way you have put in this hearing, talking about the human cost of these policies, should resonate more broadly in Washington and throughout all three countries in North America. I greatly appreciate the opportunity to be here, and to make a small contribution to the very important work you'll be doing in the Senate.

SENATOR DORGAN: Mr. Schott perhaps we can continue this at another time, and we appreciate your being here and are welcome to depart. Mr. McMillon wanted to respond, we'll allow him to do that after Mr. Schott has left. We'll have you respond in the context of other questions that Sen. Stabenow and I will ask in the coming few minutes. I wanted to recognize Sen. Stabenow to continue to ask questions of the panel.

SENATOR STABENOW: Thank you Senator Dorgan. I do thank you Mr. Schott for answering that question, and at some later point I would like to talk with you about the imbalances that relate to workers being a part of that economic equation. Thank you for being here. I wanted to ask Mr. Walker, you're on the front lines, as a businessperson trying to deal with all of this. My guess is you probably want to pull your hair out. It's hard to believe we're here where we are; in terms of the trade peace as well as the other peaces. If you were to look at all the policies that don't make sense, what would you say are the three biggest problems from your standpoint that relate to being able to do your business and being successful and being able to compete internationally?

MR. WALKER: I was just doing some calculating before we came in here, and I think we pay property taxes of about $600,000 a year. We have about 600 employees, and that comes to about 50 cents an hour for property tax, and I hear that's all the Chinese pay people—I don't know what they pay them. They can get the same equipment we can, and really a lot of these companies instead of investing in the US, they say it's the same whether I do it here or there; there's really no advantage to do it here, you can produce for so much less over there. I'm sort of anti-government I don't mind telling you, I had the IRS—we had an auditor in for about four months, and I didn't understand why they came in there. They came in they worked for a day, they'd leave for a week, and they come back next week. I'd rather they'd do it all in one week. Of course some of those laws that you had about the rapid depreciation was pretty nice, I think that expired maybe. In the long run, the consumer pays all the tax anyway when you get right down to it.

SENATOR STABENOW: When you look at the trade piece of it, what do you think hits you the most? Is it currency manipulation, free trade on currency?

MR. WALKER: We make a lot of power train parts, which are high value parts. These castings are just now getting ready to leave, they haven't left in total yet. In the past if the Americans made a transmission in the US they'd make the parts in the US. Now they go buy the whole transmission from Japan. China isn't sending those kinds of parts here yet but it's just a matter of time. Now they're even buying parts, it's just an onslaught. I know US guys they have to do something or they're going to be out of business. The bond traders think they're going to be out. The credit insurance, on a two year deal—they were quoting me two percent on $1 million worth of coverage. They don't pay you for 45 days, that's $700,000 worth of business, in a year it would be $8 million. So you're paying them $20,000 a month. At the end of two years you would have paid them $480,000 and done $16 million worth of business; now if they went broke on you that last month and you collected that million you'd have paid $480,000 for a million worth of coverage. They obviously think bankruptcy is coming, otherwise there wouldn't be those kinds of rates.

SENATOR STABENOW: That's the reason we're here because there are things that can be done about it. As a member of the banking committee, every six months we have the Treasury Secretary come in and file a report as to whether or not currency manipulation is occurring. It is happening—we know it's happening. They say technically its not happening. If they said it was happening and gave us that report then a process would kick in; that's why Sen. Schumer, and Sen. Graham and I sponsored legislation that got 67 votes in the Senate allowing us to proceed, to do something about this if the White House wouldn't, if the Treasury Secretary wouldn't. We know in fact that it is happening. There definitely things that we can be doing that we're not doing. China and Japan now own half of our foreign debt, and I constantly wonder to what extent does that effect our willingness to be tough with them on trade issues. One question for Mr. Collins. Can you speak just a little more on Thailand and just how significant it is in terms of the 25% tariff? It is your sense that people you are talking to, that the administration understands this and is willing to do what's good for American auto industries? Do you think we're going to see a trade agreement that would lose that tariff?

MR. COLLINS: Thank you Senator. To your first question, as I mentioned it isn't just a small piece of our business, it's a healthy part of the American business. We still have a good part of world's production base; we're the world's largest consumer. As I mentioned, Thailand is the world's second largest producer; Thailand has developed their competitive advantage to become the world's second largest producer of pickup trucks largely from the shift of pickup truck production from Japan to Thailand. Now Ford and GM also produce pickup trucks in Thailand, they do not export them to the US, they're for the local Asian market.

