Senate Democratic Policy Committee Hearing

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

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Good morning. My name is John Walker. I am the CEO of Walker Die Casting of Lewisburg, Tenn., 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 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 medium-sized 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'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.

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. Since 1997, for example, U.S. imports of autos and light trucks are up nearly 61 percent by value. The same goes for auto parts. Excluding tires, these imports have doubled in value since 1997. Imports of transmission and power train parts, which are of special interest to my company, and which represent much of a vehicle's value, are up nearly 200 percent during this time.

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. As shown by the charts we've prepared.

The huge, rapidly growing trade deficits in vehicles and parts make clear that export opportunities aren't nearly making up for these losses at home. Among other problems, this trend makes me doubt that our many recent trade agreements are working as promised. They were supposed to open up foreign markets to U.S. producers. How much longer do you think we can tolerate one-way trade? My company for one, can't tolerate it much longer – and many of my American-owned, domestic competitors have already closed their doors for good. Just last week, for example, one of the largest die cast foundries in the country, J.L. French, a Wisconsin firm, went into bankruptcy.

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 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: Japan, Germany, and Korea.

Walker Die Casting has been in business for more than 50 years, and we've met countless competitive challenges during those years. We wouldn't be around otherwise. 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.

It's also vital to understand that imports don't actually have to come into the U.S. market to greatly affect companies like mine. The financial strains faced by Ford and GM in particular – which result in large part from highly unequal world auto trade arrangements – have forced them into major cost-cutting efforts. These take two main forms – either importing more and more parts from low-wage countries like Mexico, China, and India, or squeezing suppliers like me by threatening openly to outsource from these countries if I don't meet the so-called "China price."

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 steeply. 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 to teach a Chinese company how to make a product I had supplied. I said this would only be possible if the Chinese came to Tennessee. That never happened, but I was struck by the request, and am certain that I am not the only automotive supplier who has received one.

The financial strains faced by GM and Ford – again, caused largely by decades of unequal world auto trade – are hurting companies like mine in another way. The Big Two's finances are so shaky that I have to take out credit insurance against the possibility that I won't get paid for my work for them. In certain circumstances, this insurance can take literally hundreds of thousands of dollars from my bottom line. But with GM and Ford in some danger of burning through their cash piles in the foreseeable future and declaring Chapter 11, what choice do I have?

Currency manipulation by China and other countries is also greatly increasing the pricing pressure on U.S.-owned vehicle and parts makers. USBIC and many other careful students of China believe that China's currency is undervalued by at least 40 percent. So U.S. companies competing with China anywhere in the world face a 40 percent price disadvantage from the start, and for reasons that have nothing to do with free trade or free markets. And I don't understand why neither President Bush nor the Congress will do anything about this unfair competitive advantage.

The President keeps saying that he believes in free trade. But he doesn't seem to believe in it when it comes to currency. And, although many 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.

Exchange rates affect my company's performance vis-a-vis other parts of the world, too. My castings generally are not easily exported. But I do have some business abroad. With the Euro at 80 cents per dollar a few years ago, my products simply were not competitive in any of the Eurozone countries – which are among the world's largest consumer and industrial markets. With the Euro worth about $1.20, as it is these days, I'm a lot more competitive. Indeed, I recently won back a European customer I'd lost several years ago due to the unfavorable exchange rate.

The reverse obviously holds true, too. A weaker Europe will give my Eurozone competitors a big edge in U.S. markets; a stronger Europe benefits domestic producers like me. The Euro doesn't appear to be manipulated as are so many Asian currencies. But this is another reminder of how important good U.S. exchange rate policies are for American producers, American jobs, and American wages.

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.

It’s also clear, however, that Washington is failing miserably to achieve these goals. It has approved trade deals that make outsourcing much easier and more profitable. It has enabled unequal trade in the automotive sector and so many other industries to continue and to worsen for decades. And it has failed to deal effectively with exchange rate manipulation and other predatory foreign trade practices.

These failings, I must note, 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.

Thank you.