There's so much pressure from the Thais saying 'We want that tariff and we want it badly.' It says to us, why do they want it so badly? Our companies are saying we don't plan to send our pickup trucks from Thailand to the US. It is the Japanese industry in Thailand saying we want that tariff. Because of the margins that are smaller on pickup trucks as against larger vehicles, that will change the competitive position of our plants in the US vis-à-vis Thailand. It's a direct one to one. We are in agreement with the UAW and I've worked on for a number of months with my colleagues here to explain this, and explain the sensitivity that this is not a theoretical construct that there could suddenly be benefits because we're going to export 100's of thousands of vehicles to Thailand. We exported 584 vehicles to Thailand last year. That is unlikely to change dramatically, but the reverse is not the case. We would expect an influx from Thailand.

SENATOR STABENOW: Bottom line is jobs. You're talking about losing maybe—the potential of dramatically affecting the whole industry if everybody was making pickup trucks in the US.

MR. COLLINS: It would have a very dramatic affect and affect jobs. Absolutely.

SENATOR STABENOW: Thank you.

SENATOR DORGAN: Mr. McMillion, you showed a chart that said we export fewer vehicles to the world than Mexico exports to us. Is that correct?

MR. McMILLON: Right.

SENATOR DORGAN: Is that a function of NAFTA do you think? Has it occurred post NAFTA?

MR. McMILLON: It has occurred post NAFTA and it was the change in policy that has lead to this. In NAFTA there's a chapter 11 that's extremely important. It made it very very difficult for the Mexican government to regulate in any way, foreign businesses. It made it difficult for the American government to regulate businesses, whether it's environmental—in all sorts of ways. It made investing and producing in Mexico vastly more attractive than before NAFTA. That's why we have seen such an enormous shift and I'm sorry Jeff left, because I wanted to assure him that I read his earlier work very closely, including the two pages where he said just like in every six years before its likely the case that there's going to be a big currency devaluation after. Certainly both parties have pushed this line for some time. The argument was there might be a currency devaluation, I'm a Texan I know these things, as there has been in the past in Mexico, and there was in 1994. The argument was that it would lead to a few years of disruption and then it would get back to the forecast. I'd also just like to indicate that one of the successes of NAFTA has been Peso stability. The Peso has really been stable since it crashed in 1994, but the Mexican economy has grown much more slowly since then, wages are down, poverty has risen, which is one of the reasons that we have the immigration problem that we have today.

SENATOR DORGAN: Thank you. Mr. Beckman I mentioned earlier that GM had called a meeting about a year ago of all the major parts supplier, and I think they had 700 people. Those executives said you need to be outsourcing to China to get these costs down. Are those companies, do they have UAW workers?

MR. BECKMAN: Many of the companies that supply parts to GM have unionized workers here in the US. They have fewer than they used to but we've been successful in organizing many of them in the last couple of years. The impact of those companies moving work to China or other places where they can meet the China price does have a profound impact on UAW membership and those communities in which those workers live.

SENATOR DORGAN: We're setting up circumstances where we say to American workers 'your competition is a Chinese worker. By the way there's some changes in China, you can pay them 40 cents an hour, they'll work 7 days a week, 12-14 hours a day, and if they try to unionize, they'll put them in prison.' I could have brought the names along here so we'd know who's sitting in Chinese prisons because they wanted to stand up for the rights of workers. We really are saying your competition is the Chinese worker. And that becomes the China price, the China standard, and all this notion to free trade is to lift everybody up, in this country it pushes standards down and American workers down.

MR. BECKMAN: Thank you for raising those issues. One of the characteristics of the auto industry, is that it doesn't make sense to talk about free trade as in any way addressing the way in which decisions are made and the allocation of production internationally. It's an industry that is very heavily driven by government policy and has been for a long time. As Steve Collins said, the auto companies have been in Europe for a long time; they weren't there because it was a nice place to visit and to produce. European countries impose high tariffs on imports of vehicles from the US. So in order to participate in that market, companies made investments there. They didn't reject investments as the government of Japan did, which is why few American companies established facilities there. In China the government adopted an auto industrial policy in 1994 which essentially forced companies to produce in China in order to sell there. There are a lot of people who live in China, companies want to be able to participate in that market, so companies have plunked down what is necessary in order to be able to do that. US parts assemblers and companies are in China; they are producing in China, they are basing their capacity for rapid growth in China, but they are fully cognizant for the potential of that not to happen, and the need to find markets for the products that they have the capacity to make in China, and that means exporting.

SENATOR DORGAN: I think a substantial part of what's going on is not to access the market of 1.3 billion people, it's to access the labor pool of 40 cents an hour labor to produce there and ship here. There's no substitute in the world for the American marketplace, there's none other like it. Everybody wants to engage in it, and these days you have companies that want to produce in China for 40 cents and hour, and sell in Bismarck and Toledo and Los Angeles, and then run the money through the Cayman

Islands in a bank account on Church Street so you don't have to pay taxes on the profits. Let me ask Mr. Walker a question. Mr. Walker to you belong to the Chamber of Commerce?

MR. WALKER: Yes sir.

SENATOR DORGAN: Mr. Collins your organization I assume is a part of the Chamber of Commerce?

MR. COLLINS: Yes.

SENATOR DORGAN: What was the position of the US Chamber of Commerce or your local Chamber of Commerce on these issues? Do they think that we are hopelessly ignorant, that this is a global economy—you cannot turn back the clock? It is a fact that Sri Lanka, or Indonesia, or China, or Bangladesh or India—that's our competition and we have to compete with those wages. Tell me about the Chamber of Commerce which represents American business interests in this country, what is their position on these issues and, are they coming out in support of the established standards that we set out so that you can compete?

MR. WALKER: Well I'm going to have to backtrack on you, because I'm not a member of the national Chamber of Commerce. I am a member of our local Chamber of Commerce, and also in Tennessee they have Tennessee Manufacturers Association. I guess in Tennessee they have manufacturing going down so bad they had to bring in other kinds of businesses and now they call it the Tennessee Chamber of Commerce. I am a member of the Tennessee Chamber of Commerce and the local, but I am not of the national. I am a member of the National Association of Manufacturers but not the US Chamber.

SENATOR DORGAN: My point isn't to beat up on the Chamber—

MR. WALKER: I don't mind that you beat up on them. I'd beat up on them.

SENATOR DORGAN:…It's to ask the question, is the business community in our country standing up for the business interests of our country? With respect to those who produce here and want to compete and be able to compete in sets of circumstances where the game is fair; is it fair for example for you, to compete with another company somewhere else 'unionize, you go to jail. Work for 40 cents an hour, we wont pay you overtime. Work 7 days a week and if you don't like that you get fired, if you get pregnant you get fired.' So they say to you, 'It's a global economy John Walker. Good for your dad for starting this company, good for you for making it successful, but if you can't compete in this new economy, tough luck.' What about that sort of problem?

MR. WALKER: There's not many organizations out there that represent a company like ours. Nobody ever represents us other than the USBIC; but the Chamber doesn't represent the interest of a small family owned manufacturing company that has no desire to go to China. They do represent the multinationals, the GE's, the Wal-Marts…They're the ones making all that money, producing over there and selling it at Wal-Mart.

SENATOR DORGAN: Well business is business isn't it?

MR. WALKER: It depends on what you think of the US, if we need manufacturing here. If we ever get into another tangle like we did in WW2, maybe we won't need goods to win the next war. I'm not smart enough to figure that out.

SENATOR DORGAN: I heard you go through that financial transaction about ten minutes ago, I figure you're almost the smartest guy in the room. My point is very simple. Go back to Josef Stalin turning to Franklin Delano Roosevelt pointing out that were it not for American manufacturing and production, we wouldn't have won the Second World War. The fact is, I don't think you can be a world economic power without a strong manufacturing base. The rules of globalization are rules that suggest that our marketplace is wide open to any conditions of production anywhere and there those who produce here and stay here need to be willing to compete here and if you can't, tough luck; you're some sort of xenophobic isolationist stooge that just doesn't get it: the world has changed. I so fundamentally disagree with that and the reason I'm asking you the question Mr. Walker is that you run a manufacturing company in this country. Who stands up for you? Who is pushing your agenda?

MR. WALKER: Nobody other than the USBIC which I am the chairman of. The National Association of Manufacturers, they started getting a lot of flak, but they've been coming around a little bit on the currency. Really nobody other than the USBIC, there doesn't seem to be any interest. They've almost just thrown in the towel, you're the economist maybe you can tell me how long we can have these trade deficits before the money just goes worthless.

SENATOR DORGAN: I'm not an economist; I've been medicated for that background. Mr. Collins you mentioned that in most cases we're competing with countries that have mercantilist approaches, or managed trade approaches. Is there a circumstance where you think we can compete successfully, or should be asked to compete with countries that have a managed trade policy? I think the points made about Korea and Japan, 99% of the cars in Korea are Korean, 95% of the cars in Japan are Japanese; why is that? Because they run a managed trade system, they don't want other country's automobiles to come into their country. We don't have wide open trade, we don't have fair opportunity. Don't you agree in most cases this country has not been attentive to engaging in agreements in which you have leveled the circumstances of competition?

MR. COLLINS: I think Senator the example that you pointed out is a classic one. You have to go back 20 years to look at this. Many economists and many in government in both parties over the years assumed that as we opened our market, that it would help fight against Communism and be the leader of the free world, that others were going to follow in our example, and that others would operate on the same premises that our businesses and government operate. Many did, but a number of our major trade partners took a totally different approach. In our case in the auto industry going back 20 years, it started with Japan; Japan as you noted took a very different approach from Europe or the US or other major markets at the time. Japan asked everyone to leave the market in the auto industry until they built up their industry and then made an assault on this market with a 95% closed market till this day. That was the model, Korea said this model works and we're going to do the same this. In the mid 1990s when we already experienced this in the auto sector going through the 80s and saw what happened by the Japanese model of managed trade in autos and major export targeting of this market. We saw it coming in Korea and sat down with USTR and negotiated with them. We negotiated agreements— If you read those agreements in 1995 with Korea, to open their auto market in 1998, I read them again last night, and the Korean government made very explicit commitments to open, and nothing had changed.

SENATOR DORGAN: (tape interrupt) We wont take action against South Korea, why? Because it will offend them. It's all run through the State Department and become softheaded foreign policy rather than hardnosed economic policy and the kind of competition that we ought to expect to have to engage in, if the rules are fair. I want to call on Sen. Stabenow.

SENATOR STABENOW: Thank you Senator for bringing things to a close, I want to thank you again for holding this hearing and each of you for coming. Senator Dorgan just made my case why we need a trade prosecutor. We need someone who's separate from trade negotiations who is enforcing trade agreements on behalf of American businesses and American workers. It's so interesting to watch this debate about free trade, open trade, when it's only open on one side. That makes absolutely no sense. Americans assume that we are creating a level playing field, and people assume that it's fair, and that is what is not happening and what we feel so deeply about. From my perspective and Sen. Dorgan spoke about this as well, there's really a choice about whether we as Americans are going to race up or down. The current strategy seems to be to basically say we're in a global economy and if you'd only work for less, we'd be competitive. That's our strategy, in a global economy. We all know there will always be somebody who can work for less. China, Korea, a plant in Greenville, Michigan that was working three shifts a day and making a profit, and then packed up and moved to Mexico because they could pay $1.57 an hour and no health benefits. There will always be somebody who can work for less. If we're going to have our way of life in this country, we need to compete up. I think this hearing is very important because it has to start with a level playing field and enforce trade agreements. The rules ought to be fair, nobody should be allowed to be cheating, stealing our ideas, stealing our patents, manipulating their currency. We have to say as a moral value that anyone who's worked all their life and pays into a pension receives it. I think we need to aggressively invest in innovation and education. That to me is the formula for competing up. I thank you for being here. We know how to do this, we just have to get the attention of folks to understand what's happening in the real world to our companies our businesses our families, and hopefully with your help we can do that.

SENATOR DORGAN: Senator Stabenow thank you very much. You've all been very patient this morning, coming here making statements, listening to us, and answering our questions. Dr. McMillon I liked very much the charts you have presented, I've been looking at them here and I hope that you will feel free to continue to provide us with this kind of information about our trade balances. I was thinking about a story Winston Churchill told about the House of Commons. He was involved in an aggressive debate in the House of Commons, charging one of his adversaries with not having courage to do what was needed. He said that when he was a young boy his parents took him to a carnival. At the carnival there was a sideshow, and there was advertised a 'boneless wonder,' a human being born without bones. His parents felt that was a sideshow sight that they should not take a six year old child to see. So he said it's been all these years that I've seen the boneless wonder here in the House of Commons. I've been thinking about this boneless wonder notion that Churchill described. We really do need a backbone in this country to stand up for our economic interests. I have described our trade negotiators as boneless wonders from time to time. I would like—if there is anyone listening who can tell us here, what's the name of the person who negotiated with a country whom we have a huge trade deficit, bi-lateral trade circumstances that they can charge a tariff ten times what we charge them. If I could just find the name of that person, maybe I could say that person should no longer be negotiating for our country. Or we should put a jersey on that person as we do in the Olympics, so they can look down from time to time and they would see USA and know who they are representing. I am so tired of our country not having the courage to stand up for our own economic interests. It's not about protectionism; it's about protecting American interests in this global economy. The important part of this discussion is not the complaints, it's about the solutions and whether we as a country are going to have the will to employ the solutions we know exist, that require opportunities for fair competition and stand up for the interests of workers and producers in our country, and for expanded opportunities in the future. I want to thank everyone who's come to this hearing and for those of you who have testified. This hearing is adjourned.